Comparative analysis of the effect of professional ethics on the enhancing characteristics of financial reporting of selected firms in Nigeria and South Africa

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Abstract

The need to improve the understandability and comparability of financial reporting remains a global concern among professional accounting bodies. This study conducts a comparative analysis of the effect of professional ethics on the financial reporting quality of listed firms in Nigeria and South Africa, with emphasis on understandability and comparability. An ex-post facto research design was adopted, covering a ten-year period (2014–2023). Data were analyzed using static panel regression techniques.

The findings reveal that professional ethics in Nigeria have a negative and significant effect on the understandability of financial reports, while in South Africa, the effect is positive and significant. However, professional ethics in both countries do not significantly enhance comparability of financial reporting. These results suggest differences in ethical enforcement and institutional strength across the two jurisdictions.

The study recommends strengthening ethical standards in Nigeria through improved enforcement by professional bodies. It further suggests that Nigerian accounting regulators adopt practices similar to those in South Africa. International standard-setters should also enhance mechanisms for improving cross-country comparability of financial reports, potentially through a dedicated review panel to assess international reporting consistency before publication.

Keywords: Comparability quality; Ethical principles; Financial reports; Financial reporting quality; Understandability.

Introduction

Unethical practices among professional accountants, managers, and governance officers have raised concerns about trust, integrity, and the credibility of financial reporting (Georgina, 2021). Core ethical principles—including integrity, objectivity, professional competence, confidentiality, and professional behaviour—form the foundation of accounting practice, yet remain widely criticized by regulators, investors, and other users of financial information (Pourianasab, 2000).

Ethics is defined as the systematic study of moral conduct and standards of right and wrong behaviour (Wheelwright, 1959). However, accounting professionals continue to face increasing ethical challenges, particularly following major corporate scandals of the early twenty-first century, which resulted in significant financial losses and weakened investor confidence (Odo & Ugwu, 2020). These events led to regulatory reforms such as the Sarbanes–Oxley Act (SOX) of 2002, aimed at strengthening corporate responsibility, auditor independence, and financial disclosure through enhanced oversight mechanisms (Carnegie & Napier, 2010).

More recently, international reporting reforms such as IFRS 18 have sought to improve the structure, transparency, and comparability of financial statements (IFRS Foundation, 2024). Despite these reforms, concerns over financial reporting quality persist, particularly regarding understandability and comparability, which remain central qualitative characteristics of financial reporting (Gjoni-Karameta et al., 2021).

Against this background, this study examines how professional ethics influence the enhancing qualitative characteristics of financial reporting—specifically understandability and comparability—among listed firms in Nigeria and South Africa, two of the most active stock markets in Africa.

Literature Review

Theoretical Review

Stewardship theory was introduced by Donaldson and Davis (1991) to explain the relationship between ownership and management in organizations. The theory emphasizes cooperation, collaboration, and mutual trust between principals and agents rather than conflict of interest. It provides a non-economic explanation of organizational relationships (Sundaramurthy & Lewis, 2003). Under this theory, accountants and internal auditors are expected to act in the best interest of the organization by safeguarding its resources and ensuring the reliability of financial reporting.

The theory assumes that managers, when entrusted with responsibility, will prioritize organizational goals over personal interests and act as responsible stewards of organizational resources. When stakeholders perceive managers as trustworthy stewards, organizational trust and confidence increase, leading to higher employee engagement, commitment, and overall organizational success. Empirical support for this perspective is provided by Muadinohamba and Maseke (2024), Schillemans and Bjurstrøm (2020), Torfing and Øllgaard Bentzen (2020), Ogoun and Ephibayerin (2020), and Davis et al. (1997), who argue that stewardship behaviour enhances satisfaction and organizational performance through responsible resource management.

This study is anchored on stewardship theory because accountants are responsible for ensuring accountability in the management of organizational resources and preparing financial reports that will be relied upon by various stakeholders for informed decision-making.

