

Whistle-Blowing and Quality of Financial Reporting in the Nigeria Banking Sector

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Abstract— This paper examines whistle-blowing and the quality of financial reporting in the Nigerian banking sector. This paper addresses the research question using the big four audit firms (KPMG, PWC, Ernst & Young and Akintola Williams Deloitte) as the respondents for the study to test the research hypothesis. The total sample size of 275 was used for the study. This study uses regression analysis method to investigate the effects of whistle-blowing on the quality of financial reporting in the Nigerian banking sector. The study uses adjusted R^2 as a primary metrics for measuring the model specification. The results show that the R square, which is coefficient of determination reveal a high value for all the parameters (KPMG-72.8%, PWC- 61.2%, Ernst & Young-58.2%, Akintola Williams Deloitte- 64.0%) in explaining the model. The empirical findings show that whistle-blowing adoption has a positive significant relationship on the quality of financial reporting in the Nigerian banking sector. This paper recommends that regulatory authorities should put adequate measures in place to ensure continued compliance from the people saddled with the responsibility to prepare banks' financial statement.

Keywords—Whistle-blowing; quality of financial reporting; accountability; nigerian banking sector; transparency

In recent times financial institutions especially banks have come under huge criticism because of the unethical and unprofessional ways of doing business which led to major financial crisis across the globe [3]. Due to this development, the quality of financial reporting of most banks has undergone different regulatory scrutiny in order to protect the interest of all stakeholders. Most countries of the world have issued guidelines on the subject of whistle-blowing, so that organizations would conduct their operations in the most ethical and professional way.

Whistle-blowing is the disclosure by staff or member of an organization (former or current) the illegal, unprofessional and illegitimate practices of organization's employee or employer to an authorized persons or organization that may be able to effect action [19]. Whistle-blowing is important corporate governance, financial and internal control mechanism that help to prevent and deter leakages, abuse of office and fraudulent financial malpractices [22].

Whistle-blowing becomes relevant because of the response of the public for greater financial accountability, financial transparency and financial integrity of financial reporting processes of organizations in recent times. The report of Committee of Sponsoring Organizations of the Treadway Commission in the US [5] and Sarbanes-Oxley Act [24] identified whistle-blowing as an important business ethics that is capable of improving the economic stability and financial reporting process of any country. Therefore, different countries of the world have incorporated whistle-blowing as part of their corporate governance guidelines and financial reporting process.

The statement of research problem identified in this study are, firstly, the banking crisis in Nigeria in 2009 was as a result of unethical behaviors by most banks' Chief Executive Officers and bank's management which resulted to manipulation of financial reports and creative accounting that led to loss of investment for many shareholders. Secondly, Transparency International [25], ranked Nigeria 136 out of 167 countries as the most corrupt country in terms of financial transparency and accountability. However, there has not been adequate research into the link between whistle-blowing and quality of financial reporting in Nigeria. Hence, there is need for this study to examine whistle-blowing and quality of financial reporting in the Nigerian banking sector in order to fill gap in this study.

The Central Bank of Nigeria (CBN) in October, 2014 [4] issued a circular and guidelines on whistle-blowing policy for banks and other financial institutions in Nigeria. This guideline is aimed at improving quality of financial reporting in the Nigerian banking sector. The objective of this study based on CBN whistle-blowing guidelines is to examine the overall impact of whistle-blowing policy on the quality of financial reporting in the Nigerian banking sector.

I. WHISTLE-BLOWING AND NIGERIAN BANKING SECTOR

The concept of whistle-blowing has generated debates in literature on what actually constitute whistle-blowing [11] [13] [18]. Though, there are different perspectives on the definition of whistle-blowing, however, there are commonalities on the subject of whistle-blowing. Whistle-blowing is a deliberate and

obligatory act of disclosure, which gets on public records and is made by a person who has privileged access to information of an organization about the illegality, fraudulent practices or other wrongdoing of a person or organization to an external entity having power to rectify the wrongdoing [11]. The essence of whistle-blowing in any organization is to eliminate unethical behavior or practices that may affect the quality of financial reporting.

The Central Bank of Nigeria in 2014 mandated all banks in Nigeria to incorporate whistle-blowing policy as part of their quarterly reporting requirement. The essence of this directive is to ensure integrity in the financial reporting process in the Nigerian banking sector and also to comply with global corporate governance code [4]. Reference [14] states that the objective of whistle-blowing is to serve public interest by reducing frauds and other financial malpractices in the Nigerian banking sector. Also, to ensure the integrity and transparency of financial reports in the Nigerian banking sector.

