Ethics, Corporate Governance and Financial Reporting in the Nigerian Banking Industry: Global Role of International Financial Reporting Standards

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Abstract

Nigerian banking sector has witnessed financial distress which has led to the liquidation of some financial institutions from pre-independence to date. It was discovered that non-compliance with relevant ethical codes and poor corporate governance affected the preparation of quality and faithful financial reports. The study therefore purposed to evaluate ethics and corporate governance in financial reporting and looked at the role of International Financial Reporting Standards (IFRS) in the harmonized global reporting system. The study adopted survey research design with the use of structured questionnaire in obtaining opinion from the operators and regulators. Analysis of Variance (ANOVA) was used to analyze the data obtained from the field with the aid of Statistical Package for Social Sciences (SPSS). In hypothesis one, the p-value of 0.562 is greater than the level of significance 0.05 thereby accepting the null hypothesis, showing that ethical irregularities and poor corporate governance have been the major factors affecting quality financial reports in Nigeria. In hypothesis two, the p-value of 0.249 is greater than level of significance 0.05 accepting the null hypothesis indicating that the supervisory level of the Nigerian regulatory authorities was weak to discover and rectify the problems of ethics and corporate governance. The p-value 0.118 for hypothesis three is higher than the level of significance 0.05 which made us to accept the null hypothesis indicating that Nigeria banking industry post-consolidation is full of ethical challenges and irregularities in corporate governance. Poor ethical and corporate governance are still major challenges in Nigeria banking industry. We recommend among others that Nigeria regulatory authorities should reorganize their monitoring and auditing systems to ensure ethical codes and corporate governance codes compliance are enforced with the adoption of International Financial Reporting Standards for the production of quality financial reports to the global economy.

Keywords: Financial distress, Ethics, Competition, Corporate governance, IFRS, Integrated development, Harmonization, Undercapitalization

1. Introduction

The Nigerian banking sector is part of Nigerian financial system, and financial system refers to the totality of the regulatory and participating institutions, including financial markets and instruments, involved in the process of financial intermediation. The major objectives of investing in the banking sector are to provide financial services to the economy and earn compensatory returns on capital employed. The Banks and Other Financial Institutions Act No 25 s.62 defines bank as one licensed under the Act and banking business as the business of receiving deposits on current, saving or other similar account, and paying or collecting cheques. Olulana (2000:16) explained the industry as the enabling hub of national and global payments system by facilitating trade transactions within and amongst numerous national, regional and international economic units and by so doing; it enhances commerce, industry and exchange. We have discovered therefore that the banking industry is the bedrock of Nigerian economy.

From pre-independence to date, the industry has played crucial roles in the process of the country’s economic development by mobilizing funds from the surplus sector of the economy and ensures the lending of such funds to the deficit-spending units for investment thereby creating money in the system. With its specialized type of banking, the industry has witnessed the fastest rate of growth in the economy. According to CBN (2004:1), following the

deregulation of the Nigerian financial sector in 1986 during era of structural adjustment programme (SAP), the banking industry witnessed remarkable growth, both in the number of deposit money banks and other types of financial institutions. However, in the early 1990s, Nigerian banking institutions faced many challenges, including increased competition and harsh economic conditions. Against this background, the incidence of financial sector distress induced by undercapitalization, liquidity crisis and high degree of non-performing loans characterized the banking industry in Nigeria.

The evolution of banking in Nigeria has been brought to fore in order to study deep into the history of banking and bring out the challenges that led to the various crisis the industry has been passing through from pre-independence to date. The colonial era 1892-1957 was characterized by the dearth of banking legislation and regulations or directives which resulted in banking becoming a free-for-all affair leading to gross misconduct and abuse(Agene,1995).The Independence era 1957-1970 was characterized by the appreciation of the developmental role of a stable and efficient financial system demonstrated by the concerned efforts of the government to have a Central Bank established for Nigeria in spite of the reluctance of the colonial authorities. These efforts culminated in the enactment of Central Bank of Nigeria Act in 1958 and the commencement of operations of the bank in July 1959(CBN and NDIC,1995).The Indigenization era 1970-1985 was characterized by the promulgation of Nigerian Enterprises Promotion Decree in 1972 which restricted foreigners to designated areas of the economy and compelling their divestment from those areas of the economy. The banking industry was affected where the Federal Government took over the foreign shares of the affected banks. The belief was that foreign control of significant sectors of the economy tended to impede economic development(Ogowewo,1995).The Privatization and Commercialization era 1986-1992 was characterized by the liberalization of some of the controls over the financial markets in order to enhance economic efficiency and effective resource allocation through service-driven competition and improvement in quality and spread of banking service delivery. Deregulation of the financial system was embarked upon in 1986 as part of the Structural Adjustment Programme(SAP).The Central Bank of Nigeria issued new Prudential Guidelines in November 1990 to ensure proper credit classification and income recognition, as part of the measures to promote financial health of banks(CBN,2000).Bank Rehabilitation and Restructuring era 1992 to date which marks the period of the nation embarking on economic policies, plans, programmes and reforms in order to enhance the growth and development of the economies. While economic growth generally refers to increases over time in a country's per capital Gross National Product(GNP),economic development can be viewed as a process of growth which should be self-reliance in the abundant utilization of resources.(Onwumere,2005)

Onwumere explained that banking reforms have been undertaken in Nigeria with the objectives of (a) improving the financial strength and lending capacity of banks through recapitalization,(b)to promoting real banking activities (c) to protecting depositors funds (d)to promoting competition while avoiding market failures (e) to strengthening prudential regulations(f) to checking insider abuse, and (g) to evolving a sound banking industry and by extension, a more efficient financial system.