Conceptual Review

Professional Ethics

Professional ethics refer to the standards established by professional bodies that govern the behaviour, values, and decision-making processes of individuals within a specific profession. In accounting, ethical standards are defined and regulated globally by the International Ethics Standards Board for Accountants (IESBA, 2021). These standards include integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. These

ethical principles are applicable to both professional accountants in public practice and those in business environments (IFAC, 2022).

Professional ethics ensure that accountants act in a responsible and transparent manner, thereby enhancing the credibility of financial reporting and strengthening stakeholder confidence in financial information.

Financial Reporting Quality

Financial reporting quality refers to the extent to which financial statements provide accurate, reliable, and faithful representation of an entity's financial position and performance (Tang et al., 2016). Jonas and Blanchet (2000) emphasize that financial reporting quality is not limited to the final output of financial statements but also depends on the entire reporting process, including disclosure practices, selection and application of accounting policies, and the quality of professional judgment applied in preparing financial reports.

High-quality financial reporting enhances transparency, reduces information asymmetry, and improves the decision-making ability of investors, creditors, and other stakeholders (Martinez-Ferrero, 2014). It also ensures that financial information is useful for economic decision-making and reflects the true financial condition of firms.

Furthermore, improvements in international reporting standards, such as IFRS 18: Presentation and Disclosure in Financial Statements, have strengthened financial reporting quality by enhancing comparability and transparency. IFRS 18 requires that profit or loss be structured into operating, investing, financing, income taxes, and discontinued operations. It also introduces enhanced disclosure requirements such as management-defined performance measures (MPMs) and disclosure of expenses by nature and function, all aimed at improving clarity, comparability, and usefulness of financial statements.

Empirical Review and Hypotheses Development

Empirical studies on accounting ethics and financial reporting quality generally reveal a positive and significant relationship between ethical behaviour and improved financial reporting outcomes. Rachmawati et al. (2025) examined the effects of ethical leadership, authentic leadership, and ethical climate on financial reporting quality using a quantitative approach and PLS-SEM analysis in

Indonesia. The study found that both ethical leadership and ethical climate significantly enhance financial reporting quality.

Similarly, Anastase and Kasozi (2025) investigated the effect of accounting ethics on financial reporting quality in the banking sector in Rwanda using a mixed-method approach, including descriptive and correlational research designs. Their findings revealed that accounting ethics have a significant positive effect on financial reporting quality in commercial banks. They recommended stronger enforcement of ethical standards by management and regulatory agencies to improve reporting practices.

In Nigeria, Onyedikachi et al. (2024) examined the effect of accounting ethics on financial reporting quality among companies in Abia State using structured questionnaires and a 5-point Likert scale. Data were analyzed using multivariate regression techniques. The study concluded that accounting ethics significantly improve financial reporting quality and recommended the integration of ethics into accounting curricula, as well as enhanced disclosure of ethical practices and policies by firms to improve value relevance and transparency.

Babayanju et al. (2017) also studied the impact of accounting ethics on the quality of financial reporting using a field survey approach. Data were analyzed using descriptive and inferential statistics, and the findings revealed that accounting ethics significantly and positively influence financial reporting quality in Nigeria.

Hypotheses Development

Based on the conceptual and empirical literature reviewed, the following null hypotheses are formulated:

H01: Ethical principles have no significant effect on the understandability quality of financial reports of listed firms.

H02: Ethical principles have no significant effect on the comparability quality of financial reports of listed firms.

Understandability and comparability are selected as key qualitative characteristics of financial reporting due to their importance in enhancing the usability of financial information. These attributes are particularly critical in

addressing recurring financial reporting scandals and strengthening stakeholder trust in corporate financial reports.

Methodology

This section presents the methodology adopted to examine the relationship between professional ethics and financial reporting quality of listed firms in Nigeria and South Africa over a ten-year period (2014–2023). The period is selected due to increased financial scandals in Nigeria and subsequent regulatory reforms, including the strengthening of the Financial Reporting Council of Nigeria (Amendment) Act 2023, the Nigeria Data Protection Act 2023, and enhanced Central Bank of Nigeria (CBN) KYC/AML guidelines aimed at curbing unethical corporate practices.