II. QUALITY OF FINANCIAL REPORTING AND WHISTLE-BLOWING

Reference [24] [4] developed a guideline on the process of whistle-blowing that would guide financial institutions in their internal operations. It is expected that this policy will lead to high quality of financial reporting in the banking industry. Also, organizations are to act within the capacity of the policy.

Whistle-blowing and Transparency

Reference [17] opines that whistle-blowing has received attention in recent times because it has led to financial transparency of most financial institutions. They believe that whistle-blowing has reduced the incidence of fraud in workplaces. A survey conducted by Association of Certified Fraud Examiners [1] revealed that whistle-blowing has reduced fraud by 48% in most financial institutions globally. The survey revealed that whistle-blowing has led to transparency in the financial reporting process of most financial institutions in the world.

Whistle-blowing and Independence

The Enron and WorldCom scandal in 2002 brought about the integrity and independence of financial reporting in bad light [10]. Part of whistle-blowing objective is to ensure that financial information is free from undue interference, so as to ensure its independence. Reference [21] study show that whistle-blowing implementation has improved to a large extent the independence of financial reports from undue influence from external parties.

Whistle-blowing and Value Relevance

Reference [15] reveals that the ultimate goal of whistle-blowing is the stakeholders. Their study demonstrate that the essence of whistle-blowing is to make financial statements robust and add value to organization's stakeholders by

removing frauds, financial malpractices and unethical behaviors that could hamper the objective of quality financial reporting which is value relevance. Whistle-blowing makes the preparation of financial reporting credible and add value to stakeholders who make relevant and timely decisions about financial statements.

Whistle-blowing and Reliability

Whistle-blowing has become a common strategy with the objective of ensuring reliability of financial reporting in many countries [1]. Reference [15] opines that whistle-blowing has become a de-facto procedure for effective financial reporting with a view to ensure that financial statements are free from intentional error and fraud. Their study further confirmed that whistle-blowing has helped reduce financial statement misstatement and error especially in emerging economies.

Whistle-blowing and Accountability

Whistle-blowing policy is aimed at ensuring that there is accountability on the part of owners and preparers of financial reports [2]. Reference [26] opines that if whistle-blowing is given proper consideration in organizations, it would engender accountability on the part of those saddles with the responsibility in preparing the financial statement. Financial result must show a true and fair view of company's position before it is considered accountable to stakeholders who have interest in the organization.

III. EMPIRICAL STUDIES REVIEW

Reference [26] examines the influence of individual, team and contextual factors on external auditors' whistle-blowing intentions in Barbados. Survey design was used a through the use of questionnaire to 250 external auditors and 18 individual interview as well as 2 focus group were conducted in Barbados to gather information about the conceptual model on whistle-blowing intention among external auditors. The study reveals that respondents preferred anonymous internal channel of reporting and showed a general reluctance to report externally. Furthermore, the findings show that open-door policy, hotline and clearly defined policies could encourage whistle-blowing.

Reference [7] examines accounting students' intent to blow the whistle on corporate fraudulent financial reporting. The study explore an experiment involving accounting students to ascertain their intent to externally blow the whistle on fraudulent financial reporting given a specified personal and societal consequences of such actions. Findings show majority of the participants indicated a tendency to blow the whistle while few indicated otherwise.

Reference [9] conducted a study on good governance and whistle-blowing: a case of a Higher Education Institution (HEI) in South Africa. The study seeks to examine the extent to which employees are encouraged to blow the whistle at higher education institutions, despite legislation which protect disclosure in good faith. Questionnaires were administered to all employees of Durban University of Technology in South Africa. The findings show that employees are of the opinion

that practices relating to whistle-blowing have not encouraged whistle-blowing in the institution.

Reference [8] conducted a study on the propensity of whistle-blowing: empirical evidence from China, Taiwan and the United States. A survey design was used through the use of questionnaire to respondents of the three countries. The results show that Americans have a greater tendency to engage in whistle-blowing than Chinese and Taiwanese. The intention of Taiwanese and Chinese to whistle-blow is influenced by the degree of amount involved and also by the extent of unprofessional or illegitimate practices of companies.

