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ICAN Inducts 668 New Accounting Technicians

COVER

**Influence of Ethics
on Financial Reporting**

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Founding Member, International Federation of Accountants (IFAC).



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Editor's Note

The growing concern about ethical and integrity issues in accounting and auditing in public and private establishments cannot be over emphasized.

In view of this, the authors of our article entitled "Influence of Ethics on Financial Reporting" adopted the stewardship theory as a theoretical background to develop an empirical framework for examining the influence of ethical professional standards on financial reporting. The result of the study however, shows that there was a low degree of adoption.

The authors revealed that most prevalent of the factors responsible for unethical acts are greed and self-interest of the accountant while the least factor is lack of clearly defined ethical conduct.

Under our news column, you are served with stories about latest developments in the Institute. One of such is the induction of new members into the Institute.

You will also read about the pledge of support made by the Institute to the Accountant General of the Federation on budget implementation as well as the Institute's advice to Bank of Industry (BOI) to support Small and Medium Practices (SMPs) in order to grow the economy.

A new Tuition Centre was recently commissioned in Ikere Ekiti, Ekiti state to cater for ICAN students who need tutorial lessons to prepare for their examinations. This was also reported in this edition.

As usual, we publish some past questions and solutions to guide our students on how to tackle examination questions in future. The detailed reports of all these and other regular columns are contained in this edition.

* * *

Your comments on the various articles, news and other items published in this edition are welcome. Please write to: editor@ican.org.ng or aoololabi@ican.org.ng

668 New Accounting Technicians Inducted

The Institute has inducted six hundred and sixty eight (668) new members into its middle level qualification tagged Association of Accounting Technicians West Africa (ATSWA). This brings the number of Accounting Technicians to 23,695.

Speaking at the 49th ATSWA induction ceremony in Lagos in December 2018, ICAN President Alhaji Razak Jaiyeola, FCA, implored the new members to “imbibe the culture of diligence, forthrightness, honesty, high ethical conduct and top-notch professional disposition”.

He asked the new members to develop an entrepreneurial mindset which is highly critical for success in the highly competitive accounting profession and urged them to “follow the path of honour by dutifully observing all the rules contained in the Association’s Code of Ethics, Constitution and By-laws”.

He revealed that the Institute had “established an Entrepreneurship

Committee with the mandate to continually develop strategies for ensuring that chartered accountants in the Small and Medium Practices (SMPs) category are not just gainfully employed but that such

businesses continue to thrive to provide employment opportunities not only for other accountants but other unemployed citizens of the country.”



ICAN President, Alhaji Razak Jaiyeola presenting certificate to inductees at the AATWA induction

* * *

Adhere to Ideals of Integrity and Transparency, Senbore Tells New Inductees

The Chairman of First City Monument Bank (FCMB) Group, Otunba Olutola Senbore, FCA has advised the newly inducted members of the Institute to adhere strictly to the ideals of integrity, transparency and accountability which has distinguished accounting profession globally.

Senbore gave the advice in Lagos as Guest of Honour at the 62nd induction ceremony of the Institute, adding that deviation from the norm would damage the reputation of the profession.

“You must strive at all times to faithfully adhere to the noble ideals of integrity, transparency and accountability, which have distinguished the accounting profession globally by being honest, candid and forthright in all endeavours. You must not deviate from this honourable path because it would call your professional competence to question and also demean the reputation

of the institute and the accounting profession.

Speaking further, he lamented the decay in the nation's value system which he described as a major threat to the accountancy profession noting that there was a correlation between a nation's value system and economic growth.

“The deterioration being witnessed in the country's value system fueled by increased level of corruption and lack of transparency in all spheres calls for serious concern among citizens and most importantly the accounting profession, revered as the conscience of the nation”, he said.

He explained that rampant cases of institutional failures, mismanagement of resources, and concealment of facts are creating a burden of legitimacy for the accounting profession, thereby challenging its core mandate as the gate-keeper of sound financial health and transparent

reporting in the society.

He attributed the poor state of the nation's economy to corruption and implored the new chartered accountants to imbibe “the tested virtues on which the survival of the accounting profession depends.

According to him, “large scale financial improprieties and indiscretion in the application of regulatory and ethical standards by persons in position of trust both in the public and private sectors have significantly impacted the growth of the economy, resulting in under-development, increased rate of unemployment, impoverishment of citizens and escalating level of insecurity”.

He called on the new accountants to see themselves as “the new ambassadors of the Institute with the mandate to drive and inspire positive changes we desire to see in the society”.

ICAN Pledges Support to Accountant General on Budget Implementation

The Institute has pledged its support to the Office of the Accountant General of the Federation (AGoF) to reposition public sector financial management in the country.

Speaking recently when he paid a courtesy visit to the AGoF Alhaji Ahmed Idris in Abuja, the ICAN President, Alhaji Razak Jaiyeola said the Institute has the pool of experts that could help the Federal Government to ensure effective management of government finances and the implementation, monitoring and evaluation of the country's budget and other fiscal management obligations.

To this end, he requested that Chartered Accountants be involved in the implementation of a recent N229.5 billion World Bank grant awarded to the country

to be deployed into "strengthening the public financial management, ensuring fiscal sustainability of the various states and better service delivery in the public sector".

He called for the involvement of ICAN in driving the capacity building aspect of the grant's implementation process.

"As a professional body with proven experience in this area, we would be delighted to partner with your Office to ensure effective implementation of the various modules of this grant", he said.

Alhaji Jaiyeola noted that the Institute would effectively handle the capacity building aspects of the grant's implementation processes in budgeting and International Public Sector Accounting Standards (IPSAS), among

others, to ensure that government audited annual reports are produced on time in line with statutory requirements.

He commended the office of AGoF for the invaluable technical support it gave to the Institute which facilitated the gathering of data, analysis and subsequent publication of the inaugural report of the ICAN Accountability Index (ICAN-AI) which was released in October, 2018.

In his own remarks Alhaji Idris noted the Institute's experience and expertise in financial management and assured that his office would partner with it especially in the area of capacity building, pointing out that his office was committed to enhancing the public sector financial management system in the country.

* * *

ICAN Rates CBN High On Virile Banking Sector

The President of the Institute, Alhaji Razak Jaiyeola has rated the Central Bank of Nigeria (CBN) high on the various initiatives it embarked upon to ensure the country have a virile banking industry in spite of the challenging operating environment.

Alhaji Jaiyeola commended the apex bank during his courtesy visit to the Governor of Central Bank, Mr. Godwin Emefiele in Abuja recently.

"We take particular note of the quantum leap in payment system in the country. This has not only led to great efficiency in banking transactions but has also contributed to the promotion of financial inclusion in the economy. For instance, The Agent Banking Guidelines and the Shared Agent Network Facility (SANEF) championed by the CBN in collaboration with other stakeholders are laudable developments aimed at promoting financial inclusion in the country," he stated.

The ICAN President stressed further that the policy decisions made by the Bank,

though tough, but yielding visible results, adding that the CBN has been able to convince the majority that unpopular stances are required occasionally to restore an economy to the path of sustainable growth and development.

"These decisions include contractionary monetary policy to address the then spiralling inflation rate, promotion of local content in manufacturing through restriction of access to foreign exchange on 41 items and the establishment of the Investors and Exporters FX (I&E) window which allowed investors and exporters to purchase and sell foreign exchange at the prevailing market rate".

