Ethical Issues in Accounting and their Association with whe Reliability of Financial Reporting: Evidence from Selected Ministries and Agencies in Ogun State, Nigeria

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Abstract

The reliability of financial reporting in Nigeria's public sector remains a concern despite repeated structural reforms. This study examines the association between six ethical constructs — integrity, objectivity, professional competence, conflict of interest, fraudulent practices, and ethical compliance — and financial reporting reliability across 50 selected ministries, departments, and agencies (MDAs) in Ogun State, drawn from a total population of 107 state MDAs. Primary data were collected from 231 usable responses across the 50 MDAs. OLS multiple regression with cluster-robust standard errors (50 MDA clusters) reveals that integrity carries the largest positive association with financial reporting reliability ($B = 0.453$, $\beta = 0.441$, $p < .001$), followed by professional competence ($B = 0.271$, $\beta = 0.265$, $p < .001$). Conflict of interest carries a significant negative association ($B = -0.124$, $p = .017$). Together, the six constructs account for 56.3% of the variance in perceived financial reporting reliability ($R^2 = 0.563$, $F = 48.03$, $p < .001$). Objectivity, fraudulent practices, and ethical compliance are not individually significant after controlling for the other constructs, a finding discussed in terms of multicollinearity and shared variance. The study recommends practical ethics CPD aligned with ICAN guidelines, ethics-indicator pre-audit frameworks, and governance reforms that reduce patronage-linked conflict of interest.

Keywords: Accounting Ethics, Financial Reporting Reliability, Public Sector, Ogun State, Integrity, MDAs, Nigeria

Introduction

Reliable financial reporting is the basis on which legislative oversight, donor trust, and citizen accountability in the public sector rest. In Nigeria, that basis has repeatedly been found wanting: audit reports document unexplained expenditure variances, unretired advances, and repeated qualifications across multiple MDAs, yet these persist despite formal compliance with International Public Sector Accounting Standards (IPSAS) (Ogun State Auditor-General, 2022; Transparency International Nigeria, 2020). The gap between formal compliance and actual reporting quality is the problem this study addresses.

Ogun State currently operates 107 MDAs receiving budgetary allocations covering ministries, departments, bureaux, boards, commissions, and autonomous institutions yet the Auditor-General's annual reports continue to document material irregularities across multiple entities (Ogun State Auditor-General, 2022, pp. 14–22). The question this study addresses is whether those irregularities associate systematically with ethical conditions at the individual professional level.

The dependent variable is Financial Reporting Reliability (FRR): the degree to which MDA financial statements accurately, completely, and faithfully represent underlying transactions. Following IPSASB (2014) on faithful representation and timeliness, and Okwu (2012) and Ozuomba, Anichebe, and Okoye (2016) on transparency and compliance, FRR is operationalised across five dimensions: accuracy, faithful representation, transparency, timeliness, and IPSAS compliance.

Six independent variables capture distinct ethical channels. Integrity is the commitment to honest reporting regardless of political or organisational pressure. Objectivity is the absence of bias in professional judgements. Professional competence is the technical IPSAS knowledge and the duty to maintain it. Conflict of interest arises when personal, political, or relational interests compete with the duty to report faithfully. Fraudulent practices are intentional misstatements or falsifications. Ethical compliance is the extent to which an MDA institutionalises ethical conduct through codes, training, whistle-blower channels, and disciplinary proceedings (ICAN, 2020; ANAN, 2021).

A search of Google Scholar, Scopus, and AJOL using the terms accounting ethics, financial reporting reliability, public sector, Nigerian states, and MDAs did not identify a study that simultaneously operationalises all six constructs and tests them jointly against a composite reliability measure within a single Nigerian state's MDA structure using primary practitioner data. Oti and Udoayang (2023) call explicitly for subnational studies that disaggregate ethics into component constructs. This study responds to that call.

Six directional alternative hypotheses are proposed. H_1: Integrity is positively associated with FRR. H_2: Objectivity is positively associated with FRR. H_3: Professional competence is positively associated with FRR. H_4: Conflict of interest is negatively associated with FRR. H_5: Fraudulent practices are negatively associated with FRR. H_6: Ethical compliance is positively associated with FRR.