The phenomenal growth and expansion in the activities of banks resulted in successes and failures of banks. The most prominent in the challenges is the financial institution distress, which resulted into a situation where banking institutions could no longer meet their financial obligations to their customers and various shareholders. According to Central Bank of Nigeria CBN(2000) Corporate governance was discovered to be a major factor that affects the operations and growth of the banking industry. Effective or ineffective practice of corporate governance cannot be divorced from ethics and standards. New Webster Dictionary defines ethics as relating to morality of behavior, and conformity with an accepted standard of good behavior, the study of moral principles which determines the rightness or wrongness of particular acts or activities. Armstrong (2003) defined corporate governance as a system by which corporations are governed and controlled with a view to increasing shareholder value and meeting the expectations of the other stakeholders. According to Omeiza-Michael (2009), corporate governance is concerned primarily with protecting weak and widely dispersed shareholders against self-interested directors and managers.

Central Bank of Nigeria (2006:1-20) in avoiding grave financial scandals and collapse of institutions introduced code of corporate governance for banks in Nigeria post consolidation. It explained that financial scandals around the world and the recent collapse of major corporate institutions in the USA and Europe have brought to the fore, the need for the practice of good corporate governance, which is a system by which corporations are governed and controlled with a view to increasing shareholder value and meeting the expectations of the other stakeholders. The need for good financial reporting in the financial industry cannot be overemphasized as CBN postulated further that the financial industry need to retain public confidence through the enthronement of good corporate governance given the role of the industry in the mobilization of funds, the allocation of credit to the needy sectors of the economy, the payment and settlement system and the implementation of monetary policy. As the economies of the world are connected through

the practice of globalization, ethical issues and corporate governance in financial reporting have become so important if businesses are to be transacted globally. Financial reporting according to International Accounting Standard 1 is a structured financial position and financial performance of a reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers. The relevance and faithful representation of financial reports rest on the ethics and corporate governance in practice. The International Financial Reporting Standards are to harmonize the reporting systems of all business entities in the global economy.

In the adoption of International Financial Reporting Standards(IFRS) in Nigeria financial industry reporting system, the following that have been eluding Nigeria will be of great advantages: foreign investors will be attracted into Nigerian economy, the provision of transparent and useful information for market participants and their transactions will improve the market inputs as Nigerian market participants will have access to international capital market for funds; the principles-based nature of IFRS has triggered the need for enhanced explanations that provide readers with sufficient information to effectively understand the company's financial statements. The Financial Reporting Council of Nigeria (FRC) was established to ensure all these are achieved in addition to aligning Nigeria with other countries and improve investors' confidence. In view of the ongoing restructuring in Nigeria financial industry in order to ensure sustainable performance growth, this article becomes imperative so as to evaluate ethical issues and corporate governance in financial reporting, and the evolution of International Financial Reporting Standards on same.

1.1 Statement of the Problem

Ethics are rules of behavior used by professionals and practitioners to decide what is right and wrong in the normal course of business ;and corporate governance according to Al-Faki(2005:29) is the rules and practice that govern the relationship between managers and shareholders of companies as well as other stakeholders, contribute not only to the growth and financial stability of corporate enterprises, and also promotes financial markets integrity and economic efficiency .These two practices are essentials for producing quality and reliable financial reports to investors, potential investors and all stakeholders. An ethical dilemma has, overtime bedeviled the Nigerian banking industry couple with poor corporate governance. Inaccurate/poor reporting of financial performance to shareholders, the government and the public have eroded the level of confidence of these stakeholders. The lack of proper accountability and transparency in the production of financial returns has also eroded the confidence of investors and the public. In actual fact, the four pillars of corporate which are known to produce better and sustainable organization are being undermined or not instituted viz: accountability, independence, fairness and transparency. According to CBN (2002,2006),the following number of banks experienced outright liquidation in Nigeria economy: Pre-independence 22banks;1992 3banks;1994 4banks;1998 26banks and 2005 14banks.Post 2005 bank consolidation also witnessed a number of events like the sacking of the board of Spring Bank Plc by CBN in 2007,Managing Directors of eight banks were sacked in August 14,2009.To avoid waning of public confidence and runs in these affected banks, the CBN injected ₦620 billion in all the eight affected banks to keep them running(Ugwu, Olajide, Ebosede, Adekoya, and Oji,2009).According to CBN and NDIC (1995) overhang of non-performing loans and advances, capital inadequacy, non-compliance with monetary policies, poor corporate governance, poor planning and control, lack of financial transparency, poor asset and liability management are the contributing factors to problems in the Nigerian banking industry. All these can be attributed to poor corporate governance, neglect of ethical considerations which led to lack of transparency and poor accountability, fraud and insider abuse which in the overall affected financial reporting system.

1.2 Objective of the Study

The main objective of this study was to assess the practice of ethics and corporate governance in the production of financial reports in the Nigerian banking industry with a view of linking the global role of International Financial Reporting Standards in the production of reliable and faithful financial reports.

The specific objectives of the study are:

1. To evaluate how good ethical practice and reporting standards can be incorporated into corporate governance with aim of producing reliable and faithful financial reports.

2. To assess compliance with statutory and regulatory codes, and reporting standards by managers with the aim of solving ethical problems in producing reliable and faithful financial reports.

3. To determine how financial institutions post consolidation can produce transparent and accurate financial reports free from ethical irregularities and gain confidence of the stakeholders.

1.3 Research Questions

The following research questions were pertinent to this work:

1. In what way can good ethical practice and reporting standards be incorporated into the corporate governance to produce reliable and faithful financial reports?

2. To what extent will compliance with statutory and regulatory codes and reporting standards by managers of the industry solve ethical problems in producing reliable and faithful financial reports?

