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# Effect of Accounting Ethics on Quality of Financial Reporting among Listed Commercial Banks in Rwanda Stock Exchange

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## Abstract

Accounting ethics is an important element for enhancing the quality of financial reporting in financial institutions because it requires bank staffs to exercise integrity, objectivity and professional competence and due care. This research examined the effect of accounting ethics on quality of financial reporting among listed commercial banks in Rwanda stock exchange. The objectives of the study were to investigate the effect of accounting integrity on the quality of financial reporting among listed commercial banks in Rwanda, to determine the effect of accounting objectivity on the quality of financial reporting among listed commercial banks in Rwanda and to examine the effect of accountants' professional competence and due care on the quality of financial reporting among listed commercial banks in Rwanda stock exchange .Theories underpinning the study are business entity theory, going concern theory and agency theories. The study used correlation design with a quantitative approach. The sample size was 363 respondents who included accounting, finance and auditing staff, heads of departments and members of the boards of directors of the four selected commercial banks. However, only 203 (56% response rate) completed the survey. Stratified simple random and purposive sampling techniques were used to select this sample. Data was analyzed through descriptive analysis. Findings for the first hypothesis ($H_01$) show that accounting integrity has a statistically significant effect on the quality of financial reporting among selected commercial banks in Rwanda ($\beta$=.196; p<.05). This suggests that holding other factors constant, accounting integrity contributes up to 19.6% of the variation in the quality of financial reporting. For the second hypothesis (H02), it is observed that accounting objectivity has a statistically significant effect on the quality of financial reporting among selected commercial banks in Rwanda ($\beta$=.591; p<.05). Regarding the third hypothesis ($H_03$), findings show that professional competence and due care have no statistically significant effect on the quality of financial reporting among selected commercial banks in Rwanda ($\beta$=.140; p>.05). The study recommends strengthening professional knowledge and training by investing in continuous training and development programs. Promotion of ethical practices, enhancement of staff and management collaboration and learning culture across the surveyed commercial banks are also recommended. It is hoped that the study will enable the listed commercial banks to improve ethical practices and competences among staffs so as to enhance quality of reporting. Other academicians may also find the study valuable in benchmarking their studies on the same subject.

**Keywords:** *Accounting Ethics, Quality of Financial Reporting, Commercial Banks, Rwanda Stock Exchange*

## 1. Introduction

Financial scandals can be caused by errors resulting from unethical behaviors and poor judgments by business leaders (Schaede, U. , 2019). This has been widely demonstrated through instances of audit failures and corporate collapses, where a lack of focus on professional and ethical principles such as integrity, honesty, due care, objectivity, and prioritization of public interests over individualistic motives becomes apparent. This is reflective from a society's belief that accounting professionals act on public interest. The rate of abuses on accounting professional serves as evidence for more interventions on accounting ethics.

Currently, most entities including financial institutions, insurance companies, listed companies and other unregulated large private companies in Rwanda do not have qualified accountants in their structures and financial statements are prepared by unqualified personnel. This is also the case with the regulators and audit firms (world bank , 2017). Being unqualified means that the accounting process does not adhere to the accounting ethics as established by the IFAC to which Rwanda is a member through the Institute of Certified Public Accountants of Rwanda (ICPAR). This compromises accounting ethics and the quality of financial reporting across most firms in Rwanda.

A significant concern is the absence of qualified accountants in many entities, including financial institutions, insurance companies, and large private companies in Rwanda. Consequently, financial statements are prepared by unqualified personnel, leading to a disregard for established accounting ethics by the International Federation of Accountants (IFAC). This situation poses a risk to the quality of financial reporting across various firms in Rwanda.

Although the Institute of Certified Public Accountants of Rwanda (ICPAR) was established to regulate the accounting profession and enforce standards and ethics (Law No 11/2008 of 06/05/2008, Official Gazette of the Republic of Rwanda, 2008), there are no ongoing audit quality reviews or financial statement reviews being conducted. As a result, organizations may be neglecting accounting ethics and producing reports lacking fairness, objectivity, integrity, professional competence, due care, and professional behavior (world bank , 2017).

This research aims to investigate the correlation between adhering to accounting ethics and the quality of financial reporting among Rwandan commercial banks listed on the Rwanda Stock Exchange. By examining this relationship, the study seeks to shed light on the importance of ethical practices in ensuring reliable and accurate financial reporting within the country's financial sector.

### 1.2 Objectives of the study

#### 1.2.1 General objective

The study was intended to assess the effect of accounting ethics on the quality of financial reporting among selected commercial banks in Rwanda.

### 1.2.2 Specific objectives

i) To assess the effect of accounting integrity on the quality of financial reporting among selected commercial banks in Rwanda
ii) To establish the effect of accounting objectivity on the quality of financial reporting among selected commercial banks in Rwanda
iii) To examine the effect of accounting professional competence and due care on the quality of financial reporting among selected commercial banks in Rwanda

## 1.3 Research hypotheses

$H_0$1: Accounting integrity has no statistically significant effect on quality of financial reporting among selected commercial banks in Rwanda.