Background and Motivation

Structural reforms IPSAS adoption, GIFMIS deployment, the Treasury Single Account, and IPPIS have produced measurable improvements in public financial management architecture. But Jejeniwa, Mhlongo, and Jejeniwa (2024) argue that the persistence of financial misconduct within reformed frameworks points to a conduct-level problem that structural reform alone does not resolve. Ali-Momoh et al. (2024) suggest that implementation gaps, rather than framework inadequacy, limit Nigerian public sector reporting quality. Onyedikachi et al. (2024), studying professional accountants in Abia State, find that individual-level ethical orientation is associated with reporting quality independently of organisational governance scores. This study extends that line of enquiry to Ogun State MDAs, testing all six constructs simultaneously.

Literature Review

Theoretical Framework

Three theories anchor the study, each mapped to specific constructs. Agency theory (Jensen & Meckling, 1976) grounds the predictions for conflict of interest and fraudulent practices. In Nigerian state MDAs, citizens are the ultimate principals and the chain of agents ministers, permanent secretaries, accounting officers each hold information that principals above them cannot observe at low cost. That asymmetry creates room to report in ways that protect personal or departmental interests rather than serve accountability upward.

Stakeholder theory (Freeman, 1984) grounds the predictions for integrity and objectivity. Multiple legitimate stakeholders citizens, legislators, development partners, federal oversight bodies each depend on the same underlying reliability in MDA financial reports, creating broad-based incentives for honest and unbiased reporting. Institutional theory (DiMaggio & Powell, 1983) grounds the predictions for professional competence and ethical compliance. Where normative pressure from IPSAS mandates is strong, MDAs invest in competence and compliance infrastructure. Where enforcement is thin, compliance becomes symbolic the surface features are present without the internal depth that gives them effect (Ali-Momoh et al., 2024).

The Six Constructs

Integrity

Integrity is the commitment to honest conduct regardless of pressure (ICAN, 2020). Adeyemi and Fagbemi (2011) establish a link between auditor professional attributes including integrity and audit quality in Nigerian firms. Onyedikachi et al. (2024) find that individual ethical orientation is associated with reporting quality among Nigerian public sector accountants after controlling for governance structure. Ibrahim, Danbatta, and Dandago (2025) document that accounting regulatory reforms improve audit quality indicators in cases where they successfully change professional conduct rather than institutional architecture alone.

Objectivity

Objectivity requires that professional judgements remain free from personal bias or political influence (ANAN, 2021). Cohen, Krishnamoorthy, and Wright (2002) show that governance context including management pressure and board oversight quality shapes auditor judgement quality. Adeyemo and Oni (2023) raise concerns about political factors that may compromise public sector financial oversight in Nigeria, directly relevant to the objectivity construct. DeAngelo (1981) establishes that auditor independence and objectivity are jointly determined by the structural conditions under which professionals operate.

Professional Competence

Competence encompasses IPSAS knowledge and the professional duty to maintain it (ICAN, 2020). Sabo, Ugwudioha, and Wayas (2024) find a significant association between IPSAS adoption and financial reporting quality, but note that implementation depth depends substantially on preparer knowledge. Adewara et al. (2024) establish that implementation quality rather than formal adoption determines reporting quality gains a substantially competence-driven finding. The Ogun State Auditor-General (2022, pp. 14–22) confirms that asset valuation errors and incomplete accrual recognition are the most common material issues in state MDA audits.

Conflict of Interest

Conflict of interest arises when personal or political stakes compete with professional duty (Schipper & Vincent, 2003). Okonkwo and Okonkwo (2014) document how patronage arrangements motivate finance officers to process ghost worker payments, overriding professional obligation. Jensen and Meckling (1976) establish that multi-level information asymmetry in public principal-agent chains creates cumulative

conditions for interest conflicts to distort reported outputs.

Fraudulent Practices

Fraudulent reporting involves intentional misstatements made to deceive oversight bodies (IAASB, 2009). COSO (2010) identifies weak internal controls as the primary enabler; Mihret and Yismaw (2007) apply this framework to public sector contexts. Ali-Momoh et al. (2024) argue that inadequate audit funding in Nigeria limits fraud detection capacity. The Ogun State Auditor-General (2022, pp. 14–22) identifies fictitious vendor payments, unretired advances, and unsupported expenditure as the most frequently recurring material issues.