3. How can the banking industry post consolidation produce transparent and accurate financial reports free from ethical irregularities in order to gain the confidence of the stakeholders?

1.4 Research Hypotheses

The following hypotheses stated in null forms were tested to provide solutions to the research problems and questions:

1. $H_{0=}$ Ethical challenges and corporate governance have very strong negative significant relationship with financial reporting in the Nigerian banking industry?

2. H_0 Compliance with statutory codes and regulatory standards have no significant relationship with ethical problems in producing reliable and faithful financial reports in Nigerian banking industry.

3. H_0 The Nigerian Banking industry post-consolidation are not free from observed ethical practice and irregularities in their corporate governance and production of financial reports.

1.5 Operationalization of Variables

Y=f(X)

Y=Financial Reporting

X=Ethics and Corporate Governance

i.e.Financial Reporting=f(Ethics and Corporate Governance.

=x_1-Ethical Practice EP;x_2-Reporting Standards RS; x_{3}-Corporate Governance CG;x_{4}-Compliance CP;x_{5}-Transparency TP;x_6-Accuracy AC.

=y_1-y_6=Financial Reporting=FR.

Therefore FR=f(EP,RS,CG,CP,TP,AC.

$FR=\alpha+\beta_1EP+\beta_2RS+\beta_3CG+\beta_4CP+\beta_5TP+\beta_6AC+u.$

That is to say that quality, reliable and accurate financial report must be a function of sound ethical practice, reporting standards adoption, good corporate governance, compliance with standards and ethical codes, transparency in reporting and accuracy of reports.

2. Materials Studied

2.1 Corporate Governance

Al-Faki (2005:29) in assessing good corporate governance practice as catalyst for performance excellence explained that research studies have shown that countries and companies with weak corporate governance suffer large collapses when hit by adverse shocks and are subject to greatest volatility. That in many countries, Stock Exchanges and fund indices have set up extensively basis for companies that have strong emphasis on good governance practice. Each of them has outperformed comparable indices. Therefore good corporate governance practice provides value for long-term sustainability as well as short-term result. The studies that proved this according to him are (a) the star exchange in Italy which was set up for small to mid-size companies that follow strict governance requirements has for now 37companies with a total market capitalization of $7.5billion.The companies outperformed their counterparts on the Bourse by 16.5percent between April 2001 and March 2002.(b) a study of the 100 largest companies in Thailand found that clearly the companies with strong corporate governance have higher market valuations. He concluded that investors pay a premium for companies that adopt international best practice in corporate governance.

Sanusi (2003) noted that along with corporate responsibility, corporate governance provides the foundations of market integrity and thus imposes a lot of responsibility on the board of directors, thus requiring them to strike a delicate balance between the interests of the various stakeholders. Adedipe(2004) corroborated Sanusi's view that it is however emphasized that balancing stakeholders interests goes beyond protecting the interests of shareholders in individual organizations; rather, it revolves around embracing good corporate governance that sets rules and practices that govern

the relationship between managers and shareholders of corporations, as well as stakeholders like the public, employees, pensioners and Nigeria business environment in recent times have direct or indirect impact on corporate governance. Most of the reforms carried out by various governments were aimed at opening up local communities, while at the same time ensuring transparency, fairness and accountability.

Abiola(2012) stated that there are a number of developments within the Nigeria economy to the outside world in order to provide enabling environment for Nigeria to compete in the global economy. That in 1995 Nigeria Enterprises Promotion Decree (NEPD) which restricted foreign ownership of shares in certain businesses was repealed and replaced with Nigeria Investment Promotion Act(NIPCA) which by far is more foreign investors friendly. The resultant effect of this was an increase in foreign investment flow and expansion of existing businesses including banks. The bank consolidation reform carried out by the Central Bank of Nigeria has not been without success. The number of banks was reduced to twenty four from 95 before consolidation, with the minimum capital raised to N25billion.Most Chief Executive Officers are saddled with funds management problems as Nigeria banks have enough liquidity to compete globally. He asserted that all these reforms brought with it obvious problems of corporate governance in the sense that most of the banks still operate the same management structure before the capitalization with the Chief Executive Officer holding substantial equity and power even at board level .The study employed exploratory semi-structured interview approach in the study. In his findings, it was discovered that top management influences corporate governance than any other mechanism but the result is inconsistent with the agency theory which recommended the board and the audit committee to serve as a means of independent overseers of management actions in order to protect the shareholders interest. He concluded that effective governance cannot be dissociated from top management credibility and attitude.