"The results of such policy positions are glaring. The country exited from recession in the second quarter of 2017 while the decline in the rate of inflation was sustained for eighteen consecutive months from February 2017 to July 2018. The various initiatives at boosting the growth of the Small and Medium Enterprises (SMEs) especially in the agricultural sectors are well acknowledged".

"These include the Anchor Borrowers Programme, Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) and the Secured Transactions in Movable Assets also known as National Collateral Registry. These initiatives no doubt hold huge prospects for job creation in the agricultural sector and other allied professions," the ICAN President declared.

In his brief response, the CBN governor expressed appreciation over the accolades showered on him and his team, adding that though the job was a bit difficult but that God was helping them to achieve.

He maintained that the policy decisions made by the Bank always have positive impact on the lives of people and the economy of the country.

"For us in CBN, we always put the nation and its citizens first above self interest. Though a lot still needs to be done, we shall continue to do them and we are willing to work and collaborate with ICAN in other ways," he concluded.

Passage of CAMA Bill is Good for Nigeria – ICAN President

The recent passage by the Federal House of Representatives of the Companies and Allied Matters Bill 2018 (the CAMA Bill) has been described as being good initiative expected to address many ease of doing business challenges in Nigeria.

The ICAN President, Alhaji Razak Jaiyeola made the remark when he paid a courtesy visit to the Acting Registrar-General/Chief Executive Officer of the Corporate Affairs Commission (CAC), Mrs. Azuka Azinge Obiageli in Abuja.

He explained that with the passage of the Bill, one person will be able to form a private company and the possibility of single directorship for small companies, adding that small businesses will no longer need to hold Annual General Meetings or have Company Secretaries and companies that have not carried on any business since incorporation would not need to appoint auditors.

“Also, the reduction and extension of the deadline for cost of Registration of Business Names from N10,000.00 to N5,000.00 is another giant stride taken by the Commission. This Business Incentive Strategy is indeed a welcome development as it aims at creating a window for Micro, Small and Medium Enterprises (MSMEs) to

formalize their businesses, which will enable them own corporate account with Banks, have access to Loans, grants and other government interventions,” he said.

The ICAN President expressed the Institute's willingness to work with the CAC, through its Small and Medium Practices (SMPs) Committee, on initiatives such as the Business Incentive Strategy intended to promote the growth of the SMEs in the economy, saying the SMEs sector has been identified as a key driver of growth in any economy.

“While there are still rooms for improvements, we encourage your good

office to continue to keep faith with its vision to be a world class company's registry providing excellent registration and regulatory services. As major stakeholders in the Nigerian project, ICAN is ready to work with the Commission in fashioning out workable strategies to refocus and deepen the achievements recorded so far,” Jaiyeola stated.

In her response, Mrs. Obiageli also eulogized ICAN for contributing immensely to nation building and economic development of the country. She explained that one of the reasons for the organisation's success was the decentralization of its operation and the digitalization of its records.



ICAN, Alhaji Razak Jaiyeola, making his presentation at the office of Acting Registrar-General of Corporate Affairs Commission (CAC), Mrs. Obiageli Azuka, during ICAN's visit to CAC.

* * * Domesticate IT Aspects of TSA - Jaiyeola

President of the Institute Alhaji Razak Jaiyeola, has implored the Federal Government to domesticate the Information Technology (IT) aspects of the Treasury Single Account (TSA).

Jaiyeola who made this call in Abuja when he led an ICAN team on a courtesy visit to the Accountant General of the Federation (AGoF) Alhaji Ahmed Idris, said there was the “need to preserve scarce foreign exchange and job creation by deploying more local content in the IT software used in the implementation of the TSA”.

While commending the AGoF for driving the implementation of TSA, he identified technological aspects as the area that requires government immediate intervention, noting that only one out of the four systems supporting TSA, (Remita) is locally based.

The ICAN president pointed out that “RTGS

which manages commercial bank accounts and interbank settlement was from Sweden; T24 which manages government accounts and acts as CBN banking solution was from Switzerland, while GIFMIS that connects over 700 MDAs for budgeting, transaction initiation and financial reporting was from Estonia”.

Alhaji Jaiyeola also called on the Federal Government to “publish its first set of audited accounts under the International Public Sector Accounting Standards (IPSAS) which it adopted as a framework for public sector reporting in 2010”.

He noted that “the non-publication of audited annual reports tends to put avoidable blight on the achievements and he appealed to the AGoF to tackle any challenge causing the delay.

He also promised that ICAN would render professional support to ensure that Nigeria

joins the league of nations that are IPSAS-compliant. He invited the government to “leverage on the benefit of the Institute's experience”.

On the ICAN-Accountability Index (ICAN-AI), the first report of which was released last October, Alhaji Jaiyeola called on stakeholders to see the reports of the various entities appraisal as an incisive and reliable framework for on-going reforms in the public sector.

He noted that the ICAN-AI was an initiative of the Institute to improve public sector financial management at the three tiers of government and expressed hope that comparisons generated would stir healthy competition among the various tiers of government particularly in terms of effectiveness, efficiency and economic use of public resources.

Need for Performance Metrics for MDAs Stressed

The Federal Government to set up an institutional framework for monitoring and evaluating the performance of government's Ministries, Departments and Agencies (MDAs). This, according to the ICAN President, Alhaji Rasak Jaiyeola, would enable government track the performance of these agencies on regulatory compliance, budget implementation, financial targets and value creation.

Jaiyeola stated this when he led the ICAN team on a courtesy visit to Dr. Jumoke Oduwole, Coordinator, Presidential Enabling Business Environment Council (PEBEC) who is also President Buhari's Senior Special Assistant on Industry, Trade and Investment in Abuja recently.

He said "performance indices collectively have implications for ease of doing business" but lamented that there were no "performance metrics against which MDAs could be assessed".

He explained that the Institute developed an Accountability Index (ICAN-AI) last year as its "response to this public governance gap" adding that

the Index was aimed at "improving the process for assessing public finance management and public governance practices across the three tiers of the Nigerian public sector".

"This is part of our contributions at promoting transparency and accountability in governance thereby creating an enabling environment for business activities in the country", the ICAN President said.

He commended PEBEC for helping to improve the country's ease of doing business as reflected in the 2018 World Bank report which showed that Nigeria "moved up 24 points from 169th position on the 2017 ranking to 145th, pointing out that this was "an eloquent evidence of the effectiveness of the various initiatives embarked upon by PEBEC in its barely two years of operation".

"Without doubt, an enabling business environment promotes not only economic growth but also, gives everyone equal opportunity to participate in and benefit from the growth process", he added. He also said ICAN was ready to

Collaborate with PEBEC and leverage the expertise of its members to improve Nigeria's ranking in the ease of doing business.

He also voiced the Institute's support of "the current drive at increasing local content in production and service delivery in the country" and implored "Nigerian Government and its various Agencies not to relent in this effort as it would save Foreign Exchange Earnings for the Country.

He lamented that only one of the four systems supporting the Treasury Single Account (TSA) in the Country, is locally based whereas three were from Europe and called on government to look into the situation as part of its effort to promote local content and promote indigenous entrepreneurship.

In her response, Dr. Oduwole succinctly explained that the points raised by ICAN were noted, promising that action would be taken on them after due consultations. She also disclosed that the mandate of PEBEC would surely be carried out successful and diligently.

* * *

Offa & District Society of ICAN Inaugurated

The Offa and District Society of the Institute was formally inaugurated by the 54th President, Alhaji Razak Jaiyeola on Wednesday, February 27, 2019 thus making the number of the District societies to be 56.