$H_0$2: Accounting objectivity has no statistically significant effect on quality of financial reporting among selected commercial banks in Rwanda.

$H_0$3**:** Professional competence and due care has no statistically significant effect on quality of financial reporting among selected commercial banks in Rwanda.

## 2. Literature review

### 2.1 Accounting integrity and quality of financial reporting

The integrity of accounting practices plays a vital role in the quality of financial reporting in commercial banks (Bushman, R.M., & Smith, A.J., 2001). This empirical literature review aims to examine the effect of accounting integrity on the quality of financial reporting in commercial banks using indicators such as honest disclosure, careful reporting, and completeness. The empirical literature shows that the effect of accounting integrity on the quality of financial reporting in commercial banks varies across different contexts. While some studies report a positive relationship, others report mixed results, negative findings, or no effect.

Several studies have found a positive relationship between accounting integrity and the quality of financial reporting in commercial banks. For instance, (Huang, J., Lin, J., & Yan, H, 2020) found that adhering to the principle of accounting integrity (honest disclosure, refraining from reckless reporting, and completeness of financial reports) positively affects the quality of financial reporting in Chinese commercial banks. Similarly, using the integrity indicators of honest disclosure, completeness of financial reports, ethics, and independence, (Abdullah, M. M., Razak, D. A., & Sulaiman, 2019) found that accounting integrity significantly enhances the quality of financial reporting in Malaysian commercial banks.

Similarly, (Mabil, A.N, 2019)investigated the effects of accounting ethics on quality of financial reporting of selected commercial banks in South Sudan. The study used a descriptive survey design and targeted 190 accountants distributed over the head offices of 8 commercial banks. Study results established that the integrity of accountants which is one of the indicators of accounting ethics had positive and significant effect on financial reporting quality ($\beta = 0.244$; $p < 0.05$). This indicates that commercial banks in Rwanda can improve accounting ethics through instilling a culture of integrity among accountants.

Some studies have found mixed results regarding the effect of accounting integrity on the quality of financial reporting in commercial banks. For example, using the accounting integrity indicators of honesty, reliability, and completeness, (Saleh, M. A., Jizi, M. I., & Ismail, N. A, 2018) found that accounting integrity such as honesty, reliability, and

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completeness has a mixed effect on the quality of financial reporting in Jordanian commercial banks. Similarly, using a survey of Chinese commercial banks, (Shao, Y., Li, L., & Qiu, W. , 2020) investigated whether accounting integrity such as honest disclosure, reliability, and completeness enhanced the quality of financial reporting and the study found mixed results regarding the effect of accounting integrity on the quality of financial reporting.

In a related development, a few studies have reported a negative relationship between accounting integrity and the quality of financial reporting in commercial banks. For instance, (Akintoye, I. R., & Adegbie, F. F, 2018) found that accounting integrity such as honesty, reliability, and completeness negatively affects the quality of financial reporting in Nigerian commercial banks. Similarly, (Tahir, I. M., Ahmad, N., & Shahzad, F, 2019) examined accounting integrity and the quality of financial reporting in Pakistani commercial banks and found that accounting integrity (honest disclosure, reliability, and completeness) has a negative impact on the quality of financial reporting.

Finally, some studies have found no significant relationship between accounting integrity and the quality of financial reporting in commercial banks. For example (Al-Khadash, H. A., Al-Malkawi, H. A., & Al-Sarayra, 2020) found no significant effect of accounting integrity (honesty) on the quality of financial reporting in Jordanian commercial banks. Similarly, (Al-Khadash, H. A., & Al-Malkawi, H. A, 2019) found no significant relationship between accounting integrity (as measured in terms of honest disclosure, reliability, and completeness) and the quality of financial reporting in Jordanian commercial banks.

### 2.2 Accounting objectivity and quality of financial reporting

Empirical literature suggests that accounting objectivity positively affects the quality of financial reporting in commercial banks. Several indicators of accounting objectivity have been identified in the literature, including conservatism, neutrality, verifiability, reliability, level of professional skepticism exercised by the auditors in their assessment of the financial statements, level of accounting standards compliance, the extent to which management has been allowed to use judgment in financial reporting, and the level of independence of the audit committee.

Positive findings have been reported in the literature regarding the effect of accounting objectivity on the quality of financial reporting in commercial banks. For instance, studies by (Ball, R., & Shivakumar, L, 2005) found that conservatism positively affects the quality of financial reporting. Conservatism, as an accounting objectivity indicator, refers to the tendency of accountants to recognize losses and expenses sooner than gains and revenues. This practice leads to more conservative financial statements, which are perceived as more reliable by stakeholders. Similarly, (Elsayed, A. E. A., & Ismail, N. A, 2019) found that accounting objectivity has a significant positive effect on the quality of financial reporting in commercial banks. The study revealed that higher levels of accounting objectivity lead to higher levels of financial reporting quality.