Osajie2014) using Cadbury report of 1992 explained that Corporate Governance is defined as the system by which companies are directed and controlled. Corporate Governance encompasses practices and procedures to ensure that a company is managed in such a way that it achieves its objectives. In profit oriented enterprises, these objectives would be to maximize the returns to its shareholders. However, differing interest of other stakeholders is recognized. In addition, the organization has to function within its environmental guidelines and constraints which include behaving in an ethical manner and in compliance with laws and regulations. Boards of directors have responsibility for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The importance of sound corporate governance is especially relevant for large Public Companies. A company is a legal person controlled by a board of directors in the interest of shareholders. Sometimes, the interest of both groups could be divergent; the challenge of good corporate governance is to find a way in which the interest of the shareholders, directors and other stakeholders can be sufficiently satisfied. In Nigeria the mechanism of corporate governance are the Companies and Allied Matters Act 2004, Investment & Securities Act 2007, Securities & Exchange Commission 2011 Corporate Governance Code and various industry specific governance codes. Several concepts apply to sound corporate governance, but best practice can be achieved where there is (1)Openness, Honesty and Transparency: indicative of a willingness to make available to individuals, groups and all interested parties, information that makes clear the position and performance of the company in a timely fashion.(2)Independence: the extent to which procedures and structures are in place so as to minimize or avoid completely potential conflicts of interest that arise, of particular relevance to non-executive directors and professional advisers.(3)Accountability: Directors responsibility to account to shareholders for the decisions they make over a given period.(4)Fairness: a principle that all shareholders should receive equal consideration. Ethical conduct with regard to behavior, that is in accordance with a written or unwritten code of ethics and a set of moral values. It is pertinent to observe that personal and business ethics underlie all the regulations and codifications in corporate governance. It should be emphasized that laws and regulations alone can never suffice to guarantee fair practices. Individuals in positions of influence and authority have to want to apply fair practice and abide by the rules. They opined that the benefits of sound corporate governance include the following: Elimination of the risk of misleading or false financial reporting, Prevention of domination of companies by self seeking chief executives. Strong reputation and therefore lesser likelihood of exposure to reputational risk, will lead to higher probability of achievement of commercial success. Good governance and good leadership in management often go together. He concluded that Personal and business ethics underlie all the regulations and codification in corporate governance. Law and regulations alone can never guarantee fair practice. Individuals in positions of influence and authority have to want to apply fair practice and adhere to the rules. Some individuals, however, will be far more concerned with themselves than with the collective aims of their organization. Laws, regulations, accounting standards and codes are framed on the assumption that they will be followed. For would-be transgressors, there is some threat of punishment in the law. When there is evidence of misdeeds in corporate governance, new laws may be introduced carrying stiffer penalties, in

the expectation that potential wrongdoers will hesitate before doing anything selfish and wrong. Even so, the threat of criminal and civil punishments is never enough on its own. Good practice in corporate governance practice calls for ethical conduct and a firm sense of what is right and wrong.

Das and Ghosh(2004) and Nwokoma(2005) expressed their view that banks occupy a very delicate position in the economic equation of any country, such that their performance invariably affects the economy, whether good or otherwise cost and consequences due. Poor corporate governance in banks may contribute to its failure, which can pose significant public cost and consequences due to their potential impact on any applicable deposit insurance system. Other implications are that poor corporate governance can lead to lose confidence in the ability of a bank to properly manage its assets and liabilities, including deposits, which they claim could trigger a bank run or liquidity crisis.

2.2 Ethics

Ogechukwu (2013:1-17) opined that ethics and morals are seen as personal view points and that ethics consist of certain rules and standards of conduct recognized as binding in a professional body, association or organization which are also binding on members. In his analytical review, he explained that it is really difficult to identify what is ethical or unethical, as this varies from one culture, society, occupation, or institution to another. That everyone whether in business, medical, law, advertisement and more especially now in the commercial banking sector must have a sound ethical base that must apply to the conduct of the banking business. He concluded that sound ethical and moral values are very relevant in the banking industry. Ogbo, Okechukwu and Ukpere (2013:23-32) explained that considering the recent corporate governance problem in the banking sector that led to the removal and trial of chief executives of five banks and the subsequent liquidity problem it created, there is the need to look into the business ethics practices in Nigeria especially in the banking industry. Given the financial scandals and the resulting new mandates on business, they explained further that firms found themselves pressed to develop strong codes of ethics to guide the behavior of board members, managers and employees. The focus of their study was to establish the level of unethical practices perpetrated in the Nigeria banking industry in recent times and the consequences. In the study which was based on theoretical collection of data from literature, they discovered that there are several unethical practices in the industry evidenced by the removal of top executives in some banks owing to illegal granting of loans and the resultant crisis that followed. They recommend that all stakeholders in the banking industry, who are the regulators, shareholders, sponsors/directors, top management and the government, should participate actively in ensuring that there is ethical code in place in the banking industry in Nigeria. They concluded that there should be commitment from the various stakeholders in the industry to ensure the propagation of ethical business practices.

Ogbechie (2006) explained that weaknesses identified in corporate governance in the banking industry could be attributed to poor ethical display which has given rise to fraudulent and self-serving practices among members of the board, management and staff; abuse in lending which includes lending in excess of the single obligor limit; technical incompetence; poor leadership; poor risk management practices; on-compliance with internal control measures and operational procedures; ignorance and non-compliance with rules, laws and regulations guiding banking business in Nigeria.

Baktitian and Azimilar (2013) stated that accountants have professional obligations to stakeholders, and that their obligations go beyond their immediate client. Decisions made based on information provided by accountants can materially affect the lives of any of the stakeholders. Ethical behavior of accountants is an essential and expected trait .Information provided by accountants should significantly be efficient, reliable, realistic and unbiased. They explained further that lack of professional ethics accompanied with qualitative characteristics of financial reporting can make an unrealistic picture of financial reporting. Even with accounting standards and rules, without professional ethics accountants can provide manipulated financial reports. They concluded in their paper that combination of professional ethics and qualitative characteristics of financial reporting must be used. Further that developing professional ethics in accounting profession leads to promoting quality reporting. Accountants should focus on integrity, objectivity, professional competence, confidentiality, and professional behavior.

Obona and Ebimobowei (2012) in their study opined that financial reporting forms the basis for economic decision making by various stakeholders, and that the financial reports produced by the accountant should be based on certain fundamental qualities for various users to understand the content of the report. In their work that was empirical with the aid of econometric models, they found out that ethical accounting standards are significantly related to the quality of financial reports of banks in Nigeria. They concluded that ethical accounting standards are fundamentally necessary for accountants to produce quality financial reports free from material misstatements. They directed that professional accountants as custodian and producers of accounting information should adhere to the codes of professional best practices issued by relevant professional bodies. That Nigeria banks should establish ethics department to ensure that

activities adhere to the codes of ethics including the financial reporting process, accountants and accounting offices in Nigeria banks should adhere to the International Financial Reporting Standards (IFRS) in the reporting structure to reduce failure symptoms in the banking industry.