Reference [20] examines whistle-blowing and anti-corruption crusade: evidence from Nigeria. The study investigated the extent to which whistle-blowing predicted corruption perception index (CPI) score, the extent to which employees engaged in whistle-blowing, and why they did not report cases of wrongdoings. Respondents of 536 employees were sampled from public organizations in South-western Nigeria. The findings show that whistle-blowing could significantly enhance the country's CPI score because the more the citizens engage in whistle-blowing the better for the country's CPI score.

Reference [23] examines the effect of whistle-blowing practices on organization performance in the Nigerian public sector. Survey research was adopted in the study, a total of 700 questionnaires were administered using simple random technique. The findings show a significant relationship between whistle-blowing practices and organization performance in the Nigerian public sector. The result shows that employees feel uncomfortable to report unethical practices within the organization to external bodies.

IV. HYPOTHESES DEVELOPMENT

The main objective of this study is to examine the impact of whistle-blowing policy on the quality of financial reporting in the Nigerian banking sector. The prediction of this study is that adoption of whistle-blowing policy will improve the quality of financial reporting in the Nigerian banking sector.

Reference [2] examines whistle-blowing and quality of financial reporting in financial institutions. It was observed that whistle-blowing policy is expected to improve the level of quality of financial reporting in financial institutions globally. The study affirms that whistle-blowing policy has the ability to improve financial reporting and reduce tendencies for financial fraud and illegalities.

Based on literatures reviewed, this study thus predicts that:

HI: Whistle-blowing policy has significant effects on the quality of financial reporting in the Nigerian banking sector.

V. THEORETICAL FRAMEWORK

This study adopts ethics and moral theory based on [12] proposition. Kant's theory assumes that is a moral duty to tell the truth and report any wrongdoing by virtue of being rational. In support of Kant, [8] affirms that whistle-blowing is a moral

obligation of employees to act right and disclosure wrongdoing in good faith. Based on both arguments, accountants and preparers of financial statements have the moral right to act in the public interest and honor public trust by demonstrating a commitment to professionalism.

This study uses survey design method as data were collected through the use of questionnaire. All the big four audit firms (KPMG, PWC, Akintola Williams Deloitte and Ernst & Young) were used as respondents for the questionnaire distributed. The reason why the big four audit firms were selected is because CBN mandated banks' external auditors to ensure that Nigerian banks complied with the whistle-blowing policy and that audit firms must also conduct assessment of banks' whistle-blowing compliance as part of their audit function. The big four audit were also selected as respondents due to their on-field nature of work and experience that afford them the opportunity to confront corporate wrongdoings in most clients organization.

The audit departments of the big four audit firms were selected as respondents to the questionnaire distributed. The total population for this study is one thousand (1000) audit employees (Transparency Report, 2014) while the sample size is two hundred and eighty five (285) audit employees. Sample size was derived through Taro Yamane formula.

Based on the calculation above, 285 sample size with error limit of 5% is considered fit for the study. Out of 285 sample size, 275 people responded to the questionnaire which represents 96% response rate while 4% represents rejection rate. The distribution of the questionnaire were as follows; KPMG-70, PWC-80, Ernst & Young-65; Akintola Williams Deloitte-60. The questionnaire was constructed using a five-point Likert scale. The questionnaire was divided into two sections; Section A comprises the personal information of the respondents while Section B is on questions relating to the hypothesis. The data collected were analyzed with the use of both descriptive and inferential statistics.

Linear regression method was used in this study as the statistical method for analyzing the data gathered. This study adopts linear regression because it allows adjusted coefficient of determination (adj. R²) as a unit to measure the relationship between dependent variables (Whistle-blowing policy) and independent variables (Quality of financial reporting). The Statistical Package for Social Sciences (SPSS) was used to analyze the data collected for the study.

Model Specification

The basis for this model specification is hinged on the literature reviewed and theoretical framework which seeks to explain the relationship between whistle-blowing policy and quality of financial reporting in the Nigerian banking sector. This is carried out from the perception of ethics and moral theory. Ethics and moral theory consider whistle-blowing and quality of financial reporting as variables that affect organization interest by taking into account its effects on all company's stakeholders.

WB= (QFR), where, WB= Whistle-Blowing, QFR= Quality of Financial Reporting.