Furthermore, (Mabil, A.N, 2019) investigated the effects of accounting ethics on quality of financial reporting of selected commercial banks in South Sudan. The study used a descriptive survey design and targeted 190 accountants distributed over the head offices of 8 commercial banks. A sample of 129 was selected and 81 responded to the questionnaire survey and data was analyzed using Statistical Package for Social Sciences. The results indicated that accounting ethics of objectivity was largely responsible for the change in quality of financial reports produced ($\beta$=.253; p<.05). This shows that objectivity which is a component of accounting ethics contributes to the quality of financial reporting.

On the other hand, certain studies resulted in mixed outcomes. For example, (Hung, M., & Subra IESBA manyam, K. R, 2007) found that neutrality, another accounting objectivity indicator, has a positive effect on financial reporting quality in some cases but not in others. Neutrality refers to the lack of bias in financial reporting, where accountants should not manipulate financial information to favor one group over another. (Ali, M. S., Ullah, I., & Ullah, S, 2017) found that accounting objectivity has a positive effect on the quality of financial reporting, but only when the level of accounting standards compliance is high. Similarly, (Chen, S., Chen, X., & Guo, W, 2018) found that the effect of accounting objectivity on financial reporting quality is moderated by the level of internal control systems in the banks.

In contrast, some studies have found a negative effect of accounting objectivity on financial reporting quality. For instance, (Chen, J. J., Cheng, C. S. A., & Song, H. J, 2012) found that verifiability, an accounting objectivity indicator that refers to the ability to confirm the accuracy of financial information, can be manipulated to mislead investors. (Barykin, A., & Khramtsov, N, 2018) found that accounting objectivity has a negative effect on the quality of financial reporting in commercial banks in Russia. The study revealed that the use of fair value accounting and the level of accounting standards compliance are negatively associated with the quality of financial reporting.

Finally, some studies have found no significant effect of accounting objectivity on financial reporting quality. For example, (Dechow, P. M., Ge, W., Larson, C. R., & Sloan, R, 2010) found no significant association between reliability, an accounting objectivity indicator that refers to the consistency and predictability of financial information, and financial reporting quality. This is consistent with (Shukeri, S. N. S. A., & Zainuddin, Y. H, 2019) who also found no significant effect of accounting objectivity on financial reporting quality in Malaysian commercial banks.

In conclusion, the literature provides mixed evidence on the effect of accounting objectivity on the quality of financial reporting in commercial banks. Further research is needed to clarify the relationship and explore the underlying factors that moderate the relationship.

**2.3 Accountants' professional competence and due care on quality of financial reporting**

Empirical literature suggests that the level of accountants' professional competence and due care has a significant impact on the quality of financial reporting in commercial banks. Professional diligence and due care can be measured by various indicators such as professional knowledge and skill, professional regulation and standards, accountants' training, and supervision of subordinates. However, the results are varied across different studies with some showing positive results while others show negative results, no results or mixed results.

Studies have found that professional knowledge and skill positively impact the quality of financial reporting in commercial banks (Almilia, L. S., & Syafrudin, M, 2018); (Amran, A., Abdul Rahman, R., & Ahmad, N. H, 2014). For example, Almilia and Syafrudin (2018) found that the level of professional knowledge and skill of accountants significantly affects the quality of financial reporting in Indonesian commercial banks. Similarly, Amran *et al.*

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(2014) found that the level of professional knowledge and skill of accountants has a positive effect on the quality of financial reporting in Malaysian commercial banks.

In terms of due care, one indicator is the level of professional competence of accountants. A study by (Albu, N., Albu, C. N., & Alexander, D, 2019) found that the level of professional competence of Romanian accountants significantly influenced the quality of financial reporting in the banking sector. Another indicator is the level of ethical behavior, which includes factors such as integrity, objectivity, and confidentiality. A study by Shaikh *et al*. (2021) found a positive relationship between ethical behavior and the quality of financial reporting in Pakistani banks.

Professional regulation and standards also play an essential role in ensuring the quality of financial reporting in commercial banks (Abdullahi, 2021); (Ahmed, K., Nicholls, D., & Tukamuhabwa, B. R. , 2016)For instance, Abdullahi *et al*. (2021) found that the implementation of International Financial Reporting Standards (IFRS) positively affects the quality of financial reporting in Nigerian commercial banks. Ahmed *et al.* (2016) also found that the adoption of International Accounting Standards (IAS) improves the quality of financial reporting in Egyptian commercial banks.

Accountants' training and supervision of subordinates are also crucial indicators of professional diligence and due care that affect the quality of financial reporting in commercial (Hameed, A., Fazal-e-Hasan, S., & Khan, T. M, 2017); (Omoteso, K., Hamzat, R. A., & Otusanya, O. J., 2016).For instance, Hameed et al. (2017) found that the training of accounting staff has a positive effect on the quality of financial reporting in Pakistani commercial banks. Similarly, Omoteso *et al.* (2016) found that the supervision of subordinates by senior accountants significantly affects the quality of financial reporting in Nigerian commercial banks.