2.3 Financial Reporting and International Financial Reporting Standards

Umoren and Enang (2015:1-7) explained that the banking sector forms one of the pillars of economic development through the mobilization of funds thereby stimulating and promoting investments and economic growth and development. Investors separated from management rely on the information supplied by management in the financial statements, in assessing the risk and value of a firm before deciding either to invest or to disinvest. The ability of the financial Statements to effectively and satisfactorily guide investors on investment decisions depends on the value relevance of the information. The value relevance of financial statements implies ability of the financial information contained in the financial statements to explain the stock market measures. They explained that the adoption of International Financial Reporting Standards (IFRS) have been empirically found to improve the quality of accounting in some countries thereby increasing its usefulness to stakeholders. Using descriptive statistics and least square regression to analyze the effect of IFRS adoption on the accounting quality, they found out that the equity value and earnings of banks are relatively value relevant to share prices under IFRS than under the previous Nigerian Statement of Accounting Standards (SAS).They concluded that Financial Reporting Council of Nigeria and other accounting standards setters should incorporate measures to enhance the quality of the financial reporting in order to increase the value relevant to financial statements.

Adekunle and Asaolu(2013) examined financial reporting practices among post consolidation banks in Nigeria and the subsequent stability of the banks. The study indentified different regulatory provisions for banks information disclosure and report presentation. The disclosure principle in accounting requires that financial statements present the most useful amount of relevant information that is necessary in order not to be misleading.CBN (2009) as cited in Adekunle and Asaolu(2013) said full disclosure are the mandatory financial, operational and management information which financial institutions are required to disclose in the rendition of their periodic returns to the regulatory authorities and the public. The process has to do with ensuring the integrity of data in the rendition of reports to the supervisory authorities and the public in order to enable them ascertain the true financial position and performance of deposit money banks. Financial reports of Nigeria companies have been found to be deficient overtime (Adeyemi,2006 as cited in Adekunle and Asaolu,2013).They analyzed the reports of 13banks quoted in the Nigerian stock Exchange between 2005 and 2009.They found out a high level of compliance with mandatory requirements for banks. That disclosure has a positive and significant influence on banks stability. The result further showed that though compliance with existing regulatory requirements was high, but it is evident that the existing mandatory information disclosure requirements under Statement of Accounting Standards (SAS) were inadequate and needed to be strengthened

Brownlee, Ferris and Haskins (1990) opined that the quality of corporate financial reports must be judged against a changing standard that has evolved overtime in response to the information needs, expectations,and demands of financial statement users. Considering the globalization of the economies of nations, the need to have a uniform system of preparing financial reports in the global economy was imperative. The principal body within International Financial Reporting Standard (IFRS) is the International Accounting Standard Board (IASB) which has sole responsibility for establishing International Financial Reporting Standards. The International Financial Reporting Standard is harmonizing the global financial reporting systems of business organizations. Ezejelue (2006) said "The idea of national accounting practices fitting together well is a more realistic and more desirable objective than having stereotyped accounting systems operating around the world. Standardization would lead to accounting systems being used that incompatible with the environment in which they operate. Through harmonization the varying accounting systems will be brought together but recognition is given to the fact that no single model exists for worldwide application. The single authorized global model that would result from standardization is unlikely ever to be established irrespective of the globalization of trade and industry, and of capital and money markets."

Collings (2012) explained that International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) tell accountants and other preparers of financial statements how to account for transactions and events, and what to disclose within the accounts. That the conceptual framework of IFRS set out the following characteristics of useful financial information: That financial information is relevant which will make the information capable of making a difference in the decision made by users; the financial information is faithful in its presentation which will make it complete, neutral and free from error; the financial information enhances qualitative characteristics when it is comparable, verifiable, timely and understandable. He further explained that IFRS is fast becoming one of the most used financial reporting frameworks around the world, which many countries have adopted because they want

consistency in financial reporting and believe that adopting IFRS gives access to more sources of capital because investors, creditors, financial analysts and other users of the financial statements welcome standards that require high-quality, transparent and comparable information. Without common standards, it's inherently difficult to compare financial information prepared by companies located in different parts of the world, particularly in an increasing global economy.

Jawal and Xia (2015) stated that creativity is an aspect of mental processes, and which refers to the use of skill and imagination to produce something new or a work of art. Creativity is nascent brainstorming and brainstorming opportunities for those who wish to obtain, to turn it into a creative process, because it is no creativity without the strain. They averred that creating accounting is the process through which the accounting specialists use their knowledge in order to manipulate the figures included in the annual accounts. That the objectives of creative accountants are: maximization of cost of capital, maximization of earnings, maximization of managers wealth. They stated that the role of accounting standards according to the moral hazard of the creative accounting is the objective of the IFRS foundation to develop according to the public interest, a single set of high quality, understandable, enforceable and internationally accepted financial reporting standards based upon clearly articulated principles. These standards should require transparent, high quality, and also comparable information in fiscal reports and other financial reporting to help investors. They concluded that IFRS improves the level of comparability between the accounts of firms across different countries, and affordance of greater reassurance for investors, credit rating agencies and lenders.