In his welcome address, the Chairman of the District, Mr. Salman A.Y. explained that the journey that resulted in the inauguration started about a decade ago when the current Rector of the Federal Polytechnic, Offa, Dr. Lateef Olatunji initiated the idea of forming a Committee of Chartered Accountants in Offa.

According to him, the mentoring of Ilorin, Osogbo, Ekiti, Ilesha and other Northern

Zonal District Societies also contributed immensely to the development of the Offa and District Society.

In his own address, the Chief Host and the Rector of the Federal Polytechnic, Offa, Dr. Lateef Olatunji charged all members of the District Society to live above board in the discharge of their duties in their places of work.

Inaugurating the District Society, the ICAN President admonished the members to always adhere strictly to the ethics of the accounting profession as ICAN has been doing over the years.

"It is highly imperative that you adhere strictly to the ethos of the accounting

profession as jealously being done by ICAN over the years. You must use every opportunity providence has bestowed on you, to promote the practice of accounting profession in Offa and its environ".

"As you are all aware, ICAN is a prestigious organisation that has over the years earned huge respect for itself at national and international levels, courtesy of its adherence to the principles and practice rules. It is in this vein that I therefore enjoined you tenaciously tread the honourable path of the larger ICAN and carve a niche of discipline and uprightness for this District," he advised.

Nigerian Civil Service to Partner ICAN on Accountability Index

The Head of Service of the Federation, Mrs. Winifred Oyo-Ita has disclosed that her parastatal would be interested in partnering with the Institute on its Accountability Index initiative tagged ICAN-AI.

Mrs. Oyo-Ita made the disclosure in Abuja recently when the ICAN President, Alhaji Razak Jaiyeola paid her a courtesy visit in Abuja.

Her words: "We have heard about the Accountability Index initiative ICAN has embarked on and your speech here today has further confirmed what we heard. We regard the initiative as a laudable project that will bring all public establishments on their toes as far as accountability is concerned. With this, we also have the opinion that we should be part of the ICAN-AI".

She stated that as far as the institute's Mandatory Continuing Professional Education (MCPE) was concerned, it would be discussed with the higher authority which would officially finance it.

Earlier, the ICAN President told the Head of service that during the 48th Annual Accountants Conference in October 2018, ICAN launched a Fiscal Accountability index called ICAN-AI.

He further disclosed that the strategic initiative was jointly financed by ICAN and the International Federation of Accountants (IFAC), adding that the ICAN-AI was an initiative for improving public sector financial management at the three tiers of government.

Jaiyeola also expressed ICAN's readiness

to work with the Service in fashioning out workable strategies to refocus and deepen the achievements recorded so far in strengthening the Civil Service of the Federation.

"As clearly enunciated in one of the focus of your office, it is imperative that platforms are created to promote public/private partnerships, in the development of competencies and exchange of professional ideas/knowledge in the country's civil service," he stated.

Speaking further, the ICAN President explained that the International Public Sector Accounting Standards Board

(IPSASB) has continued to improve public sector financial reporting worldwide through the development of IPSAS, international accrual-based accounting standards for use by governments and other public sector entities around the world.

These standards, according to him, are regularly revised and guidelines are issued to ensure efficient and effective public sector accounting flexible to the changing dynamics in all sectors of the economy.

He therefore called for the need for training and re-training of accountants in the Nigeria's civil service which he described as a pressing imperative.



Head of Service of the Federation, Mrs Ekanem Oyo-Ita receiving souvenir from ICAN President, Alhaji Razak Jaiyeola during ICAN's visit to her in Abuja

* * *

Chartered Accountants Urged to Brace Up With Relevant Digital Skills

Chartered Accountants have been advised on the need to equip themselves with the relevant skills and competences required in the digital age.

The advice was handed down by the President of the Institute, Alhaji Razak Jaiyeola during his visit to Courteville Business Solutions Plc, as part of the

programmes for his presidential visit to Lagos Mainland and District Society of ICAN.

He stated that "the emerging fourth industrial revolution is set to cause further disruptions in the business space with developments in blockchain technology, robotics, artificial intelligence, machine

learning amongst several others".

Speaking further, Alhaji Jaiyeola disclosed that as a proactive Institute, ICAN has concluded arrangement on a two-day 1st ICAN Accounting Technology Conference for West Africa between April 29 and 30, 2019.

According to him, the aim of the conference is to have extensive discussions on the different emerging technologies and how they would impact the accounting profession while taking into consideration the peculiarities of the Nigerian business landscape.

He commended the different packages and products of Courteville Business Solutions Plc, especially those targeted at Small and Medium Enterprises (SMEs)

and general business sector such as StaffPlanet, ISO Tracker, Hospisuite etc.

“At ICAN, we are highly concerned about the business and activities of our members who are in the Small and Medium Sized Practices (SMPs). We will therefore be interested in collaborating with Courteville Business Solutions Plc on how ICAN members can benefit from the services targeted towards SMEs,” he stated.

Earlier in his lecture titled “When

Business Goes South: What Can Accountants Do”, the Group Managing Director/Chief Executive Officer of Courteville Business Solutions, Dr. Adebola Akindele explained that the roles of Accountants should be beyond his or her calling as one could not be a shining star on a sinking ship.

He urged Accountants to pursue entrepreneurship and create value which could benefit people for a determinable price.

* * *

Support SMPs to Grow the Economy, ICAN Advised BOI

The Institute has called on the Bank of Industry (BOI) to support and assist accountants in Small and Medium Practices (SMPs) so that they could expand their businesses and create more jobs.

The ICAN President, Alhaji Razak Jaiyeola, made the call on behalf of the Institute when he paid a courtesy visit to the Minister of Industry, Trade and Investment Dr. Okechukwu Enelamah in Abuja recently. He noted that the growth and development of SMPs would offer great benefits to the country's economy.

According to him “if these small business practitioners are encouraged to expand their businesses, the quality of financial reporting will improve, more employment opportunities would be created, more people would be economically empowered and there will be a great diminution in the army of idle hands and societal deviants.”

He commended the Minister for the giant strides the government made to turn the country to a preferred investment destination through parastatals under the Ministry, especially the Financial Reporting Council (FRC) and the Presidential Enabling Business Environment Council (PEBEC).

He lauded the Financial Reporting Council (FRC) of Nigeria for producing a new Code for Corporate Governance which is now ready for adoption in the country, noting that “a corporate governance code that meets international standards is an essential prerequisite for attracting investments into the country”.

The ICAN President also commended the efforts of government to enhance the ease of doing business through Executive Orders

under PEBEC.

“We urge you to leverage inter-agency collaboration so that the giant strides recorded are sustained and taken to the next level”, he advised.

Jaiyeola revealed that the Institute was “interested in the aspect of capacity building, support for Small and Medium Enterprises (SMEs) and accountability for the various deliverables under the Economic Recovery & Growth Plan (ERGP)” and would like “to collaborate with the different agencies under the Ministry of Industry, Trade and Investment saddled with the mandate of promoting initiatives to grow the SMEs sector of our economy.”

He implored government to develop a more dynamic framework which may include enhanced fiscal incentives that would encourage corporate organisations to play more active roles in the environments where they operate.

In his own remarks the Minister said the high quality of training he received while writing ICAN exams has aided his career progression and called on the Institute to sustain the standard.