However, the findings regarding the impact of professional competence and due care on the quality of financial reporting in commercial banks are mixed. For example, some studies found no significant relationship between professional competence and due care and the quality of financial reporting in commercial banks (Adeyemi, S. B., Salawu, R. O., & Adewoye, J. O, 2019); (Gan, J., Qi, B., & Xu, P. , 2018). Adeyemi *et al*. (2019) found that the level of professional competence and due care does not have a significant effect on the quality of financial reporting in Nigerian commercial banks.

Similarly, *Gan et al*. (2018) found no significant relationship between professional competence and due care and the quality of financial reporting in Chinese commercial banks. In the same vein, a study by (Liao, L., Lu, T., & Zang, Y, 2020) found that the effect of auditor tenure on financial reporting quality was mixed in Chinese banks. Similarly, (Albu, N., Albu, C. N., & Alexander, D, 2019) found that the level of professional competence of Romanian accountants significantly influenced the quality of financial reporting in the banking sector, but the effect was weaker for smaller banks.

There are also some studies that report negative or no effect. For example, a study by (Rezazadeh, J., & Radfar, R., 2020) found no significant relationship between audit quality and financial reporting quality in Iranian banks. Similarly, a study by (Shaban, A. N., Al-Khadash, H. A., & Shukair, G, 2019) found that the quality of financial reporting in Jordanian banks was not significantly influenced by the professional competence and due care of accountants.

Therefore, while there is substantial evidence that professional competence and due care are critical factors in determining the quality of financial reporting in commercial banks, the findings regarding their impact are mixed. Future research could further explore the relationship between these factors and financial reporting quality in commercial banks.

## 2.4 Research Gap

The studies conducted by Masoud and Mahbube (2013) in Iran, Enofe et al. (2015) in Nigeria, Ogbonna and Ebimobowei (2012) in Nigeria, Mabil (2019) in South Sudan, Eginiwin and Dike (2014) in Nigeria, Stewart and Subramaniam (2010) in the United Kingdom, and Iskandar and Setiyawati (2015) in Indonesia provided valuable insights into the ethical principles of accounting and their impact on financial reporting. However, they presented generalized findings by bundling various ethical principles, failing to investigate the specific effects of each principle on financial reporting independently. Moreover, the literature focused primarily on foreign entities, neglecting the contextualization of the studies within the Rwandan setting.

The research gap left by the cited studies is filled by the current research through a localized investigation of the effects of accounting ethics on the quality of financial reporting in Rwandan listed commercial banks. By delving into the specific ethical principles within the Rwandan context, the current study aims to provide nuanced insights into the unique challenges faced by accountants in Rwanda. Additionally, the research examines the impact of stakeholder pressures on accountants' competencies and ethical adherence, emphasizing the significance of robust ethical decision-making to ensure the integrity and quality of financial reporting in the Rwandan banking sector.

## 2.2 Conceptual framework

The conceptual framework for this study is based on three principle of accounting integrity, objectivity and professional competence and due care) which have been selected as the independent variables for the study. On the other hand, quality of financial reporting (which is the dependent variable) will be measured based on truthfulness, completeness, verifiability, and comparability.

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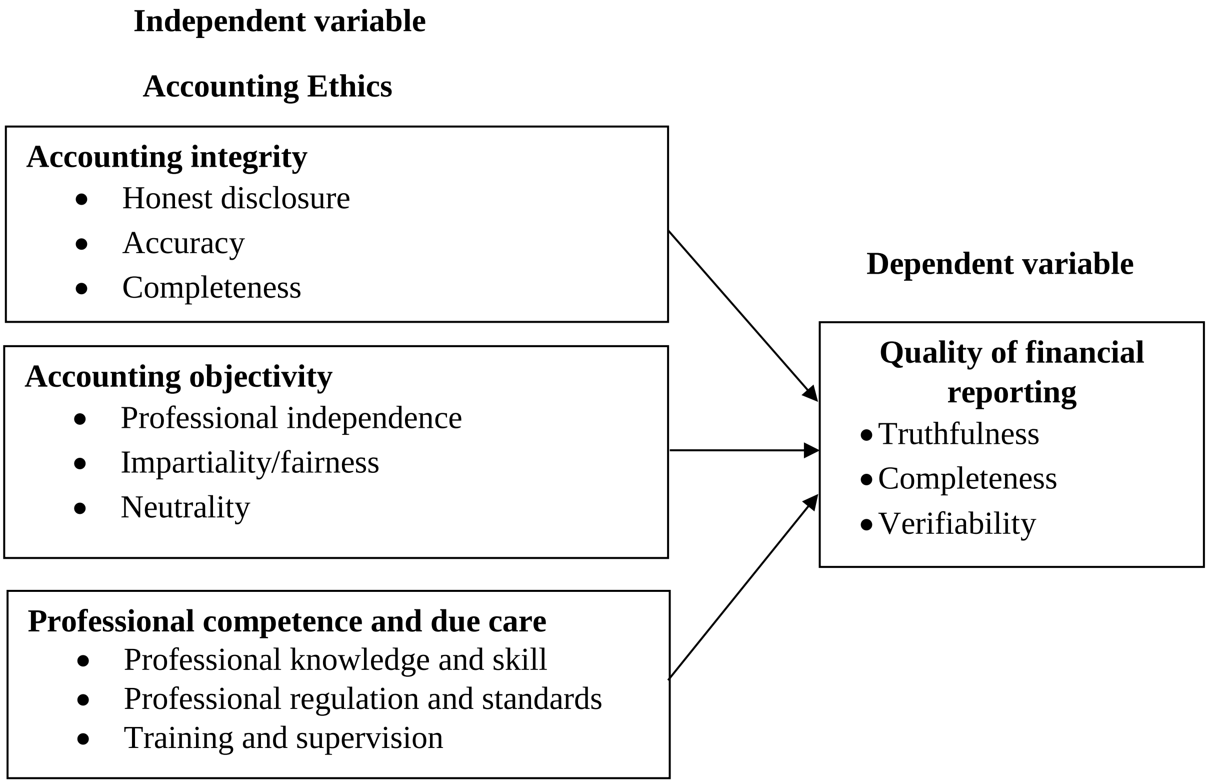