2.4 Theoretical Framework. The Theories that Support This Study Are

2.4.1 Ethical Relativism theory

This theory was developed by Velasques, Andre, Sharks and Meyer (2004) at Santa Clara University, Silicon Valley which holds that morality is relative to the norms of one's culture. That is whether an action is right or wrong depends on the moral norms of the society in which it is practiced. The same action may be morally right in one society but be morally wrong in another. For the ethical relativist, there are no universal moral standards that can be universally applied to all peoples at all times. The only moral standards against which a society's practice can be judged are its own. If ethical relativism is correct, there can be no common framework for resolving moral disputes or for reaching agreement on ethical matters among members of different societies. Ethical relativism reminds us that different societies have different moral beliefs and that our beliefs are deeply influenced by culture. It also encourages us to explore the reasons underlying beliefs that differ from our own, while challenging us to examine our reasons for the beliefs and values we hold. This therefore holds the fact that Nigerian banking industry has a culture that needs to imbibe ethics that are relative to the Nigerian banking culture, which will help to produce sustainable performance that will ensure financial stability and resolve financial distress.

2.4.2 Resource Dependence theory

Resource dependence theory developed by Pfeffer and Salancik in 1978 observed that the board, and in particular the constitution of the non-executive element of a board can provide the firm with a vital set of resources. It is to See the board as a source of resources for a company to open up a very different way and, to think about the board's role in creating high performance. Resources can take a variety of forms each of which can be argued to add to the capital of a company. Non-executive directors can be a source of expertise which executives can draw upon, both in the form of specific skills as well as advice and counsel in relation to strategy and its implementation. They can also serve as important source of contacts, information and relationships that allow executives to better manage some of the uncertainties in the environment. Resource dependence theory allows us to think of the very different needs that companies have at different stages of their life-cycle. This theory is connected to this study in pulling resources together to provide good corporate governance with sound ethical values in an uncertain operating environment like Nigerian banking industry.

The major study gaps are that most of the studies only considered one of the tools of either ethical values or corporate governance, while this study see the combination of the two in providing quality and reliable financial reports; also this study goes ahead to link the impact of International Financial Reporting Standard and in addition to connecting it with two important theories that will give reality to the implementation of the recommendations.

3. Methodology

The paper adopted survey research design to evaluate ethical issues and corporate governance in financial reporting in Nigerian Banking industry, with a view to link the global role of International Financial Reporting Standards. The population for this study is Nigerian banking industry with twenty institutions while the sample representatives were eight financial institutions with the use of convenience and judgmental sampling techniques to choose the samples. The

study used structured questionnaires to obtain the opinions of respondents. Twenty questionnaires were administered to each of the six commercial banks in the population while five questionnaires each were administered to each of the regulatory authorities. A total of 130 questionnaires were administered to the respondents, while 103 completed questionnaires were retrieved which is 79.23% retrieved .The percentage retrieved was alright to meet the objectives of the work and test the hypotheses. Analysis of Variance was used to test the hypotheses with the use of Statistical Package for Social Sciences (SPSS)

4. Analysis of Results

The analysis of results is broken into two for easy understanding and comprehension.

4.1 Descriptive Statistics Analysis

4.1.1 Research Question 1: Transparency in financial reporting in the banking industry is generally low in the country. The respondents' total agreement is 61.2%, and a mean of 3.06, while the divergent opinion is 38.8% with a mean of 1.94.The results therefore shows that transparency in the banking industry is low to generate confidence and reliability in reporting. The low transparency in generating good and reliable reports have been the bane of investors investing based of false belief, and making them to lose their investment. This was exactly the problem in the case of celebrated Enron versus Author Anderson.

4.1.2 Research Question 2: There are observed ethical issues of governance and financial reporting in the Nigerian banking industry after consolidation exercise. The respondents' total agreement to this research question is 85.4% with a mean of 4.27 while the divergent opinion is 14.6% with a mean of .078.This results is an indication that Nigerian banking is still facing ethical issues in financial reporting after consolidation of 2005.Central Bank of Nigeria injected N620billion in post-consolidation syndrome to safe eight bank from total collapse, and to guide against the waning of public confidence.

4.1.3 Research Question 3: The resulting mergers and acquisitions from the consolidation exercise led to several ethical issues in banks. Total agreement from the respondents is 52.4% with a mean of 2.62, undecided is 18.4% with a mean of 0.92, total disagreement is 24.3% with a mean of 1.215.Since total agreement has a mean of 2.62 which is above average of mean 2.5, this shows that mergers and acquisitions from the consolidation of 2005 led to several ethical issues in Nigerian banking industry. Some banks that were forced into business combinations to keep them afloat breached the codes of ethics in financial manipulations which made Central Bank of Nigeria to take over some banks and changed their names after consolidation.

4.1.4 Research Question 4: Ethical financial reporting in banks is essentially the responsibility of directors, which is carried out by accountants and verified by internal auditors: The respondents scored 88.4% in total agreement with a mean score of 4.42, while the divergent opinion is 11.6% with a mean of 0.58.This results show that the directors of the banks have the responsibility to display sound ethics in the preparation of financial reports. Also according to Companies and Allied Matters Act 1990, directors should be held responsible for financial reports.

4.1.5 Research Question 5: The internal control system of banks is sound enough to cover possible ethical irregularities in its governance and reporting activities. The respondents agreed rate was 59.4% with a mean of 2.97, undecided was 11.9% with a mean of 0.595, while total disagree rate was 28.85 with a mean 1.44.With the mean of positive decision of 2.97 which is above the average of 2.5,internal control system of banks is sound enough to cover ethical irregularities which is not to the benefit of stakeholders, and is an indication of internal weakness in corporate governance. Internal control of banks should be the operating arm of the management for good stewardship accounting if they give the function authority and freedom to operate.

4.1.6 Research Question 6: The ethical or non-ethicality of management's decision strongly affects the preparation and presentation of financial reports. The total agreement from the respondents is 86.4% with a mean of 4.32, while the dissented opinion was 13.6% with a mean of 0.68.The ethical or non-ethical of management's decision strongly affects any financial reports prepared by the organization management. The management of organizations ethical stand and practice will normally influence financial reports.