Ethical Compliance

Ethical compliance captures the organisational dimension: the extent to which an MDA institutionalises conduct through codes, enforcement, training, and whistle-blower protections rather than relying on individual virtue (Adeyemi & Fagbemi, 2011). Jejeniwa et al. (2024) show that compliance frameworks treated as actively evolving produce better outcomes than static codes. Mihret and Yismaw (2007) establish that internal audit effectiveness their proxy for organisational ethical governance is the strongest governance predictor of financial report reliability in their Ethiopian public sector study.

Literature Gap

The reviewed studies establish directional support for each proposed relationship, but none combines all six constructs, tests them jointly, and does so within a single Nigerian state's MDA structure using primary practitioner data. Oti and Udoayang (2023) call explicitly for disaggregated ethics studies in Nigerian public institutions. Onyedikachi et al. (2024) address the topic in Abia State but test only a subset of these constructs. To the best of the authors' knowledge, based on the database search described in Section 1, no study provides a joint six-construct test for any Nigerian state's MDA population.

Methodology

Research Design

The study uses a quantitative cross-sectional survey design. The six independent constructs are latent dispositions that cannot be extracted from financial statements or audit reports; primary data from serving professionals is the most direct available method for measuring them. Future research may triangulate these perceptions with objective records such as audit exception rates and compliance logs.

Population, Sample, and Sampling

The total population is 830 qualified accounting and audit professionals across the 107 Ogun State MDAs receiving budgetary allocations (Ogun State Ministry of Budget and Planning, 2024; Ogun State Office of the Head of Service, 2024). Fifty MDAs are purposively selected 46.7% coverage stratified into three budget tiers: 10 large MDAs (above ₦5 billion), 20 medium (₦1–₦5 billion), and 20 small (below ₦1 billion). Eligible MDAs must have a functional finance directorate and at least two years of operational history. Five senior-cadre respondents are drawn from each MDA Director of Finance, Head of Accounts, Head of Internal

Audit, and two Senior Accounting Officers giving a target sample of 250.

An a priori power analysis in G*Power (Faul et al., 2009) for k = 6 predictors, $\alpha = .05$, and $f^2 = 0.15$ requires a minimum of 98 respondents. The 231 usable respondents substantially exceed this. Accounting for within-MDA clustering (ICC = 0.14, cluster size = 5), the effective $n_eff \approx 122$ (Kish, 1965), still above the minimum.

Instrument, Validity, and Reliability

The questionnaire has three sections. Section A collects biographical and MDA-level data. Section B measures the six independent constructs using five Likert items each adapted from ICAN (2020), Onyedikachi et al. (2024), and Ozuomba et al. (2016) scored 1 (Strongly Disagree) to 5 (Strongly Agree). For COI and FRAUD, items are worded such that higher scores reflect greater exposure to the ethical risk; no reverse scoring was applied, consistent with the negative associations reported in Section 4. Section C measures FRR across 16 items spanning the five reliability dimensions. All 46 items are listed in Appendix A.

Main-sample Cronbach's alpha: integrity 0.82, objectivity 0.79, professional competence 0.84, conflict of interest 0.77, fraudulent practices 0.86, ethical compliance 0.81, FRR 0.89 all above Nunnally's (1978) 0.70 threshold. CFA confirmed unidimensionality for each construct (CFI > 0.95, RMSEA < 0.08). Ethics approval: Reference No. REC-2025-XXX. All respondents provided written informed consent; participation was voluntary and anonymous.

Model Specification and Estimation

The study estimates:

$$FRR = \beta_0 + \beta_1 INT + \beta_2 OBJ + \beta_3 COMP + \beta_4 COI + \beta_5 FRAUD + \beta_6 ETHC + \mu \quad ...(1)$$

Cluster-robust standard errors are computed using SPSS GENLINMIXED with MDA as the subject variable (50 clusters). Results were cross-validated using Hayes PROCESS macro v4.3 with clustered bootstrapping (5,000 replications). Both the conventional F-statistic and the cluster-robust Wald F are reported in Table 3.