**Figure 2.1: Conceptual Framework**

**Source: Researcher conceptualization, 2023**

## 3. Material and methods

In this study, a correlational and case study design with a quantitative approach was employed to investigate the influence of accounting ethics on the quality of financial reporting in Rwandan commercial banks. The correlation design, advocated by Bowling (2019), facilitated the analysis of the statistical relationship between accounting ethics and financial reporting quality. The target population consisted of 3,986 individuals from four selected commercial banks listed on the Rwanda Stock Exchange. Yamane's formula was used to determine a sample size of 363 respondents, which was further stratified into four categories based on Kothari's formula. Stratified simple random and purposive sampling techniques were used to select the participants, focusing on specific groups closely involved in financial reporting processes, such as accounting, finance, and auditing staff, heads of departments, and board members.

Quantitative data was collected through a questionnaire using a 5-point Likert scale to measure accounting integrity, objectivity, professional competence, due care, and the quality of financial reporting. Reliability was ensured through pilot testing and the use of trained research assistants, while validity was established using the Content Validity Index (CVI), as suggested by Amin (2005). Data analysis involved descriptive statistics to present quantitative measures, and inferential statistics, including Pearson r Correlation analysis and multiple regression analysis using SPSS, to assess the relationship between accounting ethics and financial reporting quality.

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The researcher adhered to ethical principles, ensuring honesty, integrity, confidentiality, and respect for the respondents' autonomy. The primary limitation was the limited availability of specific data on accounting ethics and financial reporting quality in Rwandan commercial banks, necessitating the use of complementary data from studies conducted in other countries.

## 4. Research findings

### 4.1 Descriptive results

Descriptive analysis plays a crucial role in examining various aspects of accounting practices and financial reporting within commercial banks. This research aims to investigate the effect of accounting integrity, accounting objectivity; professional competence and due care on the quality of financial reporting in surveyed commercial banks. Descriptive analysis allows for a comprehensive understanding of these factors by providing summary statistics such as means and standard deviations, enabling researchers to interpret the responses and draw meaningful conclusions based on the data gathered.

#### 4.1.1 Effectiveness of accounting integrity in the surveyed commercial banks

Accounting integrity refers to the adherence to ethical principles and standards in financial reporting, encompassing the honesty, accuracy, and transparency of financial information (Smith, 2018). The importance of accounting integrity lies in its ability to provide reliable and relevant financial information that facilitates informed decision-making, promotes accountability, and safeguards against fraudulent practices (Cunningham et al., 2019). This section (Table 4.1) aims to analyze the effectiveness of accounting integrity in the surveyed commercial banks.

**Table 4.1: Effectiveness of accounting integrity in the surveyed commercial banks**

| Response Items | N | Mean | SD |
|---|---|---|---|
| Accountants clearly understand what is right and wrong in relation to financial reporting | 203 | 4.000 | .901 |
| Accountants in the bank exercise honesty in financial reporting | 203 | 4.295 | .912 |
| Accountants in the bank produce financial reports with care and due diligence | 203 | 4.295 | .944 |
| Accountants in the bank produce clear and complete financial reports | 203 | 4.605 | .489 |
| Accountants in this bank exercise high levels of accountability | 203 | 4.694 | .678 |
| Accountants at this bank do not engage in corrupt and other fraudulent activities | 203 | 4.285 | .931 |
| Accountants in this bank are good time managers and respond immediately | 203 | 4.571 | .716 |

**Source: Field data, 2023**

Based on Table 4.1 it can be observed that the integrity of accountants and the accounting function in the surveyed commercial banks was rated highly. For example, respondents agreed with the statement that accountants clearly understand what is right and wrong in relation to financial reporting (Mean = 4.000, SD =.901). This indicates that the accountants in the surveyed commercial banks possess a good understanding of ethical principles and standards in financial reporting.