4.1.7 Research Question 7: The observed ethical irregularities in banks governance and financial 4.1.7 reporting are largely a function of management's decision. The field result shows 84.1% total agreement with a mean of 4.205 from respondents while the dissented view was 15.9% with a mean of 0.795.This shows that the management of banks cannot dissociate themselves from any ethical irregularities discovered in their reports. The financial solvency or stability will always be the economic consequence of management decision.

4.1.8 Research Question 8: There are statutory and/or regulatory codes as well as standards guiding ethical operations in banks. The agreed rate from the respondents is 96.6% with a mean of 4.83 while the total disagreed rate is 3.4% with a mean of 0.17.The results shows the banks have all the statutory and regulatory codes and standards guiding ethical operations, but with irregularities discovered, these codes were breached. This implies that management should combine ethical behavior with regulatory and accounting standards

4.1.9 Research Question 9: Bank officials including management are supervised by relevant regulatory institutions guiding banking activities. The total agreement by the respondents is 79.7% with a mean of3.985 while 20.3% with a mean of 1.015.The result shows that banks are supervised by the regulatory authorities, but with the discovery of ethical issues in financial reports, it reflects weakness in supervision. The regulatory authorities cannot separate themselves from poor quality reports that arises from poor supervision and auditing of books of accounts.

4.1.10 Research Question 10: The level of supervision of banking operations in Nigeria is generally not sound enough. The total agreed rate is 47.4% with a mean of 2.37; the undecided is 10.2% with a mean of 0.51, while the total disagreed is 42.4% with a mean of 2.12.The result is evenly spread as none got an average mean of 2.5.However, with the majority agreed to the statement with a mean of 2.37, and with observed ethical issues in the financial reports, it shows that the level of supervision of banking operations in Nigeria needs improvement in order to generate confidence of reports. The regulatory authority as the apex institution should not be interested in bail out at the point of generalized financial distress, but enforcement of ethical and corporate governance codes.

4.1.11 Research Question 11: The penalties presently available to correct ethical irregularities in banking operations are adequate to discourage unethical practices. The total agreed rate is 71.9% with mean of 3.595,total disagree rate is 21.4% with a mean of 1.07 and undecided 6.7% with a mean 0.335.This result shows the fact that penalties presently charged the banks for non-compliance are adequate to discourage ethical issues, yet there are still some questionable ethical issues affecting the reports of banks. In addition to the currently penalties, the managing director of any erring financial institution should be removed and face the wrath of the law, and people's investments are involved when the financial distress sets in.

4.1.12 Research 12: Issued codes and standards of practice are the most effective tools in ensuring ethicality in banking operations. The result shows 73.8% with a mean of 3.69 of total agreed, and 26.2% with a mean of 1.31 of total disagreed. The shows that issued codes and standards are the most effective financial tools of discouraging unethical practices in the banking industry. However, the combination of adhering to ethical behavior combined with accounting standards compliance will produce reliable and faithful financial reports.

4.1.13 Research 13.The level of compliance determines the level of ethical irregularities or otherwise that emerge in banks. The total agreed rate is 79.6% with a mean of 3.98 while total disagreed rate is 20.4% with a mean of 1.02.This result shows that compliance with ethical codes and standards determines the quality of reports produced by the banks. With the IFRS global standards which should be adopted by the countries in the global village, education and enlighten campaign supported by the government of the nation should go along with it.

4.2 Hypotheses Testing Results

Analysis of variance was applied in testing the three hypotheses formulated for this work.

4.2.1 Hypothesis 1

1. $H_{0=}$ Ethical challenges and corporate governance have very strong negative significant relationship with financial reporting in the Nigerian banking industry?

Research question 1.In what way can good ethical practice and reporting standards be incorporated into the corporate governance to produce reliable and faithful financial reports?

ANOVA

	Sum of Squares	df	Mean Square	F	sig
Between Groups	.254	1	.254	.340	.562
Within Groups	42.661	57	.748		
Total	42.915	58			

Level of significance: 0.05

Calculated F-value: 0.340

Tabulated F-value: 4.01

At the level of significance 0.05, with degree of freedom 1 and 57,the p-value is .562 which is greater than 0.05,while the calculated F-value of .340 is less than the tabulated value of 4.01.We therefore accept the null hypothesis which means that ethical challenges and corporate governance have very strong negative significant relationship with financial reporting in the Nigerian banking industry. That is to say that ethics, corporate governance and financial reporting cannot be separated in the Nigerian banking industry. Good corporate governance will produce good ethical behavior, and the combination of the two will produce reliable and faithful financial report.

4.2.2 Hypothesis 2

H_0 Compliance with statutory codes and regulatory standards has no significant relationship with ethical problems in producing reliable and faithful financial reports in Nigerian banking industry.

Research question: To what extent will compliance with statutory and regulatory codes and reporting standards by managers of the industry solve ethical problems in producing reliable and faithful financial reports?

ANOVA

	Sum of Squares	df	Mean Square	F	sig
Between Groups	2.670	2	1.335	1.408	.249
Within Groups	94.786	100	.948		
Total	97.456	102			

Level of significance: 0.05

Calculated F-vakue: 1.408

Tabulated F-value 3.09

At the level of significance 0.05, degree of freedom 2 and 100, the F-calculated is 1.408 which is less than the tabulated value of 3.09.The p-value of 0.249 is greater than the level of significance 0.05.With this result, we accept the null hypothesis and reject the alternate which means that statutory codes and regulatory standards have no significant relationship with ethical problems in producing financial reports. That shows that ethics are separate concepts of morals that must be practiced in business operations aside from compliance with statutory codes and standards. Organizations should not embrace statutory and regulatory codes and neglect ethical behavior. The two will form a very strong financial practice to build confidence in financial reports produced.