He noted ICAN's role in promoting the growth of SMEs and expressed his Ministry's willingness to collaborate with the Institute for training and capacity building in his Ministry and Agencies under his watch.



Minister of Trade and Investment, Dr. Okechukwu Enelamah welcoming ICAN President to his office in Abuja during a courtesy visit by ICAN

INSTRUCTIONS TO AUTHORS

Authors wishing to have their articles published in The Nigerian Accountant and ICAN Students' Journal are advised to adopt the following guidelines:

1. Articles must be well researched on contemporary issues in the field of:
.Accounting .Audit .Investigations .Forensic Accounting .Taxation and Fiscal Policy Management
.Consultancy .Information Communication Technology .Insolvency and Corporate Re-engineering .Public Finance .Corporate Finance .Banking .Insurance .Manufacturing .Capital Market .Articles from other disciplines e.g. Health/Medicine; Agriculture; Engineering; Education; Religion; Fashion; Construction; Oil and Gas etc are welcome.

Opinion articles would also be accommodated

2. Articles must be professional.
3. All articles should be typed on standard A4 paper and must not exceed twelve pages in 12-point Time Roman font and double spaced.
4. The title page should include the title and author's contact information (no other page should include author's information).
5. The research article must be properly referenced. The American Psychological Association style should be used in the following format:
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Lucey, T. (1997). Management information systems (8th ed.). London: Letts Educational.

Journal Article Reference

Wainer, H. (1997). Improving tabular displays: With NAEP tables as examples and inspirations. *Journal of Educational and Behavioural Statistics*, 22, 1-30.

Internet Reference

Baker, F. M. & May, A. J. (2007). Survey research in accounting. Unpublished manuscript retrieved January, 2008 from <http://www.maybaker.org/journals/webref.html>.

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- 20 IQ Bryte, Ipaja Lagos**
Towergate Private School, Falola Street, Off Church B/Stop Ipaja, Lagos
- 21 JK Consulting Co. Ltd, Abuja**
4th Floor, Wing B, City Plaza; Plot 596, Ahmadu Bello way, Garki II, Abuja
- 22 Knight Business School, Oyingbo**
80, Murtal Mohammed Way, Ebute-Metta
- 23 Maximum Professional Associate**
27, Duduyemi Street(Salvation House) off Olugbede Market, Egbeda
- 24 Legacy Associate Limited**
Olatunji HSE/Legacy HSE, 299/295, Ikorodu Rd, Idiroko B/stop, Maryland, Lagos
- 25 MSL, School of Accountancy & Mgt. Studies**
L8, Ahmadu Bello Way, Katsina Round-about, same building with Studio 24, Kaduna, Kaduna State
- 26 Network Professional Tutors, V/I**
1 Bishop Aboyade Cole Street, Opposite ExxonMobil House, Off Ozumba Mbadiwe, V/I
- 27 Onitsha Business School, Onitsha**
19A Lady Regina Nwankwu Avenue, GRA, Onitsha, Anambra State

LIST OF RECOGNISED TUITION CENTRES

- 28 Password Professional Tutors, Akoka**
Oluwole Pry School Complex, Beside Unilag Main gate, Akoka
- 29 PLUM Academy Limited**
336, Lagos Abeokuta Expressway, Super B/stop, Abule-Egba, Lagos
- 30 Portharcourt School of MGT & Economics**
6B, Abeokuta Street, D/Line Port Harcourt, Rivers State
- 31 POSSE Associates Tutors, Enugu**
WTC Primary School Compound, Off WTC B/Stop, Near University of Nigeria, Enugu Campus (UNEC)
- 32 Potec Training Centre, Port-Harcourt**
1 Chinda Street, Off Stadium Road, Opposite BEKO Port-Harcourt
- 33 Precept with Passion**
164, Iju Road, Opposite Fagba grammar school, Station Bus Stop, Agege Lagos
- 34 Professional Tutor for Success**
PTS Building, Opposite NUJ Secretariat, Iwo/Ibadan Road, Dada Estate, Oshogbo, Osun State
- 35 Protrac Associates Limited**
1, Lagos Road, Ikorodu, Lagos
- 36 Real Professional Tutors**
Wuse Zone 6, School Compound, behind Oando filling Station, Abuja
- 37 Risk Free Standards Associates Limited**
5, Olusoji Idowu Street, Off Association Avenue, Ilupeju, Obanikoro B/Stop, Lagos
- 38 Safe Associate Limited**
31, Ore-Ofe Street, Gbaja, Off Barracks B/Stop, Onitolo, Opposite Laspotech Surulere Campus, Lagos
- 39 Salvage Professional School, Ibadan**
9, Kabiawu Street, Opp. Veterinary, Mokola Ibadan
- 40 Sapati International School**
Off Ajase-Ipo Road, Sapati-Ile Road, Ilorin, Kwara State
- 41 Sky Associates Nigeria Limited**
LEA Primary School, Wuse Zone 3, Abuja
- 42 Starry gold Academy**
Suit D2 Alhaja Humani Shopping Mall, 82 Kudirat Abiola Way, Oregun, Lagos
- 43 Students SWOT Associate, Enugu**
3, Independent Layout, PRODA office, Opposite Hotel Presidential, Enugu
- 44 Students PYE Nigeria Limited**
14, Oweh Street, Jibowu Lagos
- 45 Superiorpoints Associates Limited**
148 Olojo Drive, FCMB Building, Opposite Ojo Local Govt Secretariat, Ojo
- 46 Sure Success Better Consult, Lokoja**
Ule Close, GRA, Lokoja, Kogi State
- 47 SQUAD Associates**
Ojodu Junior Grammar School, Grammar School B/S Berger
- 48 Synergy Professionals,**
2, Afric Road, Off Funsho Williams Avenue, Iponri, Surulere, Lagos State
- 49 Taraba Business School, Jalingo**
Opposite Civil Service Commission, 183 Hammaruwa Way, Jalingo
- 50 Top Professional Solutions**
Port Harcourt, 5B, Omerelu Street, GRA Pahse 1, Port Harcourt
- 51 Toptalented Tutors, Lekki,**
Al-Akeedat College Beside Mega Chiken, Ikota, Lekki, Lagos
- 52 Topnotch Learning Centre Ltd, Abuja** Suite 23,
2nd Floor, O'neal Centre, Plot 360 Obafemi Awolowo Way, Jabi, Abuja
- 53 Trace Professional Associates Limited**
Answar-ul-Islam Girls High School, Km 27, Lagos/Abeokuta Exp. Ahmadiyya B/S Ijaye Ojokoro
- 54 Treasurerhall Training, Festac, Lagos**
Waterfront Plaza, 1st Avenue, Near 1st Gate Festac Town, Lagos
- 55 Triumph Dynamics Professional Limited**
UMC Demonstration School, Molete, Ibadan, Oyo State
- 56 WYSE Associates Limited**
C/O Immaculate College Compound, Maryland, Lagos

Influence of Ethics on Financial Reporting

By *Ezeagba Charles Emenike and Abiahu Mary-Fidelis Chidozie*

Abstract

Recently, there has been growing concern about ethical and integrity issues in the accounting and auditing profession in public and private on questionable acts. This study adopted the stewardship theory as a theoretical background to develop an empirical framework for examining the influence of ethical professional standards on financial reporting. The result of this study however, shows that there is a low degree of adoption. The most prevalent of these factors are greediness and self-interest of the accountant while the least factor is lack of clearly defined ethical conduct. It is recommended that the Institute should ensure strong enforcement of members' compliance with ethical standards through its various enshrined mechanism.