Consequently, WB policy can be represented as follows:

Equation (1) is WB Policy = f (QFR) (I)

Assuming a linear relationship, we can rewrite all the above equation (I) in an explicit functional form after taking into consideration independent variables as:

Equation (2) is QFR = β0 + β1TRANS + β2ACC +β3REL +β4IND + β5VR +ε (II)

Where:

B0= Constant term, TRANS= Transparency, ACC= Accountability, REL= Reliability, IND= Independence, VR= Value Relevance

Table 1 shows the result of regression analysis for the model specification. The results show that the R square, which is coefficient of determination reveal a high value for all the parameters (KPMG-72.8%, PWC- 61.2%, Ernst & Young-58.2%, Akintola Williams Deloitte- 78.8%) in explaining the model.

TABLE 1 REGRESSION ANALYSIS (MODEL SUMMARY)

	KPMG	PWC	Ernst & Young	Akintola Williams Deloitte
R	0.808	0.645	0.745	0.788
R ²	0.728	0.612	0.582	0.640

Source: SPSS 20 Output from Field Survey (2016)

Table 2 shows the results of the aggregate correlation coefficients for the model specification. The results shows that all the coefficient have a positive value which indicates that whistle-blowing has positive significant effects on the quality of financial reporting in the Nigerian banking sector. All the results of the big four audit firms show a significant value (β₁ (0.831), β₂ (0.654), β₃ (0.545), β₄ (0.570), β₅ (0.642), p<0.05) which means that the variation explained by the model is not due to chance.

TABLE II MODEL CORRELATION COEFFICIENT

Model	B	Std. Error	Beta	t-test statistic	Sig.
(Constant)	4.578	3.660	2.667	2.165	0.000
β1 (Transparency)	.790	0.089	0.831	1.017	0.001
β2 (Accountability)	.539	0.079	0.654	1.879	0.002
β3 (Reliability)	.443	0.076	0.545	1.887	0.001
β4 (Independence)	.513	0.071	0.570	1.587	0.000
β5 (Value Relevance)	.727	0.068	0.642	1.404	0.000

Source: SPSS 20 Output from Field Survey (2016)

Therefore, the null hypothesis is rejected while the alternative hypothesis is accepted accordingly. The perception of the respondents is that whistle-blowing has contributed to high quality of financial reporting in the Nigerian banking sector.

This paper examines whistle-blowing policy and quality of financial reporting in the Nigerian banking sector where the big four audit firms were used as the respondents for the questionnaire distributed. The study reveals that whistle-blowing policy has contributed significantly to the quality of financial reporting in the Nigerian banking sector taking into account all the elements of a good financial reporting. Hence, there is need for continued compliance to regulatory policy on the part of banks’ management and employees respectively.

VI. POLICY IMPLICATION OF FINDINGS

The following policy implications are highlighted based on the research findings in this paper:

The implementation of whistle-blowing will boost the confidence of financial analysts and institutional investors who rely on banks financial reports to make investment decisions. The effect on the Nigerian economy is that it will improve the level of foreign direct investment (FDI) into the country because of high confidence global investors will place on Nigerian banking financial reporting process.

The compliance of Nigerian banks to whistle-blowing will boost the country transparency index from global rating agencies. Also, it will improve the country’s image on corruption perception index which has remained high among one of the most corrupt countries in the world.

VII. RECOMMENDATIONS

The following recommendations were made based on the above policy implication of findings:

(i) This paper recommends that regulatory authorities should put adequate measures in place to ensure continued compliance from the people saddled with the responsibility to prepare bank’s financial statement. Also, measures should be taken to enhance the quality disclosure of relevant financial reporting information that will help users take useful economic decisions.

(ii) There is need for regulators to put proper measures in place to protect whistle-blowers from intimidation and harassment so that all stakeholders’ interest would be protected.

VIII. CONTRIBUTION TO KNOWLEDGE

This study informs research on whistle-blowing and quality of financial reporting in the Nigerian banking sector. This paper contributes to knowledge in the following ways:

(i) This paper include accountability, transparency, value relevance, reliability and independence as essential qualities of

financial reporting which serves as a metric for measuring quality of financial reporting regarding whistle-blowing. This could be a guide for public policy concerning banking sector accounting framework.

(ii) This paper contributes to banking sector accounting framework for national development and capacity building. It will help in building transparency, professionalism and ethics in the Nigerian banking industry.

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