The study employs an ex-post facto research design to analyze pre-existing events and establish causal relationships based on historical data. The design is appropriate as it relies on secondary data obtained from published financial statements, making the study quantitative in nature.

Secondary data were sourced from the official websites of selected firms in Nigeria and South Africa, as well as their respective stock exchange platforms. Firms include Cadbury Nigeria Plc and Cadbury (South Africa), Ecobank Nigeria (including legacy Oceanic Bank) and Ecobank South Africa, TotalEnergies Nigeria and Total South Africa, as well as firms with no major scandal records such as Austin Laz & Company Plc (BLS), Alaris Holdings, Stanbic IBTC Bank (Nigeria and South Africa), Oando South Africa Plc, and Conoil Nigeria Plc. Where required data were unavailable, the Nigerian and South African Stock Exchanges were consulted.

Data were collected through documentation of audited financial statements of twelve listed firms. Instrument validity is assumed due to external auditing, internal control systems, and regulatory oversight governing financial reporting. Reliability was ensured through pre-diagnostic tests, including stationarity tests, used to enhance model robustness.

Descriptive and inferential statistics were employed, while static panel regression analysis was used to test the hypotheses and evaluate the effect of professional ethics on financial reporting quality. Data analysis was conducted using IBM SPSS version 25. Panel regression was selected because it allows examination of variations across firms and over time.

The model specification follows a modified framework adapted from Mafabi (2012) and the MedGraph method by Jose (2008):

FRQ = f(PE) + e

Where:
FRQ = Financial Reporting Quality (proxied by understandability and comparability)
PE = Professional Ethics (proxied by integrity, objectivity, professional behaviour, and independence)
e = error term

Results and Discussion

Descriptive Statistics

Table 1 presents the descriptive statistics of financial reporting quality variables for listed firms in Nigeria and South Africa.

The results show that the mean value of understandability in Nigeria is 2.759, compared to 3.7803 in South Africa, indicating higher clarity of financial reports among South African firms. In contrast, comparability shows similar mean values in both countries (Nigeria = 2.892; South Africa = 2.978), suggesting generally weak and closely aligned comparability levels across both jurisdictions, consistent with IFRS concerns on comparability.

Across the understandability indicators (UD1–UD4), South African firms consistently record higher mean scores, particularly in presentation structure and clarity of language. For comparability indicators (C1–C4), both countries show marginal differences, reflecting limited variation in accounting policy disclosures.

Table 1: Descriptive Statistics

Variable	**Nigeria Mean**	**Nigeria Std. Dev.**	**South Africa Mean**	**South Africa Std. Dev.**

Variable	Nigeria Mean	Nigeria Std. Dev.	South Africa Mean	South Africa Std. Dev.
Understandability (Total)	2.759	1.1448	3.7803	1.5684
Comparability (Total)	2.892	1.14235	2.978	1.5650

Source: Author's Computation

Panel Data Regression Results

Panel A: Hypothesis One (Ethical Principles and Understandability)

Table 2 presents the effect of ethical principles on understandability of financial reports in Nigeria and South Africa.

In Nigeria, the adjusted R^2 is 0.166, indicating that ethical principles explain about 17% of variations in understandability. Ethical variables generally show negative and significant effects, and the model is statistically significant ($F = 123.062$, $p < 0.01$).

In South Africa, the adjusted R^2 is 0.762, implying that ethical principles explain about 76% of variation in understandability. While objectivity, integrity, and independence are positive and significant, professional behaviour is not significant ($p = 0.144$). The model is jointly significant ($F = 95.46$).

Overall, ethical principles negatively influence understandability in Nigeria but positively influence it in South Africa.