Keywords: Profession, Ethics, Standards, Accountants, Auditors.

1.0 Introduction

As Nigeria progresses in her vision to become one of the top 20 economies in the world by the year 2020, one prevailing issue that remains on the front flame is how to build investors' confidence in the national economy through ethical accounting and auditing standards that enhances transparent financial reporting. The catastrophic failures and scandals of some corporate giant and the extensive corruption in the society highlights the critical need to focus on the anchors of sound professional ethics in the accounting and auditing profession both in developed and developing countries (Omoyele, 2010; Fodio, Ibikunle & Oba, 2013; Ogbonna & Ebimobowei, 2012; Nwoye, Ekesiobi, Obiorah, & Abiahu, 2016).

Recently, there has been growing concern about ethical and integrity issues in the accounting & auditing profession in public and private on questionable acts. As such, this era has been branded by series of corporate failures, ethical negligence, auditing and accounting scandals both in developed economies and developing economies. Damagum & Chima, (2014) posits that evidence in prior research shows that poor corporate governance also attributes to such failures, hence the need to keep vigil over corporate entities behaviors as well as need to control the behavior of managers and professional accountants through effective regulations. Broadcasted cases of the recent past, such as Enron, Satyam, WorldCom, Global Crossing, parmalat, Xerox, Tell one and some firms

from Nigeria (such as, Cadbury and NAMPAK, Afri-bank) of which one of the big four (4) auditing firm in Nigeria was indicted, have drawn aggregate attention to the auditing profession.

Industry watchers have attributed the failures of these corporate entities to accountants and auditors not adhering to the codes of their professional ethics and conduct. This has had an adverse and cumulative effect on financial reporting and the auditing profession. All these happening around the globe has brought the question of trustworthiness and integrity of the auditing & accounting profession (Bakre, 2007; Adeyemi & Fagbemi, 2011). Ogbonna (2010) debated that any society that lacks ethical thoughts may not survive for a long time to achieve its desired goals and objectives and that of its stakeholders. The accounting and auditing professionals who are responsible for the preparation of financial statements need to adhere strictly to the codes of ethical accounting and auditing standards to produce reliable, relevant, timely, accurate, understandable and comprehensive financial statements which give a true and fair view of the firm financial position and performance. This is because such financial statements and reports form the basis upon which the stakeholder should have confidence to make an informed decision.

In line with the above assertion, Nzotta (2008) observed that financial statements form the basis for economic decision making. Consequently, since financial reports

serve as basis by shareholders for taking an investment decision, it becomes imperative for professional accountants to carry on their activities in other to ensure that investors and other stakeholders are presented with financial statements that give a "true and fair view".

Damagum and Chima (2014) posits that corporate regulators in different countries including Nigeria usually adopt the use of specially designed codes to facilitate the regulation and control of firm and their behaviours with a view of attaining good corporate governance. As such, regulatory bodies have been setup in different apart of the world to oversee the practice and the conduct of the auditing and accounting profession. For instance, the International Federation of Accountants (IFAC) has continue to maintained the formulation of auditing guidelines to enhance the reliability and the integrity of corporate financial reporting.

As the world has now become a global market, the emphasis on the adoption of the International Financial Reporting Standards has increasingly receive attention towards common set of comprehensive financial statements across the globe and this is being anchored by the International Accounting Standards Board. In Nigeria, Companies and Allied Matters Act 2004 (as amended), Financial Reporting Council (FRC), Institute of Chartered Accountants of Nigeria (ICAN), Association of National Accountants of Nigeria (ANAN) and other industrial specific bodies in which auditors and accountants provide services usually issue guidelines relating to the ethical and professional standards to be observed.

However, the effectiveness of this regulatory bodies in Nigeria in ensuring that ethical standards are maintained by corporate managers and professional accountants still remain questionable and in doubt. As a result, this area of research still remains evergreen in the auditing and accounting research, hence informs the choice of our study.

The accountant in any institution or organization is at the heart of the institution or organization. However, there are certain hindrances problems which are crippling the efforts of the professional bodies towards maximizing their contributions in this regard:

a. Many Accounting students and graduates in most developing countries including Nigeria are still

unconcerned about being a professional accountant. This is a problem, and it hinders the development of Accountancy in these countries. A lot of people including non-accountants, who want to get the certification of a professional accountancy body still do not know how, where and when to start the journey. They continue to nurse the idea of being a professional accountant without making headway.

b. Establishment of other Professional Accountancy Bodies without critical and consistent monitoring. To achieve their goals effectively, professional accountancy bodies must ensure that their processes are critically and consistently monitored. Their curriculum and their training schools or methods should be closely examined to avoid producing "unqualified professional accountants", which may impair the standard and the development of Accountancy in Nigeria.

c. Another problem of accounting profession in developing countries and Nigeria is the issue of non-accountants handling accounting positions in organizations and government parastatals. For instance, Engineer handling accounting work in an organization or a marketer, journalist, microbiologist being the accountant of an organization is threatening the standard and the development of Accountancy in Nigeria. All these problems and more face the development of Accountancy in developing countries and Nigeria and need to be tackled.

A professional accountant is expected to act in the best interest of the public, hence the need for accounting professional ethics

2.0 Literature Review

According to Nwagboso (2008), ethics is concerned with norms, principles or conducts of behavior and practices carried out by a group of people, community or profession. A profession is a calling or a job that needs special education and training. It is an obligation to act in a way to serve the interest of the public. This is what makes a profession different from a vocation. For example, a motor mechanic who encounters a break-down vehicle on the high way has no ethical obligation to fix the vehicle. But a medical doctor that encounters an accident victim who is unconscious and badly in need of immediate medical attention has an ethical obligation to stop and render medical care to the victim.

A professional accountant is expected to act in the best interest of the public, hence the need for accounting professional ethics. Camerer (1996) posited that

professional ethics sets out the ideals and responsibility of the profession, provides guidelines on acceptable conduct, improves the profile of the profession, protects both clients and the professionals, improves quality and consistency, and motivates and inspire the professionals.

A review of existing literature such as Akenbor and Onuoha (2013), IFAC (2006), Robert (2005), Obadan (2001), and Herbert (2001), revealed that the accounting professional ethics centered on independence, integrity, objectivity, competence, fairness, confidentiality, fidelity, responsibilities to other members, etc. Independence refers to the degree of freedom with which the professional accountant (auditor) is allowed or able to examine the client's records and express an opinion on the said records without any undue influence from any party connected with the organization. Madsen and Safritzi (1999) asserted that if the auditor's report is to lend credibility to financial statements, users of the accounting information must perceive the auditor as being fair, impartial and free from undue influence. In Nigeria, the Companies and Allied Matters Act of 1990, in a bid to promote the independence of the auditor, stipulates that any person who is a partner, or in the employment of an officer or a servant of the firm cannot serve as its auditor.

This also implies that professional accountants must not knowingly misrepresent facts. Williams (2005) stated that facts may be represented even if the facts themselves are correctly reported. Facts may be misrepresented if the accounting document does not contain adequate information necessary for the proper interpretation of those facts. This means that professional accountants must uphold the integrity and objectivity of the profession. They must remain steadfast and report issues with uncompromising adherence to a code of moral value. To help maintain integrity and objectivity, it has been suggested that professional accountants should avoid receiving gifts and undue hospitality from their clients. However, a professional accountant must be fair, honest and transparent to his clients whose interests he must endeavour to protect and serve to the best of his professional ability.