4.2.3 Hypothesis 3

$H_{0.}$ The Nigerian Banking industry post-consolidation are not free from observed ethical practice and irregularities in their corporate governance and production of financial reports.

Research question. How can the banking industry post consolidation produce transparent and accurate financial reports free from ethical irregularities in order to gain the confidence of the stakeholders?

ANOVA

	Sum of Squares	df	Mean Square	F	sig
Between Groups	1.762	2	.881	2.186	.118
Within Groups	39.885	99	.403		
Total	41.647	101			

Level of Signiicance: 0.05

Calculated F-value: 2.186

Tabulated F.value: 3.95

At the level of significance 0.05,degree of freedom 2 and 99,the F-calculated is 2.186 which is lower than F-tabulated of 3.95.Also the p-value 0.118 is greater than the significance level 0.05.We therefore accept the null hypothesis and reject the alternate. This means that Nigerian Banking industry post-consolidation are not free from observed ethical practice and irregularities in their corporate governance and production of financial reports. This is evidenced from Central Bank of Nigeria action in 2009 when they injected N620billion, sacked some Managing Directors of the affected banks and acquired some that were technically distressed.

4.3 Discussion of Findings

From the descriptive statistics results, transparency is still a challenge in the generation of confidence and reliability in financial reports, and it is evident that Nigerian banking industry is still facing some ethical issues in their reporting. It was discovered that the directors of banks have the responsibility to display sound ethical practice in financial reports preparation. The management of banks in Nigeria cannot therefore separate themselves from any discovered ethical irregularities. We discovered further that if banks have complied fully with statutory codes and reporting standards, quality reports would be produced. That the supervisory authorities of Nigeria banking industries (CBN and NDIC), need to enhance the level of supervision, in order to generate global confidence of reports. Separating ethical behavior from statutory and regulatory codes is a financial problem leading to omission poor financial reports.

From the hypotheses tested, we discovered the following facts:1. Ethics and corporate governance cannot be separated from financial reporting.2Ethics are separate financial concepts of morals that must be practices in business in addition to the compliance with statutory codes and stamdards.3 Ethical problems and irregularities in corporate governance are still prevalent in post consolidation. The results are connected to the theories of ethical relativism and resource dependence which state that the culture must imbibe related ethics in an operating environment and that resources should be combined together to produce expertise and skills in corporate governance. We found out that disclosure requirements in International Financial Reporting Standard-IFRS will enhance the reliability and faithfulness in the financial reporting of Nigerian banking industry, as the financial information can reliably be compared to that of other banks in the globe that report under IFRS. With the adoption of IFRS in reporting, there will be consistency in financial reports, and the banks will have access to more sources of capital because investors, creditors, financial analysts and other users of the financial statements welcome standards that require high-quality, transparent and comparable information.

5. Conclusion

The four pillars of corporate governance which are accountability, independence, fairness and transparency cannot be deleted from financial reports of business organizations. The financial reports when they contain reliable facts and faithfulness in contents, it proves that the business organization is presenting a sustainable performance that will attract investors and relevant stakeholders. Trust and confidence have been identified over time as the key blocks for laying the foundation of survival and profitability in the banking industry. To talk of trust and confidence however is to talk of ethics (Egwuonwa, 1997).With the adoption of International Financial Reporting Standard by countries all over the global village which helps to produce harmonized financial reports, Financial Reporting Council of Nigeria will need to ensure full compliance of all the relevant standards for quality, reliable and faithful financial reports. The Nigerian regulatory authorities need to enhance the level of supervision of Nigerian banks in view of the enhanced capital base and the global connection of economies where financial reports are considered as very important financial documents that will aid foreign direct investment into an economy.

6. Recommendations

The following recommendations are imperative for implementation in the Nigerian banking sector in view of the findings of this study.

1. The Financial Reporting Council of Nigeria (FRCN) should ensure all banks comply with International Financial Reporting Standards in the preparation of their financial reports considering the fact that IFRS disclosure procedures will ensure relevancy faithfulness and quality reports. With the full compliance with IFRS the corporate governance practice in the industry will incorporate accountability, independence, fairness and transparency in ensuring reliable financial reports.

2. The Regulatory authorities of Nigerian banking sector should develop ethical codes that will incorporate the culture of banking practice in Nigeria. When ethics are related to culture, enforcement and compliance are easy to manage. Ethics relating to the culture of another economy may be difficult to practice and achieve the desired result in Nigeria banking environment.

3.In view of the level of capital base of consolidated banks in Nigeria, the Central Bank of Nigeria should emphasize on resource dependence theory where expertise and skills are essential tools to produce sustainable performance. Training to produce experts in Nigeria banking system relative to the level of integrated economic development in the global economy should be given importance in the industry.

4. Efficient supervision of the Nigerian banking operations by the Central Bank of Nigeria should be enhanced from the present level, where ethical issues in practice and deficient corporate governance are prevalent. Financial distress in the present economic development of the nation will affect the global investors' confidence in Nigeria banking system

5. The Financial Reporting Council of Nigeria (FRCN) in conjunction with Central Bank of Nigeria should set up Joint Disciplinary Committee where the management and board of banks will be tried and penalized where issues of unethical practice and poor corporate governance are noticed in their relevant financial reports. Financial distress and banking institutions liquidation are always very disastrous for the investors, stakeholders and the nation as an economy.

7. Suggestions for Further Future Research

The following are suggested for further research: (1).The same study should be carried out in the manufacturing industries where the companies are closing down, due to irregularities, poor corporate governance, and unreliable financial reports.(2) The same study should also be carried out in the insurance industry where risk undertaking is a necessity and big project, but reliability and faithfulness in financial reports are very essential.

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