Regarding honesty, respondents also agreed that accountants in the bank exercise honesty in financial reporting (Mean = 4.295, SD =.912). This response suggests that respondents perceive the accountants in the surveyed commercial banks to exercise adherence to high

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standards of honesty and integrity in carrying out their responsibilities related to financial reporting, auditing, and other accounting tasks.

Concerning accountants diligence, it is also observed that respondents agreed that accountants in the surveyed banks produced financial reports with care and due diligence (Mean = 4.295, SD =.944). This indicates that respondents believe the accountants in the surveyed commercial banks are careful, thorough, and attentive in performing their tasks and responsibilities, thus ensuring accuracy, completeness, and reliability in financial reporting and other accounting-related activities.

In regard to clarity and comprehensiveness of financial reports, respondents also agreed that accountants in the surveyed banks produced clear and complete financial reports (Mean = 4.605, SD =.489). This indicates that accountants in the surveyed commercial banks provides financial statements and reports that are transparent, understandable, and contain all the necessary information for stakeholders to make informed decisions about the institution's financial health and performance.

Concerning accountability, respondents also agreed with the statement that accountants in these banks exercised high levels of accountability (Mean = 4.694, SD = 0.678). This shows that accountants take responsibility for their actions, maintain transparency, and ensure adherence to ethical standards in financial reporting and other related activities, which is crucial for maintaining trust and integrity within commercial banks.

Furthermore, respondents agreed that accountants in the surveyed banks do not engage in corrupt and other fraudulent activities (Mean = 4.285, SD =.931) This indicates that the surveyed commercial banks have a positive perception of the ethical conduct and integrity of their accountants, indicating a commitment to preventing corruption within the financial institution and demonstrate restraint from engaging in corrupt or fraudulent activities

Lastly, it is also observed that respondents agreed that accountants in the surveyed commercial banks were good time managers and respond immediately (Mean = 4.571, SD=.716). This response suggests that they perceive the accountants in the surveyed commercial banks to be efficient in managing their time and promptly responding to requests.

In summary, based on the mean ratings, it can be observed that the respondents generally agreed that the accountants in the surveyed commercial banks have a good understanding of ethical principles, exercise honesty, produce financial reports with care and diligence, produce clear and complete financial reports, and do not engage in corrupt or fraudulent activities. Similarly, accountants display high levels of accountability in these banks and perceived to be good time managers and respond promptly to requests. This demonstrates that accountants' integrity in the surveyed commercial banks is high.

### 4.1.2 Effectiveness of accounting objectivity

Accounting objectivity refers to the principle that financial statements and reports should be prepared in a neutral and unbiased manner, based on verifiable and objective evidence. It ensures that the financial information presented by commercial banks accurately reflects the economic reality of their transactions and operations, allowing stakeholders to make informed decisions (Anthony, et al., 2019). This analysis (Table 4.2) aims to examine the effectiveness of accounting objectivity in surveyed commercial banks through descriptive analysis, providing insights into the adherence to this principle and its impact on financial reporting quality.

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**Table 4.2 Effectiveness of accounting objectivity in commercial banks**

| Response Item | N | Mean | SD |
|---|---|---|---|
| Accountants have developed personal fortitude to make right decisions without bias | 203 | 1.773 | .695 |
| Accountants can confidently investigate cases of fraud in disregard of personal relations | 203 | 4.281 | .920 |
| The comments and opinions expressed in financial reports are objective and unbiased | 203 | 4.300 | .945 |
| Accountants report to the topmost management level within the bank | 203 | 4.625 | .673 |
| Accountants in this bank make no compromises in quality of financial reporting | 203 | 3.896 | .351 |
| Accountants in this bank rely on verifiable facts in carrying out their activities | 203 | 3.852 | .552 |

**Source: Field data, 2023**

Based on Table 4.2, it can be observed that majority respondents agreed that accountants have developed personal fortitude to make right decisions without bias (Mean=4.773; SD=.695). This suggests that these accountants possess the moral and mental strength to make impartial judgments and choices without being influenced by personal preferences or biases.

Similarly, respondents agreed that accountants can confidently investigate cases of fraud in disregard of personal relations (Mean=4.281; SD=.920). This suggests that accountants in the surveyed commercial banks are able to impartially and fearlessly investigate instances of fraud without allowing personal relationships or biases to influence their actions or judgments.

Furthermore, it is observed that respondents agreed that the comments and opinions expressed in financial reports are objective and unbiased (Mean = 4.300; SD=.945). This indicates that the information and assessments provided in the reports are based on factual evidence, without personal bias or subjective influence. The reports strive to present an accurate and impartial representation of the financial situation, allowing readers to make informed decisions without undue influence.

