Effect of Accounting Ethics on Quality of Financial Reporting in Commercial Banks in Rwanda: Case of Bank of Kigali PLC and I&M Bank PLC

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Abstract:- Accounting ethics is an important element for enhancing the quality of financial reporting in commercial banks because it requires bank staffs to exercise integrity, objectivity and professional competence and due care. This study sought to examine the effect of accounting ethics on quality of financial reporting in commercial banks in Rwanda. The specific objectives of the study were to investigate the effect of accounting integrity, accounting objectivity and professional competence and due care on the quality of financial reporting in Bank of Kigali PLC and I&M Bank Rwanda PLC. The researcher used an explanatory and correlation design in order to establish the statistical significance of the relationship between accounting ethics and quality of financial reporting in the selected commercial banks. Data was collected from 201 bank staffs whowere selected by use of stratified and simple random sampling techniques. The questionnaire andinterview guide were used for data collection. The validity of research instruments was determinedby use of the content validity index while reliability was verified through pilot-testing. Quantitative data was analyzed using descriptive (frequency and percentage distribution tables) and inferential statistics (multiple linear regression analysis) while content analysis was used to analyze qualitative data from interviews. Findings show that all predictor variables under accounting ethics have a positive and statically significant effect on the quality of financial reporting in the surveyed commercial banks. This is confirmed by the regression coefficients of β_1=.245(accounting integrity), β_2=.433 (accounting objectivity) and β_3=.568 (professional competence and due care) which show that 24.5%, 43.3% and 56.8% of the changes in the quality of financial reporting of the two commercial banks are explained by accounting integrity (X_1), accounting objectivity (X_2) and professional competence and due care (X_3) respectively. Therefore, the research rejects the null hypotheses (H_01, H_02 and H_03) and adopts the alternative hypotheses (H_a1, H_a2, and H_a2) in explaining the statistical significance of the relationship between accounting ethics and quality of financial reporting. It is hoped that the study will enable commercial banks to improve ethical practices and competences among staffs so as to enhance quality of reporting. Other academicians will find the study valuable in benchmarking their studieson the same subject.

I. INTRODUCTION

This chapter presents the background to the study, statement of the problem, objectives, research hypothesis, scope of the study and significance of the study.

➢ *Background of the Study*

After the Asian Financial Crisis of 1997, the Enron financial debacle in the US, and the 2008 - 2010 global financial crisis, corporate regulators and policy makers have called for improved corporate ethics, increased scrutiny and often enacted significant changes to accounting and disclosure requirements and regulations. Additionally, stock exchanges and accounting standards bodies from numerous countries around the world have adopted the International Financial Reporting Standards (IFRS) to achieve the stated goal of "harmonization and convergence" of accounting rules (Christian & Wysocki, 2018) to secure companies from financial problems and eventual collapse arising from poor corporate management ethics.

For that matter, the quality requirements for financial reporting have changed radically over the years as the accounting standards environment becomes more internationalized and highly regulated to eliminate unethical, illegal and unfair practices. Corporate governance continues to be a major issue for

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management, shareholders and regulators, focusing them on the quality of corporate reporting (CIMA, 2018) that has necessitated the adoption of ethical accounting practices and principles across firms for effective and efficient financial controls and reporting.

It has been argued that accounting ethics help to improve the quality of financial reporting among firms by guaranteeing continuous efforts of striving to ensure that people, and the institutions theyshape, live up to the standards that are reasonable and solidly based. According to Leung and Cooper (2014), accounting, like many other professions operate within a world of change in which corporate collapses, business impropriety, regulatory failure and environmental disasters are prevalent.

In light of these, accounting professionals need to have a thorough appreciation of the potential implications of professional and management decisions, and an awareness of the pressures in observing and upholding ethical accounting standards, which may affect the quality of financial reporting and decision-making process in organizations. Nzorubara (2020) observes that ethics is inseparable from accounting practices indicating that ethical conduct must be an integral part of the accounting.