Table 2: Ethical Principles and Understandability of Financial Reports

Variables	Nigeria B	T	Sig.	South Africa B	t	Sig.
Constant	7.863	24.409	0.000	3.364	19.757	0.000
Professional Behaviour	-3.384	-1.093	0.000	0.213	1.461	0.144
Objectivity	-1.871	-5.538	0.000	0.735	4.642	0.000
Integrity	-1.648	-7.915	0.000	0.556	4.480	0.000
Independence	-0.957	-3.031	0.003	1.439	9.770	0.000
F-Statistic	123.062			95.46		
Adj. R^2	0.166			0.762		

Source: Author's Computation

Panel B: Hypothesis Two (Ethical Principles and Comparability)

Table 3 presents the effect of ethical principles on comparability of financial reports in Nigeria and South Africa.

In Nigeria, the adjusted R^2 is 0.159, indicating that ethical principles explain about 16% of variation in comparability. Most variables show weak and statistically insignificant effects, although the overall model is significant ($F = 117.147$).

In South Africa, the adjusted R^2 is 0.288, suggesting that ethical principles explain about 29% of variation in comparability. However, most coefficients are statistically insignificant, and the model shows weak explanatory strength ($F = 3.621$).

Table 3: Ethical Principles and Comparability of Financial Reports

Variables	Nigeria B	t	Sig.	South Africa B	t	Sig.
Constant	7.894	26.714	0.000	9.417	26.763	0.000
Professional Behaviour	-0.338	-1.136	0.257	0.108	0.360	0.719
Objectivity	0.686	1.798	0.730	1.354	4.141	0.000
Integrity	-0.925	-3.139	0.002	0.116	0.453	0.651
Independence	0.454	-1.510	0.132	0.580	1.906	0.057
F-Statistic	117.147			3.621		
Adj. R^2	0.159			0.288		

Source: Author's Computation

Discussion of Findings

The findings indicate that ethical principles significantly influence the understandability of financial reports in both Nigeria and South Africa; however, the direction, magnitude, and statistical strength of these effects vary across the two countries. In South Africa, ethical principles generally demonstrate a positive and statistically significant relationship with understandability, suggesting that stronger adherence to professional ethics enhances clarity, transparency, and the overall quality of financial reporting presentation. This aligns with the expectation that ethical compliance improves disclosure quality and reduces ambiguity in financial statements.

In contrast, the Nigerian results show a negative and significant relationship between ethical principles and understandability, indicating that despite the presence of ethical frameworks, weak enforcement mechanisms, institutional inefficiencies, or regulatory gaps may limit their effectiveness in improving

financial reporting clarity. This divergence highlights contextual differences in governance structures, enforcement intensity, and professional oversight between the two countries.

However, across both Nigeria and South Africa, ethical principles do not significantly improve comparability of financial reports. This suggests that despite ethical compliance, firms still face difficulties in achieving uniformity in accounting treatments, disclosure practices, and reporting formats. The result implies that comparability is likely influenced more by structural and regulatory standardization issues—such as inconsistent interpretation of IFRS requirements—than by individual or organizational ethical behaviour alone.

Overall, the findings suggest that while ethical principles are important in enhancing the qualitative characteristic of understandability, they are insufficient on their own to ensure comparability in financial reporting across firms and jurisdictions. This underscores the need for stronger harmonization of reporting standards and improved regulatory enforcement to achieve consistent financial reporting quality.

Conclusion and Recommendations

Professional accountants are required to maintain continuous professional competence to ensure the delivery of high-quality services in line with evolving practice, legislation, and technical standards. They are also expected to exercise due care, act diligently, comply with applicable professional standards, and uphold confidentiality by safeguarding information obtained through professional and business relationships, except where disclosure is legally or professionally required.

Based on the findings, the study concludes that ethical principles have a negative and significant effect on the understandability of financial reports in Nigeria, while in South Africa ethical principles exert a positive and significant effect on understandability. However, ethical principles do not significantly enhance the comparability of financial reports in both countries, indicating persistent limitations in achieving uniformity in financial reporting practices across jurisdictions.

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