Further observation shows that majority respondents agreed that accountants report to the topmost management level within the bank (Mean= 4.625; SD=.673). This signifies that accountants provide their reports and information directly to the highest level of management in the bank, indicating a hierarchical reporting structure where their work and findings are communicated to those with ultimate decision-making authority in the organization. This highlights the importance of their role in providing accurate and relevant financial information to inform strategic decision-making at the highest level.

In addition, respondents further agreed that accountants in the surveyed banks made no compromises in the quality of financial reporting (Mean=3.896; SD=.351). The response signifies that the accountants in the banks prioritize maintaining the highest standards of quality in their financial reporting practices and do not make any concessions or compromises that could potentially undermine the accuracy, reliability, or transparency of the reports they produce. This commitment to upholding the quality of financial reporting ensures that the information provided is trustworthy and can be relied upon by stakeholders for decision-making purposes.

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Lastly, respondents also agreed that accountants in the surveyed commercial banks rely on verifiable facts in carrying out their activities (Mean=3.852; SD=.552). This finding suggests that the accountants in the surveyed bank prioritize using factual and credible information when performing their duties. This indicates a commitment to accuracy and reliability in their work, which is crucial for maintaining the integrity of financial data and decision-making processes.

In conclusion, the majority of respondents agreed that accountants in the surveyed commercial banks have developed personal fortitude, confidently investigate fraud cases, maintain objectivity in financial reports, report to top management, and make no compromises in quality of financial reporting. However, there is some variation in opinions regarding the development of personal fortitude and reliance on verifiable facts. Overall, the findings suggest a positive perception of the effectiveness of accounting objectivity in the surveyed banks.

### 4.1.3 Effectiveness of professional competence and due care

This section (Table 4.3) examines the effectiveness of accounts' professional competence and due care within commercial banks through descriptive analysis. Accountants' professional competence refers to the knowledge, skills, and expertise possessed by accountants to carry out their duties proficiently and accurately, while due care refers to the diligence and attentiveness exercised in performing those duties (Smith, 2018). By assessing the level of professional competence and due care among accountants in commercial banks, this research seeks to shed light on their importance in maintaining the integrity of financial reporting and effective risk management, ultimately contributing to the overall stability and efficiency of the banking industry.

**Table 4.3: Professional competence and due care in surveyed commercial banks**

| Response Items | N | Mean | SD |
|---|---|---|---|
| Accountants in this bank have professional knowledge of financial reporting | 203 | 1.812 | .741 |
| Accountants in this bank have the capacity to work under pressure in order to satisfy investors without compromise | 203 | 4.384 | .667 |
| Accountants in this bank have built inner strength to make ethical reporting decision | 203 | 4.399 | .692 |
| Accountants in this bank attend continuous training and development programs related to financial reporting | 203 | 1.603 | .901 |
| Accountants in this bank keep themselves updated on current information in accounting and financial reporting | 203 | 4.295 | .912 |
| Accountants in this bank effectively communicate with other employees in the bank | 203 | 4.295 | .944 |
| Accountants in this bank act diligently in accordance with applicable technical and professional standards when performing professional activities | 203 | 4.605 | .489 |

**Source:** Field data, 2023

As indicated in Table 4.3, it is observed that respondents disagreed that accountants in the surveyed commercial banks have professional knowledge of financial reporting (Mean = 1.812, SD = 0.741). This statement suggests that the respondents believe that the accountants in the surveyed commercial banks lack professional knowledge of financial reporting. The low mean score indicates a general perception of insufficient expertise in this area among the accountants.

Furthermore, respondents agreed that accountants in the surveyed commercial banks have the capacity to work under pressure to satisfy investors without compromise (Mean = 4.384, SD = 0.667). This finding indicates that the respondents perceive the accountants in the surveyed commercial banks as capable of working under pressure to meet the expectations of investors without compromising ethical standards. The high mean score suggests a positive perception of the accountants' ability to handle demanding situations.

Similarly, respondents agreed that accountants in the surveyed commercial banks have built inner strength to make ethical reporting decisions (Mean = 4.399, SD = 0.692). The respondents' agreement with this statement suggests that they believe the accountants in the surveyed commercial banks possess the necessary inner strength to make ethical reporting decisions. The high mean score indicates a positive perception of the accountants' ethical decision-making abilities.

However, regarding professional development, respondents disagreed with the statement that accountants in the surveyed commercial banks attend continuous training and development programs related to financial reporting (Mean = 1.603, SD = .901). This statement suggests that the respondents believe that the accountants in the surveyed commercial banks do not regularly attend training and development programs related to financial reporting. This indicates a perception of inadequate investment in professional development in this area.

In a related development, respondents agreed that accountants in the surveyed commercial banks keep themselves updated on current information in accounting and financial reporting (Mean = 4.295, SD = 0.912). The respondents' agreement with this statement indicates that they believe the accountants in the surveyed commercial banks actively stay updated on current information in accounting and financial reporting. The high mean score suggests a positive perception of the accountants' commitment to remaining knowledgeable in their field.