Accounting professionals and practitioners must be able to report on behalf of clients and other stakeholders in a completely ethical manner (Wyatt, 2004; Low, *et al*, 2008). In June 2005, the International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (IFAC) issued a revised code of ethics for professional accountants that must be used as guides to improve the quality of financial reporting. According to IESBA (2020), the revised code establishes a conceptual framework for all professional accountants to ensure compliance with the five fundamental principles of accounting ethics: i) integrity, ii) objectivity, iii) **professional competence and due care, iv) confidentiality, and v) professional behavior.**

The established IESBA accounting code of ethics (IESBA, 2020) means that accountants must i) be straightforward and honest in all professional and business relationships, ii) not allow bias, conflict of interest or undue influence of others, iii) maintain professional knowledge and skill in line with current developments in practice, legislation and techniques, iv) respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose, and v) comply with the relevant laws and regulations and should avoid any action that discredits the profession.

Business organizations place even higher expectations on professional accountants and where such expectations are not met it creates expectation gap which may be costly for the profession since there will be break of the existing social contract (Armstrong, 2013). This implies that high level of ethical behavior is imperative to the credibility and continuous existence of the accounting profession (Nathan, 2015). People need to have confidence in the quality of the complex servicesprovided by professional accountants regarding their ethical values in financial reporting.

The management and operations of commercial banks in Rwanda are regulated by the National Bank of Rwanda and it provides oversight in order to ensure profitability while maintaining financial stability in the country (National Bank of Rwanda, 2020). For the banks which are registered with the stock market (Rwanda Security Exchange (RSE)) such as Bank of Kigali, Kenya Commercial Bank, Equity Bank Group and I&M Bank Rwanda, RSE also puts more responsibilities on these banks to ensure that their accounting practices are ethical and they producequality reports which represent the true financial picture of their operations.

Similarly, the Guiding Code of Corporate Governance in Rwanda (Private Sector Federation, 2020) indicates that all companies operating in Rwanda should observe accounting ethics in their business operations. This involves keeping proper and accurate books of accounts in respect to all sums of money received and expended by the company, and the matters in respect of which receiptor expenditure takes place; all sales and purchases by the company; and of all the assets and liabilities of the company, as necessary to give with reasonable accuracy at any time, the financial position of the company at that time; and to lay before the company's annual general meeting, a profit and loss account and a balance sheet reflecting a true and fair view of the profit or loss of the company and of the state of affairs of the company.

Because of these high expectations, professions have adopted codes of ethics, also known as codes of professional conduct. These ethical codes call for their members to maintain a level of self- discipline that goes beyond the requirements of laws and regulations (Duska & Duska, 2014; Wilson, *et al*., 2016). However, research indicates that accountants tend to comply with the legality of ethical code rather than the morality. Being professional requires one to uphold the moral principle of doing the right thing always and not just complying with the law (Cameron & O'Leary2015).

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This study seeks to examine the effect of accounting ethics on the quality of financial reporting among selected commercial banks in Rwanda. The study covered two commercial banks (Bank of Kigali PLC and I&M Bank Rwanda PLC) which are listed on the Rwanda Stock Exchange. The accounting ethics will be examined based on IESBA 2020 revised version of international accounting codes of ethics (IESBA, 2020) which include accounting integrity, accounting objectivity and professional competence and due care.

- *General Objective of the Study*

This research was intended to investigate the effect of accounting ethics on the quality of financial reporting in commercial banks in Rwanda.