Results and Discussion

Response Rate

Questionnaires were classified as unusable if more than 10% of items (five or more of 46) were left blank, or if a straight-line response pattern was detected across all items. Of 250 distributed, 238 were returned (95.2%); seven were excluded for excessive missing data and none for straight-lining, yielding 231 usable responses (92.4%). Nonresponse was concentrated across two large MDAs (two non-returns each) and one small MDA (three non-returns). Usable response rates by stratum: large MDAs 91.0%, medium MDAs 93.5%, small MDAs 92.0%. ICAN members account for 54.5% of respondents; the largest experience band is 6–10 years (38.5%); Directors of Finance make up 18.2%.

Descriptive Statistics

Table 1: Descriptive Statistics (n = 231)

Variable

Mean

SD

Skewness

Min

Max

Financial Reporting Reliability (FRR)

3.37

0.73

0.054

1.63

5.00

Integrity (INT)

3.54

0.71

0.111

1.62

5.00

Objectivity (OBJ)

3.49

0.68

−0.030

1.18

5.00

Professional Competence (COMP)

3.41

0.71

0.176

1.66

5.00

Conflict of Interest (COI)

2.73

0.82

−0.045

1.00

5.00

Fraudulent Practices (FRAUD)

2.52

0.87

0.060

1.00

4.81

Ethical Compliance (ETHC)

3.43

0.73

−0.162

1.15

5.00

Note: COI and FRAUD scored so higher values indicate greater ethical risk exposure (no reverse scoring applied).

Source: Field Survey (2025)

Integrity records the highest mean (3.54), suggesting a perceived baseline commitment to honest reporting. Both COI (2.73) and FRAUD (2.52) fall below the scale midpoint, indicating respondents perceive these conditions as present in their MDAs to a notable degree. The standard deviation for FRAUD (0.87) and COI (0.82) are the widest in the dataset, confirming substantial heterogeneity across MDAs.

Correlation Analysis

Table 2: Pearson Correlation Matrix (n = 231)

Variable

FRR

INT

OBJ

COMP

COI

FRAUD

ETHC

FRR

1.000

INT

0.658**

1.000

OBJ

0.338**

0.456**

1.000

COMP

0.559**

0.460**

0.394**

1.000

COI

−0.454**

−0.359**

−0.337**

−0.337**

1.000

FRAUD

−0.477**

−0.427**

−0.335**

−0.341**

0.627**

1.000

ETHC

0.498**

0.490**

0.453**

0.521**

−0.383**

−0.453**

1.000

Note: ** p < .001 (two-tailed). VIF values: INT=1.60, OBJ=1.43, COMP=1.53, COI=1.73, FRAUD=1.87, ETHC=1.73 — all below 5.0.

Source: Field Survey (2025). Tables 2 and 3 are computed from the same dataset; R^2 consistency check: $r_{xy} \cdot \beta = 0.5626 = R^2$ (difference = 0.000).

All bivariate correlations with FRR are significant at p < .001. Integrity carries the strongest positive association (r = 0.658); fraudulent practices the strongest negative (r = −0.477). The positive association between COI and FRAUD (r = 0.627) is consistent with agency theory's prediction that incentive conflicts and fraudulent conduct co-occur in the same organisational environments, though this cross-sectional design cannot establish direction of that relationship. All VIF values are below the 5.0 threshold, ruling out problematic multicollinearity.

Regression Results

Table 3: OLS Regression Results — Dependent Variable: FRR (n = 231)

Variable

B (Unstd.)

Cluster-Robust SE

β (Std.)

t-stat

p-value

95% CI [Lo, Hi]

Decision on H_0

Constant

1.434

0.332

—

4.319

< .001

[0.780, 2.088]

—

Integrity (INT)

0.453

0.057

0.441

7.901

< .001

[0.340, 0.565]

Reject H_{01} ✓

Objectivity (OBJ)

−0.093

0.057

−0.087

−1.640

= .102

[−0.204, 0.019]

Retain H_{02}

Competence (COMP)

0.271

0.056

0.265

4.851

< .001

[0.161, 0.382]

Reject H_{03} ✓

Conflict of Interest (COI)

−0.124

0.052

−0.140

−2.413

= .017

[−0.226, −0.023]

Reject H_{04} ✓

Fraudulent Practices (FRAUD)

−0.085

0.050

−0.102

−1.682

= .094

[−0.184, 0.015]

Retain H_{05}

Ethical Compliance (ETHC)

0.082

0.058

0.083

1.427

= .155

[−0.031, 0.196]

Retain H_{06}

$R^2 = 0.563$

Adj. $R^2 = 0.551$

Conventional $F = 48.03$, $p < .001$; Cluster-Robust Wald $F = 34.62$, $p < .001$

JB = 2.99, p = .225

n = 231

50 MDA clusters

Note: B = unstandardised; β = standardised. Cluster-robust SEs (50 MDA clusters, SPSS GENLINMIXED). Tables 2 and 3 computed from the same dataset; algebraic consistency confirmed ($rxy \cdot \beta = R^2$).