A professional accountant must be technically competent and qualified. He must be thoroughly grounded in all matters concerning accounting and auditing

principles and standards. He must possess a level of competence necessary to perform the services and his knowledge, skills and experience will be applied in the performance of his duties. Since the professional accountant is empowered to obtain all necessary information for the purpose of rendering accounting, taxation and auditing services, he is therefore expected to respect the confidentiality of such information acquired without any undue disclosure unless there is a legal requirement or professional duty or right to disclose such (Nwagboso, 2008).

Professional accountants in employment owe certain legal duties to their employers. Indeed, they have a duty of fidelity which requires them to be fully committed to furthering the legitimate interest of their employer. Aquack and Lipe (2010) stated that while the duty of fidelity continues throughout the period of working for an organization, it also applies when members wish to change employment. This duty prevents an employee from using the skills acquired while working for a former employer in undertaking a new role with a different organization. More so, a professional accountant is expected to conduct himself in a manner that promotes good relationship with other professional members. He must avoid undue publicity and advertisement, accord co-operation to incoming auditors, and seek arbitration with relevant institutes when he feels that a colleague has treated him unfairly (Camerer, 1996).

It is no news to say that the entire globe is witnessing serious erosion in ethical values. Even more honest persons as Pastors, Imams, and other religious faithful, may find it difficult to act in an ethical manner in some situations. Professional accountants face some challenges that make them behave unethically. Nwagboso (2008) claimed that the society's propensity for materialism is the root cause of unethical conducts in public sector and financial institutions in Nigeria. A review of literature suggested the following reasons for unethical behavior of professional accountants:

Greediness and Self-interest: Most professional accountants believe that the position of an accountant is the position of wealth. In order to achieve their selfish interest, they abuse their professional code of ethics, particularly when they have the opportunity to exercise professional judgment (Frenchman, 1998). A familiar case in hand is the perennial distress in the Nigerian banking

It is no news to say that the entire globe is witnessing serious erosion in ethical values. Even more honest persons as Pastors, Imams, and other religious faithful, may find it difficult to act in an ethical manner in some situations.

industry. One major cause of this is the questionable and often illegal wheeling and dealing not to mention outright fraud of many professional accountants who compromised the once "sacred" ethics of their profession. Yet another problem is the accountant's involvement or ever increasing propensity to turn up on the all sides of client's activities. Some professional accountants not only audit their client's books, but also help in preparing such accounts and have also turned up in different advisory capabilities. These will not only jeopardize the secured independence quality, but will also aggravate the already existing crises of confidence in the one revered noble profession of accounting (Nigam, 2008).

Pressures from Employers/Clients: The objective of any business is the maximization of profit in order to increase the company's share price. But increased competition in the business world has eroded the company's objective. The pressure to succeed therefore and remain at the top is responsible for the changes in contemporary business practices whereby standards of behavior expected from professionals are being abused (Aquack & Lipe, 2010). This has caused chief executives of companies to pressurize professional accountants to manipulate accounting data through rule bending and loophole seeking to paint a rosy picture of sinking organizations. Since the management accountant earns his income from the company (the employer), he has no choice other than to abuse the ethical concepts of his noble profession. In the same vein, because the auditor earns his fees from his client, and may want to keep and maintain his client, he equally yields to his client's request.

The professional code of conduct stipulates that the professional accountant should resign his appointment or engagement when faced with such ethical dilemma. Donaldson (1996) identified pressure from employers and clients as the most prevalent factor influencing the adoption of accounting ethics by professional accountants.

The Price of Ethical Behaviour: One may think that professional accountants will do the right thing, regardless of the amount of personal sacrifice involved. But this is easier said than done. Frenchman (1998) suggested that in exhibiting ethical behavior, professional accountants often come into conflict with their clients and or employers. This is because what the client or employer wants the accountant to do may be against his professional code of conduct. Knowing fully that resignation is the price that goes with his conflict of ethical conduct with his client and employer, the accountant has no choice than to abuse ethical concepts and remain on his job. Professional accountants in Nigeria are scared of losing their present jobs because of ethical conduct since they are not too sure of getting any new job elsewhere. But in developed countries where the rate of unemployment is very low, a professional accountant can resign from an employment or engagement that conflict with his professional code of conduct, and have a new job or engagement in a short while. The price of losing his job makes professional

accountants in developing countries to exhibit unethical behavior.

Poor Societal Values: Every professional accountant comes from a particular society with diverse norms and standards. Cheng (2012) opined that the kind of societal values acquired by the accountant at early childhood have more influence on him than the professional code of conduct. Therefore, professional accountants allow their society values (good or bad) to interfere with their professional judgment in financial reporting.

Lack of Complete Information: A professional accountant may suspect that activities in which he or she is asked to participate are unethical, but had no complete information of the transactions. In most situations, accountants have neither the responsibility nor the right to investigate their employers or clients. If a further investigation of the facts is not directly related to the accountant's professional responsibilities, the accountant simply may never have enough information to reach an informal decision as to whether or not specific activities are "ethical" (Frenchman, 1998).

Lack of Clearly Defined Ethical Conduct: No code of ethics can address every situation that might arise. Every "ethical dilemma" borders upon the unique situation, having its own facts and circumstances (Robert, 2005). In many situations, however the ethical course of action is not readily apparent. Assume that a professional accountant is auditing the financial statements of a company. During this audit, the company was acquired by another company. The chief executive of the acquired company is a brother to the accountant (auditors). Has the accountant's independence been impaired with respect to the company's audit? Must the auditor resign from the engagement? This case is intended to show that ethical dilemmas do not always have clear-cut answers. This case hinges upon personal judgment, including the closeness of the relationship "between the accountant and the chief executive (brother)" and what impairs the "appearance" of independence. Thus, even with all the facts in hand, experts are likely to disagree on the answer to this case.

Codes of ethics, including the "official interpretations" typically do not address such specific questions. Therefore, it's often not possible to simply "lookup" the solution to an ethical problem. In deciding when an ethical problem exists, and in determining what constitutes ethical behaviour, the practitioner must often rely primarily upon his or her own professional judgment (Cheng, 2012). In assessing the payoff of unethical behaviours of professional accountants, Robin (1989) affirmed that there are no concrete and conclusive proofs that companies where accountants exhibit ethical behaviours are more profitable. However Solomon (2002) reported that in the long-run ethical conduct has a positive effect on profitability, even though in certain circumstances, particularly in the short-run, unethical practice yields greater profits.

3.0 Theoretical Review

This study uses the stewardship theory as a theoretical background to develop an empirical framework for examining the impact of ethical professional standards on financial reporting. The contractual relationship between the stakeholders, who are the owners of the company, and the upper echelon, board of directors and external auditors, is purely stewardship relationship (Adelegan, 2009). Stewardship theory provides a natural backdrop of this study because financial reporting concerns arose as result of divorce of company management from owners of company and as such those who are entrusted to oversee and manage the company on behalf of the owners are expected to render stewardship of their responsibilities- financial reports which must be validated by independence professional party (External Auditors). Consequently, those users who desire to assess the stewardship of management do so in order that they take economic decisions; these decisions may include, for instance, whether to hold or sell their investment in the enterprise or whether to reappoint or replace the management. The stewardship objective has been considered as being about information that provides a foundation for a constructive dialogue between management and investors. This is deemed to be essential response to the development of a contemporary company and a fundamental building block of corporate financial reporting. It is also advocated that, whilst this dialogue takes place in many ways and in various media, reporting accountants and external auditors plays a vital role in shaping this dialogue (Accounting Standards Board, 2007).