Conceptual Framework

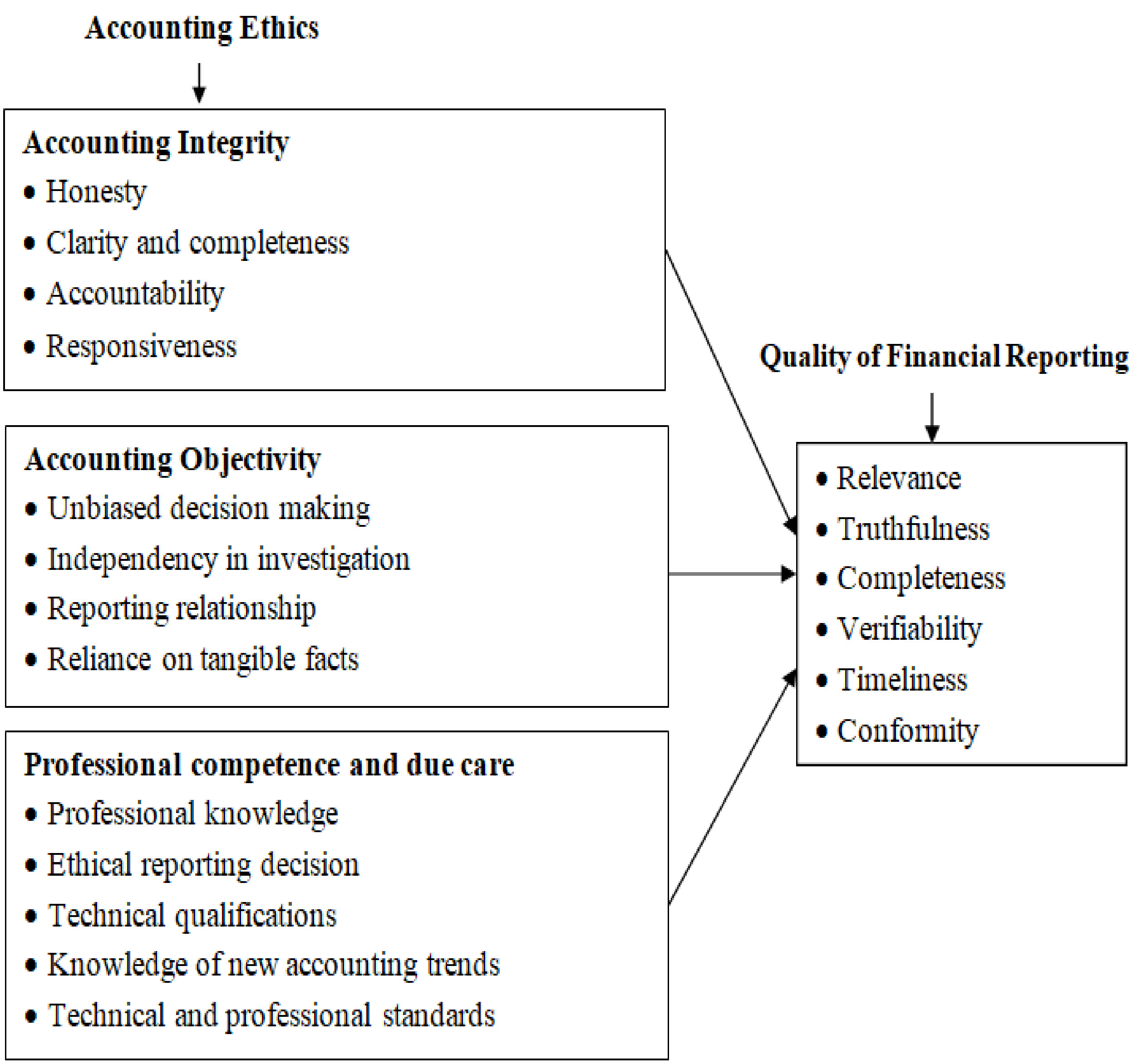

Fig 1 Conceptual Framework
Source:- Author, 2021, based on IESBA 2020 Handbook of the International Code of Ethics for Professional Accountants

II. RESEARCH DESIGN

The study used explanatory research design. This design was preferred because it helps the researcher to establish the relationship between accounting ethics and quality of financial reporting. Additionally, the qualitative approach involved a case study design which focused on Bank of Kigali PLC and I&M Bank Rwanda PLC.

➢ *Target Population*

The population of the study was 1,127 people. These included 698 staffs of Bank of Kigali PLC and 429 from I&M Bank Rwanda PLC. Table 1 shows the population.

Table 1 Target Population

Population category	Population Size
Bank of Kigali PLC Staffs	698
I&M Bank Rwanda PLC Staffs	429
Total	**1,127**

Source: Bank of Kigali 2020, I&M Bank, 2020 Human Resource Office

➢ *Sample Design*

- *Sample Size*

The 1967 Yamane simplified formula (Israel, 2013) was used in calculating the sample size. This formula is stated as $n = \frac{N}{1+N(e)^2}$ where n is the sample size, N is the population size and e is the level of precision/ sampling error (0.05 or 5%). The equation below shows the application of Yamane's formula to the target population.