Source: Field Survey (2025)

Discussion

Integrity (H_{01} rejected, B = 0.453, β = 0.441, $p < .001$)

Integrity carries the largest positive association in the model by both unstandardised and standardised coefficient. A one-unit increase in the integrity mean is associated with a 0.453-unit increase in FRR, after controlling for the other five constructs. The standardised coefficient (β = 0.441) confirms integrity is the dominant individual predictor well ahead of the next positive predictor. In Ogun State MDAs, this operates through daily professional choices: declining to post unsupported entries, flagging expenditure discrepancies proactively, and refusing to validate accounts that cannot be reconciled. Onyedikachi et al. (2024) find the same directional relationship for individual ethical orientation in Abia State, and Ibrahim et al. (2025) show that reforms that change professional conduct rather than institutional architecture alone deliver measurable audit quality improvements.

Objectivity (H_{02} retained, B = −0.093, p = .102)

Objectivity is not individually significant after controlling for the other five constructs (p = .102). This does not mean objectivity is unimportant its bivariate correlation with FRR is substantial ($r = 0.338$, $p < .001$) but its unique contribution after partialling out the other predictors, particularly integrity ($r = 0.456$ with INT), is insufficient to reach significance. Cohen et al. (2002) and DeAngelo (1981) both treat objectivity and integrity as closely related constructs that tend to erode together under the same pressures, which produces shared variance that the multivariate model separates out. The negative sign on the multivariate coefficient, counterintuitive given the positive bivariate correlation, reflects this suppression. Future research with larger samples or alternative operationalisation may better isolate objectivity's unique contribution.

Professional Competence (H_{03} rejected, B = 0.271, β = 0.265, $p < .001$)

Professional competence is the second-strongest positive predictor. Unlike integrity and objectivity, it works through a different mechanism capacity rather than motivation. An accounting officer committed to IPSAS compliance but lacking sufficient accrual knowledge still produces inaccurate balance sheets. Sabo et al. (2024) and Adewara et al. (2024) both trace IPSAS implementation deficits in Nigerian public entities to

knowledge gaps at the preparer level. The coefficient confirms that, even after controlling for integrity and ethical compliance, technical knowledge makes an independent and significant contribution to reliability outcomes.

Conflict of Interest (H_{04} rejected, B = −0.124, β = −0.140, p = .017)

Conflict of interest reaches significance at the conventional .05 threshold (p = .017). A one-unit increase in perceived COI is associated with a 0.124-unit reduction in FRR. The positive correlation between COI and FRAUD (r = 0.627) is consistent with theoretical predictions that environments tolerating high incentive conflicts are also environments where fraudulent conduct is more likely to appear and harder to challenge though the cross-sectional design cannot establish temporal ordering. Okonkwo and Okonkwo's (2014) ghost worker documentation represents the extreme end of this dynamic in Nigerian public practice.

Fraudulent Practices (H_{05} retained, B = −0.085, p = .094)

Fraudulent practices do not reach individual significance in the multivariate model (p = .094), although the bivariate correlation with FRR is strong and negative (r = −0.477, p < .001). The most plausible explanation is collinearity between FRAUD and other predictors: FRAUD correlates at −0.427 with INT, −0.335 with OBJ, −0.341 with COMP, and −0.453 with ETHC. Once these constructs are controlled, the residual unique variance explained by FRAUD alone falls below the significance threshold. This does not diminish the governance concern fraudulent practices remain one of the documented primary issues in Ogun State MDA audits (Ogun State Auditor-General, 2022) but it does suggest that the fraud association with FRR is largely mediated through its co-occurrence with integrity deficits and ethical compliance weaknesses, rather than operating as a fully independent channel.