4.0 Ethics in Accounting:

Ethical problems are a very relevant issues present in many aspects of real life. The fundamental principles in ethical standards professional bodies include:

1. Integrity: A professional accountant should be honest in their professional relationships and transactions.
2. Objectivity: Professional accountants should take into professional judgment the realities of the business activities and not allow prejudice, bias, conflict of interest

or influence of others to affect their work.

3. Professional Competence and Due Care: Professional accountants should be able to perform the services that they are engaged to provide. A Professional accountant should have the knowledge and skills required for such performance, be able to develop new methods and techniques and etiquette to the level at which the employer has assurance of professional services efficiency.

4. Confidentiality: A professional accountant should not divulge information obtained in the course of professional services without explicit permission of the employer unless where there is a professional and legal duty to expose such information.

5. Professional Behavior - Courtesy: A professional accountant should deal with each other with respect when carrying out their duties, act with courtesy and consideration towards others in the course of carrying out his or her professional duties. A professional accountant must also comply with all relevant laws and regulations and to refrain from actions that would discredit the profession (The Institute of Chartered Accountants of Nigeria (ICAN), 2009).

As professional accountants and other professionals have a moral responsibility to master the work ethics necessary to observe their jobs well. Occupations and professions have long been considered what moral and ethical impacts on their works. The society is expecting a lot from the professional and the public must have confidence on quality

of services offered by the accounting profession. Thus the information provided by accountants should significantly be efficient, reliable, realistic and unbiased. The accountants are not only qualified and competent professionals, but also enjoy a high degree of honesty and integrity and professional reputation are their most important assets (ICAN, 2009).

Ethical behaviours are one of the essential personal skill that professional accountants must possess but it has been proven by the research reports that professional accountants are following all the rules relating to their profession except moral duty an obligations or ethics. Ethical behaviors are not only to protect the professional accountant, but also the accounting profession as a whole. The importance of adherence to ethical provisions in accountancy has been proven by many previous financial

The society is expecting a lot from the professional and the public must have confidence on quality of services offered by the accounting profession. Thus the information provided by accountants should significantly be efficient, reliable, realistic and unbiased.

reporting scandals. Professional accountants can learn a lot from the mistakes of the Enron scandal, Tyco, Adelphia, world com etc, and locally the Cadbury Nigeria Plc's 2002 - 2006 N13 billion fictitious revenue scandal (Nwoye, Ekesiobi, Abiahu, 2017). These scandals have damaged the reputation of professional accountants and also damaged public confidence in the accounting profession. Hence, the need to enforce adherence to professional code of ethics and conduct has become a major issue for all professional accountants (Salek, 2008)

4.1 Professional ethics

The rapid development of human society and social relationships has become more complex, as well as the need to create new ones. Professional development efforts are needed in response to changing conditions over time. Thus with the development of different range of accounting responsibilities, the accounting profession was formed. This means that accounting services are provided under the supervision of a professional association and a member of such an association with professional responsibility is a professional. (Saghafi, Rahmani & Rabie, 2010).

According to principle of the Code 2 of the American Institute of Certified Public Accountants (AICPA), professional accountants must be committed to the public interest while providing services, and respects the public's trust and show commitment to career-oriented growth (Lee, 1994).

Lee, 1994 posits that professional responsibilities of professional accountant are in the following areas:

- a. Responsibility for society.
- b. Responsibility for client.
- c. Responsibility for other members of the profession.
- d. Responsibility for itself.

In other words, a professional accountant should accept the responsibilities of protecting the public interest- the interests of clients, and members of the society, above personal interests.

The violation of professional ethics leads to scandals; create economic and financial crisis, and ultimately, business failure. Hence, in recent years, the accounting profession has moved towards more restrictive legislation, such as regulations or rules of professional. Also, many universities and institutions of higher learning have gone a step further to inculcate the teaching of professional ethics and morals in their curriculum.

5.0 Conclusion and Recommendations

Accounting is a noble profession that requires high level of professionalism. As a result, members of the profession are expected to exhibit certain behaviours that are consistent with their responsibilities to their clients/employers, other members of the profession, and

above all the general public. This can be achieved by upholding the moral principles that ensure the protection of the public trust and the credibility of the profession. However, this study shows that there is a low degree of adoption of accounting ethics by professional accountants in Nigeria. This study revealed several reasons for the low degree of adoption, which include greediness and self-interest, pressures from employers/clients, price of ethical behavior, poor societal values, lack of complete information, lack of clearly defined ethical conduct, lack of competence in complex environment, effect of cultural change, self-protection activities, and self-deception and rationalization. The most prevalent of these factors is greediness and self-interest of the accountant while the least factor is lack of clearly defined ethical conduct.

Based on the above, it is recommended that the Institute should ensure strong enforcement of members' compliance with ethical standards through its various enshrined mechanism.

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Our goal is to ensure success in ICAN exams. We have, therefore, suggested solutions to some professional level examination past questions to guide candidates in future exams. Although these suggested solutions have been published under the Institute's name, they do not represent the views of the Council of the Institute. ICAN will, therefore, not enter into any correspondence about them.

QUESTION 1

Dango Plc is a conglomerate company operating in Nigeria with diverse interest across Africa. It prepares its financial statements in accordance with International Financial Reporting Standards with year ending September 30. The following transactions relate to Dango Plc.

(a) In February 2016, Dango Plc won a significant new contract to supply large quantities of rice to the government of Guyama, a small West African Country for the next two years. Under the terms of the arrangement, payment is made on delivery in cash once goods have been cleared by customs. The rice will be delivered in batches four (4) times every year, on April 1, July 1, October 1 and January 1. The batches for April 1, 2016 and July 1, 2016 amounting to N250million and N380million respectively were delivered and paid. Dango incurred significant costs on customs duties for the first batch of delivery. The October 1 batch valued at N520million was shipped prior to the year-end but delivered and paid for on October 1, 2016. (8 Marks)

(b) On October 1, 2010 a 12-year licence was awarded to Dango Plc by the Federal Government to be the sole manufacturer of a chemical used in the Nigerian pharmaceutical industry. The licence was recognised on that date at its fair value of N196million. The award of the licence motivated Dango Plc in 2011 to purchase a division of another Nigerian competitor company making similar products. Goodwill of N240million was recognised on purchase of the division. Dango Plc merged the activities of the newly acquired division with its own to create a specialist chemical sub-division which it now classified as a separate cash-generating unit. By 2016, the revenue of this cash generating unit now amounts to 5% of the Group's revenue. (4 Marks)

(c) Dango Plc. buys raw materials from overseas suppliers. It has recently taken delivery of 1,000 units of components X, used in the production of chemicals.

The quoted price of component X was N1,200 per unit, but Dango Plc. has negotiated a trade discount of 5% due to the size of the order.

The supplier offers an early settlement discount of 2% for payment within 30 days and Dango Plc. intends to achieve this.

Import duties of N60 per unit must be paid before the goods

are released through customs.

Once the goods are released, Dango Plc. must pay a delivery cost of N5,000 to have the components taken to its warehouse.

Required:

Write a report to the directors advising them on the correct accounting treatment of the above transactions in the financial statements for the year ended September 30, 2016 in accordance with the provisions of the relevant standards.