$$n = \frac{N}{1 + N(e)^2} = \frac{1{,}127}{1 + 1{,}127\,(0.05)^2} = \frac{}{1}$$

Therefore, the overall sample size was 295. However, to get the sample from each population strata, the researcher further calculated the subsample size of each population category. This was done using Kothari's (2004) stratified sampling formula as illustrated below:

$$N_i = n\left(\frac{P_i}{N}\right)$$ Where

- N_i = Total sample size required from a given population stratum;
- n = Total sample size required from the overall population (295);
- N = Total Population (1,127);
- P_i = Subpopulation of the given stratum;
- i =A number that distinguishes one population stratum from others (e.g., P_1, P_2…)

$$\text{Bank of Kigali Staffs} = N_1 = n\left(\frac{P_1}{N}\right) = 295\left(\frac{698}{1{,}127}\right) = 295\,(0.6193433895) = 183$$

$$\text{I\&M Bank Staffs} = N_2 = n\left(\frac{P_2}{N}\right) = 295\left(\frac{429}{1{,}127}\right) = 295(0.3806566105) = 112.2937001$$

Therefore, sample size was 295 (183 from Bank of Kigali PLC and 112 from I&M Bank RwandaPLC) as Table 2 shows.

Table 2: Sample Size

Sample Category	Sample Size
Bank of Kigali PLC	183
I&M Bank Rwanda PLC	112
Total	**295**

III. METHODOLOGY

➢ *Data Collection Methods*

The questionnaire and interview guide were used during primary data collection from the selected bank staffs. The questionnaire was constructed using a 5-point level of agreement Lickert Scale, where: SA=Strongly Agree, A=Agree, N=Neutral, D=Disagree and SD=Strongly Disagree for response items on accounting ethics and quality of financial reporting. The questionnaire survey was preferred because it collects information from many respondents in a projected time frame. Only close-ended questions were used in the questionnaire because they are considered easy to answer.

The interview guide with open-ended questions was also used to collect qualitative data. This questionnaire was administered four key informants (one accountant and one auditor from each of the two surveyed commercial banks). They were composed of questions which requested respondents to explain importance of accounting integrity, objectivity and professional competence and due care in ensuring the quality of financial reporting in Bank of Kigali PLC and I&M Bank Rwanda PLC as well as the challenges faced in conforming to these accounting ethics in the two commercial banks.

➢ *Validity and Reliability*

- *Validity*

Validity explains how well the collected data covers the actual area of investigation (Ghauri & Gronhaug, 2015). It shows the extent to which a research instrument "measures what it is intended to measure" (Field, 2015). To ensure validity, the researcher used content validity index (CVI) where the questionnaire survey was measured using ratings by subject matter experts to determine item relevance. Where the experts (UOK lecturers) made recommendations for improvement, their suggestions were incorporated in the final questionnaire survey. According to Amin (2005), the CVI is calculated by the formulas:

$$\text{CVI} = \frac{\text{No. of items declared valid}}{\text{Total number of items}} x100 = \frac{2}{3}$$

The questionnaire was considered valid because Amin (2005) argues that the instrument thatgenerates the average CVI of ≥ 0.7 or ≥ 70% is accepted for use in data collection.

- *Reliability*

Reliability concerns the extent to which a measurement of a phenomenon provides stable and consist result (Carmines & Zeller, 2019). Reliability is also concerned with repeatability and consistency of a research instrument in generating data. Reliability was ensured through standardized pilot-testing of the questionnaire. Through pilot-testing, the researcher first administered the questionnaire to 4 groups of 8 students each using the same questions and static methods. The consistency observed in their responses proved that the data collection instrument was reliable.

➢ *Data Analysis*

The researcher used quantitative and qualitative methods to present and analyze the data. The two quantitative methods used were descriptive statistics (frequency and percentage distribution tables) and inferential statistics (multiple linear regression) while qualitative method used content analysis.

- *Descriptive statistics*

Descriptive statistics was used to describe the basic features of the data in a study and they provide simple summaries about the sample and the measures/response items. In other words, descriptive statistics were preferred because they present lots of quantitative measures/descriptions in a manageable form. For example, the researcher used frequency distribution and percentage tables to describe the nature of responses on each of the response items under the study variables (integrity, objectivity and professional competence and due care) and quality of financial reporting in Bank of Kigali PLC and I&M Bank Rwanda PLC.