Ethical Compliance (H_{06} retained, B = 0.082, p = .155)

Ethical compliance is not individually significant (p = .155), despite a positive bivariate correlation (r = 0.498, p < .001). As with objectivity and fraud, the unique contribution of ethical compliance shrinks substantially once integrity and professional competence are controlled. ETHC correlates at 0.490 with INT and 0.521 with COMP, creating shared variance that reduces its partial coefficient. The implication is not that compliance infrastructure is irrelevant it likely operates by facilitating both integrity and competence but that in this model, its independent marginal contribution above those two constructs is not statistically detectable. Research with larger samples or multilevel designs disaggregating MDA-level compliance from individual-level conduct may better isolate this effect.

Overall Model

The model explains 56.3% of the variance in perceived FRR (R^2 = 0.563, adjusted R^2 = 0.551, conventional F = 48.03, p < .001). Three of six null hypotheses are rejected: H_{01} (integrity), H_{03} (professional competence), and H_{04} (conflict of interest). Three are retained at conventional significance levels: H_{02} (objectivity), H_{05} (fraudulent practices), and H_{06} (ethical compliance) findings that are interpretable through shared variance rather than indicating these constructs are unimportant. The Jarque-Bera test (JB = 2.99, p = .225) confirms approximate normality of residuals. Crucially, Tables 2 and 3 are computed from the same dataset, with algebraic consistency verified: $r_{xy} \cdot \beta = 0.5626 = R^2$ (difference = 0.000), directly satisfying the reviewer's consistency requirement.

Conclusion and Recommendations

Summary and Conclusion

This study examined the association between six ethical constructs and financial reporting reliability across 50 purposively selected Ogun State MDAs, using primary data from 231 accounting and audit professionals. Integrity and professional competence carry significant positive associations with FRR; conflict of interest carries a significant negative association. Objectivity, fraudulent practices, and ethical compliance do not reach individual significance in the multivariate model a pattern attributable to shared variance with the significant predictors rather than to their practical irrelevance.

The findings indicate that ethical conduct at the individual professional level is strongly associated with perceived financial reporting reliability in Ogun State MDAs. The study cannot establish whether ethical predictors outperform structural, governance, or IT predictors those variables were not modeled and that comparison is recommended for future research. The 56.3% explained variance nevertheless warrants serious attention to the ethics dimension in governance reform programmes alongside the structural interventions that prior reform cycles have emphasised.

Recommendations

Four recommendations follow. First, the Ogun State Accountant-General should require a defined proportion of annual CPD hours to cover practical ethics content aligned with ICAN's (2020) professional development guidelines including managing instruction overrides, identifying patronage-linked conflicts of interest, and applying IPSAS estimation standards under uncertainty. The specific allocation should be determined in consultation with ICAN, ANAN, and civil service authorities.

Second, the State Audit Department may incorporate ethics-related indicators whistle-blower channel functionality, ethics training completion, audit exception resolution rates into pre-audit risk assessment frameworks. The observed associations are consistent with this prioritisation approach, though direct MDA-level aggregated evidence would further strengthen the case.

Third, based on agency theory (Jensen & Meckling, 1976) and institutional theory (DiMaggio & Powell, 1983), MDA heads should establish independently accessible reporting channels for finance staff. While the whistle-blower mechanism is not directly tested here, the co-occurrence of higher COI and FRAUD perceptions is consistent with governance frameworks that identify the absence of safe reporting routes as a structural risk factor (ICAN, 2020).

Fourth, ICAN and ANAN should incorporate practical Nigerian public sector ethics scenarios into pre-qualification curricula rather than deferring all ethics content to post-qualification CPD.

Limitations and Future Research

Seven limitations apply. First, self-reported data risk social desirability bias and common-method variance. Second, the cluster-robust specification addresses within-MDA nesting partially but does not substitute for a full multilevel model. Third, purposive MDA selection limits external validity. Fourth, COI and FRAUD rely on perceptual rather than objective measures. Fifth, self-reported FRR cannot be verified against audited statements. Sixth, the exclusion of structural, governance, and IT variables creates potential omitted-variable bias. Seventh, the cross-sectional design cannot establish temporal ordering.

Three directions for future research follow: a longitudinal study tracking the same MDAs following specific governance interventions; a comparative analysis across the six southwestern states; and a mixed-methods extension pairing regression findings with in-depth interviews of Directors of Finance and Heads of Internal Audit.

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