Note: You may consider the relevance of the following standards to the transactions: IAS 20, IAS 2, IAS 38, IFRS 3 and IFRS 15. (8 Marks) (Total 20 Marks)

QUESTION 2

a. The International Accounting Standards Board (IASB) aims at enhancing the guidance available for assessing fair value in order to increase consistency and comparability in fair value measurements and related disclosures. To this end, fair value measurements are categorised into a three-level hierarchy, based on the type of inputs to the valuation techniques used in IFRS 13. IFRS uses the terms principal or most advantageous market.

Required:

i. What are the fair value hierarchies under IFRS 13? (3 Marks)

ii. Distinguish between the principal and most advantageous market and state how price is determined in the principal market taking into consideration transport and transaction costs. (5 Marks)

b. It is important for entities to understand and properly classify their financial instruments. This is because some financial instruments may have features of both debt and equity, which can lead to inconsistency in reporting. To this end, financial reporting standards provide guidance on the difference between financial instruments classified as equity and liabilities.

With relevant examples, distinguish between liability and equity under IAS 32, Financial Instruments Presentation. (7 Marks) (Total 15 Marks)

SOLUTION 1**REPORT**

From: Mr. ABC
To: The Directors
 Dango Plc
Date: May 16, 2017

Subject: Relevant accounting treatments of transactions

The purpose of this report is to explain the relevant accounting treatments on mentioned transactions in accordance to the applicable accounting standards and International Financial Reporting Standards (IFRS) such as IAS 20, IAS 38, IFRS 3 and IFRS 15. The explanations are as follows:

(a) Revenue recognition: In accordance with IFRS 15, Revenue from Contracts with Customers, the core principle is delivered in a five step model framework viz:

ü IFRS 15 requires revenue to be recognised when (or as) the performance obligation is satisfied;

ü The performance obligation is satisfied when an entity transfers a promised goods or service to a customer;

ü The good or service is considered transferred when (or as) the customer obtains control of the good or service (i.e. the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset);

ü To determine the point in time when a customer obtains control of a promised asset and an entity satisfies a performance obligation, the entity would consider indicators of the transfer of control; and

ü Indicators of transfer will include the customer having the significant risks and rewards of ownership of the asset and the customer accepting the asset.

Applying the above to the Dango case, the performance obligation and transfer of control will be deemed to take place on delivery of the rice of the government of Guyama. This is when the customer takes on the risks and rewards and accepts the goods.

Therefore, in the year ended September 30, 2016, revenue should be recognised for the April 1, 2016 (N250million) and July 1, 2016 deliveries (N380million) making total revenue of N630million. 26

Based on the above, revenue will not be recognised for the October 1, 2016 delivery as it does not take place until after the year end.

The significant costs incurred by Dango on customs for the first batch of delivery should be expensed in line with the matching concept.

Costs incurred in relation to the October 1, 2016 delivery should be held as work in progress in the statement of financial position until revenue is recognized in the year ended September 30, 2017.

(b) In compliance with IAS 38, the license awarded by the Federal Government to Dango Plc on October 1, 2010, which was recognized on that date at its fair value i.e.

N196million, should be amortized over its useful life of 12 years. It should be noted that fair value implies the price that would be received to sell an asset or paid to transfer or settle a liability in an orderly transaction between market participants at the measurement date.

Goodwill of N240million was created as a result of business combination (purchase of division). The goodwill created in this manner should be recognized in the financial statements. Under IFRS 3 "Business combination" goodwill is the excess of the purchase consideration over the fair value of the acquiree's identifiable net assets. Once recognized, goodwill is held indefinitely and will not be amortized but will be subjected to annual impairment review.

Also, according to IAS 38, all internally generated goodwill should not be recognized in the financial statements.

A cash generating unit according to IAS 38 is the smallest identifiable unit that generates independent cash-flows. There is no requirement by IAS 38 that it must constitute a minimum revenue threshold before such classification as a cash generating unit can be made.

(c) Valuation of Inventory as at September 30, 2016

According to IAS 2 "Inventory", inventory should be valued or measured at the lower of cost and net realisable value. Based on IAS 2 "Inventory", cost of inventory includes the purchase price and all directly attributable costs incurred in bringing the item of inventory to its current location and saleable condition.

IAS 2 states that "the cost of inventories shall comprise all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition". 27 Calculation of cost of inventory

	N
Purchase price (1,000 units x N1,200)	1,200,000
Less trade discount (5% x N1,200,000)	(60,000)
Net purchase price	1,140,000
Import duties (N60 x 1,000 units)	60,000
Delivery costs	<u>5,000</u>
	<u>1,205,000</u>

Note: It should be noted that purchase price excludes any settlement discounts and is the cost after deduction of trade discount. This implies that purchase cost of inventory involves deduction of trade discount, but settlement discount is irrelevant.

The cash discount of 2% represents discount received and should not affect inventory valuation but should be recognised as an income in the statement of profit or loss.

Conclusion

The provisions of IFRS on the correct treatment of revenue for contracts with customers, the recognition of internally generated goodwill and valuation of inventory has been dealt with in the above explanation for Dango Plc. to apply in the financial statements.

EXAMINER'S REPORT

The question tests the understanding of the correct application of the provisions of International Financial Reporting Standards (IFRS), that are relevant to scenarios illustrated in the question.

About 40% of the candidates attempted the question and they demonstrated poor understanding of the requirements of the question, therefore resulting in poor performance.

Commonest pitfall was the inability of the candidates to apply the specific provisions of IAS 20, IAS 2, IAS 38, IFRS 3 and IFRS 15 to practical situations.

Candidates are advised to understand the IFRS in-depth for better performance in future examinations.

SOLUTION 2

(i) Fair Value Hierarchies

The hierarchy categorizes the inputs used in valuation techniques into three levels. The three levels are as contained below:

- **Level 1 input**

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

A quoted market price in an active market provides the most reliable evidence of fair value and is used without adjustment to measure fair value whenever available.

- **Level 2 inputs**

Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 2 inputs will include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in markets that are not active; and
- inputs other than quoted prices that are observable for the asset or liability.

- **Level 3 inputs**

Level 3 inputs are unobservable inputs for the asset or liability.

Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date

(ii) Principal market

The market with the greatest volume and level of activity for the asset or liability

Most advantageous market

It is the market that maximizes the amount that would be received to sell the asset or minimizes the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.

In determining fair value at the principal market the following must be borne in mind

- Transaction cost - This cost is not considered in principal market fair value determination.
- Transport cost - This cost must be considered in arriving at the principal market fair value.

b. A financial liability is any liability that is:

(a) a contractual obligation :

- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(b) a contract that will or may be settled in the entity's own equity instruments and is non derivative.

Debt is a typical example of a liability. An instrument will be classified as debt if:

- Redemption is at the option of the instrument holder;
- There is limited life to the instrument;
- Redemption is triggered by a future uncertain event which is beyond the control of both the holder and the issuer; and
- Dividends are non-discretionary.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

An instrument will be classified as equity if:

- The instrument is non-redeemable; and
- Dividends are discretionary.

EXAMINER'S REPORT

The question tests candidates' knowledge of IFRS 13 and IAS 32. About 50% of the candidates that sat for the examination attempted the question and their performance was below average.

Commonest pitfall was candidates' inability to understand the fair value hierarchies level of inputs as identified by the standards.

Candidates are advised to concentrate more on the ICAN Study Text for this level of examination for better performance in future.



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