- *Inferential Statistics*

Inferential statistics are important in research because they help the researcher to test the significance of the relationship between two variables. In order to determine the statistical significance of the relationship between accounting ethics and quality of financial reporting, the researcher used multiple linear regression analysis to determine the extent to which accounting integrity, accounting objectivity and professional competence and due care influenced the quality of financial reporting in I&M Bank Rwanda PLC and Bank of Kigali PLC. The regression model for this analysis is indicated below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

- Y = Quality of Financial reporting β_0 = Constant
- $\beta_1 \dots \beta_3$ = Regression coefficients for predictor variables relating to accounting ethics X_1 = Accounting integrity
- X_2 = Accounting objectivity
- X_3 = Professional competence and due care ε = Error term

- *Content analysis*

Content analysis involved categorizing and classifying oral/verbal data with the aim of classifying, summarizing and tabulating the data so as to extract insightful meaning and conclusions based on commonality of information. It was applied in determining the existence of common concepts, phrases or words in recorded interviews. Content analysis was used for analyzing, discussing andinterpreting written, verbal, or visual communication messages.

Data was then tabulated and later analyzed based on the responses generated from interviews in regard to importance of accounting integrity, objectivity and professional competence and due care in ensuring the quality of financial reporting in Bank of Kigali PLC and I&M Bank Rwanda PLCas well as the challenges faced in conforming to these accounting ethics in the two commercial banks.

IV. SUMMARY OF FINDINGS

The summary of findings is presented in regard to the objectives of the study which include examining the effect of accounting integrity, accounting objectivity and accountants' professionalcompetence and due care on the quality of financial reporting in Bank of Kigali PLC and I&M Bank Rwanda PLC.

V. CONCLUSION

The study was conducted on the effect of accounting ethics on the quality of financial reporting in commercial banks in Rwanda using Bank of Kigali PLC and I&M Bank Rwanda PLC as case studies.

The study was based on the null hypotheses (H_0) which suggested that accounting integrity (H_01) accounting objectivity (H_02) and professional competence and due care (H_03) have no statistically significant effect on the quality of financial reporting in the surveyed banks.

However, based on the findings, it can be concluded that accounting ethics has statically significantand positive effect on the quality of financial reporting in Bank of Kigali PLC and I&M Bank Rwanda PLC.

The research therefore rejects the null hypotheses and adopts the alternative hypotheses by clearly stating that accounting integrity (H_a1), accounting objectivity (H_a2) and professional competence and due care (H_a3) have statistically significant and positive effect on the quality of financial reporting in Bank of Kigali PLC and I&M Bank Rwanda PLC.

This is confirmed by the regression coefficients β_1=.245, β_2=.433 and β_3=.568 which show that 24.5%, 43.3% and 56.8% respectively of the positive changes in quality of financial reporting are explained by accounting integrity (X_1), accounting objectivity (X_2) and professional competence and due care (X_3) respectively.

RECOMMENDATIONS

- *To the Bank Accountants*

There is need for accountants to always respond to reporting issues immediately when certain unfavorable reporting problems are identified.

There is need to regularly attend formal training and development programs in order to keep updated with due developments and emerging issues in the accountancy profession

There is need to commit themselves and offer adequate mentorship and guidance to junior staffs in order to develop their competencies in financial reporting in line with bank requirements and standards.

- *To the Bank Management*

The banks need to provide scholarships for their accountants who are not yet acquired internationally recognized qualifications such as Certified Public Accounting and Associate of Certified Charted Accountants qualifications.

Some members of the management should desist from imposing their undue influence on accountants to influence their reporting standards. This will promote accountant's independence and objectivity.

Offer adequate orientations for junior staffs to ensure that they are conversant with what is required of accountants during the reporting process. This will eliminate use of unverified information.

SUGGESTIONS FOR FURTHER RESEARCH

Confidentiality and professional behavior are two of the five accounting codes of ethics recommended by the IESBA. However, because of limited time, this study covered only three: integrity, objectivity and professional competence and due care. More research is needed to examine the effect of confidentiality and professional behavior on the quality of financial reportingin commercial banks.

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