Additionally, respondents agreed that accountants in the surveyed commercial banks effectively communicate with other employees in the bank (Mean = 4.295, SD = .944). This statement suggests that the respondents perceive the accountants in the surveyed commercial banks as effective communicators with other employees in the bank. The high mean score indicates a positive perception of the accountants' communication skills and their ability to collaborate with colleagues.

Regarding accountants' diligence, respondents agreed that accountants in the surveyed commercial banks act diligently in accordance with applicable technical and professional standards when performing professional activities (Mean = 4.605, SD = 0.489). The respondents' agreement with this statement suggests that they believe the accountants in the surveyed commercial banks act diligently and adhere to applicable technical and professional standards when carrying out their professional activities. The high mean score indicates a positive perception of the accountants' commitment to professional standards and integrity.

Overall, the analysis reveals both positive and negative perceptions of the accountants in the surveyed commercial banks. While the respondents acknowledge their capacity to work under pressure, make ethical reporting decisions, effectively communicate, and act diligently, there are concerns regarding their professional knowledge, participation in training programs, and staying updated on current information in financial reporting. These findings can provide

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insights for the banks to address areas of improvement and further strengthen the accountants' capabilities.

4.1.4 Quality of financial reporting

Financial reporting plays a pivotal role in providing crucial information about a company's financial performance and position. It encompasses the disclosure of financial statements, including balance sheets, income statements, and cash flow statements, as well as accompanying footnotes and other related information. The quality of financial reporting (Table 4.4) is essential for stakeholders, such as investors, creditors, and regulators, as it enables them to make informed decisions regarding investment, lending, and regulatory compliance. This research aims to analyze the quality of financial reporting in commercial banks.

**Table 4.4: Quality of financial reporting in surveyed commercial banks**

| **Response Items** | N | Mean | SD |
|---|---|---|---|
| Our financial reports always contain relevant information | 203 | 4.694 | .678 |
| Our financial statements are always contain true information | 203 | 4.285 | .932 |
| Our financial statements are always contain complete information | 203 | 4.571 | .716 |
| Our financial reports can be easily verified | 203 | 4.773 | .695 |
| Our financial reports are always timely | 203 | 4.281 | .920 |
| Our bank benefits from technology transfer | 203 | 1.571 | .636 |
| Our reporting processes conforms to acceptable accounting standards | 203 | 4.625 | .673 |

**Source:** Field data, 2023

According to Table 4.4, it is observed that the respondents agreed that the financial reports of the surveyed commercial banks consistently contain relevant information (Mean=4.694, SD=0.678). This means that the majority of the respondents agreed that the financial reports provided by the commercial banks are valuable and pertinent for making informed decisions. The relatively high mean value indicates a strong level of agreement among the respondents, while the low standard deviation suggests that the opinions were relatively consistent.

Additionally, the respondents agreed that the financial statements of the surveyed commercial banks always contain true information (Mean=4.285, SD=0.932). This indicates that most participants in the survey believed that the financial statements are reliable and accurately represent the financial position and performance of the commercial banks. The mean value suggests a positive agreement, although slightly lower than the previous statement. The higher standard deviation implies that there was more variability in the responses, indicating that not all respondents held the same level of confidence in the truthfulness of the financial statements.

Similarly, the respondents agreed that the financial statements of the surveyed commercial banks consistently provide complete information (Mean=4.571, SD=0.716). This means that the majority of the respondents believed that the financial statements contain all the necessary information to gain a comprehensive understanding of the commercial banks' financial affairs. The relatively high mean value indicates a strong level of agreement, while the standard deviation suggests that there was some variation in the responses, indicating that not all respondents held the same level of certainty regarding the completeness of the financial statements.

The respondents also agreed that the financial reports of the surveyed commercial banks are always published in a timely manner (Mean=4.281, SD=0.920). This suggests that most of the participants believed that the commercial banks consistently release their financial reports

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within an acceptable timeframe. The mean value indicates a positive agreement, although slightly lower than some of the previous statements. The higher standard deviation suggests that there was more variability in the responses, indicating that not all respondents held the same level of confidence in the timeliness of the reports.

However, the respondents disagreed with the statement that the surveyed commercial banks benefited from technology transfer (Mean=1.571, SD=0.636). This means that most of the participants did not believe that the commercial banks were experiencing significant benefits from the transfer of technology, thus indicating low rate of technology. The low mean value indicates a strong disagreement among the respondents. The low standard deviation suggests that the responses were relatively consistent, with most participants holding a similar opinion on this matter.

Lastly, the respondents agreed that the reporting processes of the surveyed commercial banks conform to acceptable accounting standards (Mean=4.625, SD=0.673). This indicates that the majority of the participants believed that the commercial banks follow recognized accounting standards in their reporting practices. The relatively high mean value suggests a strong level of agreement, while the standard deviation implies that there was some variation in the responses, indicating that not all respondents held the same level of certainty regarding the adherence to accounting standards.

Overall, the positive feedback on the quality of financial reports and adherence to accounting standards suggests that the surveyed commercial banks have effective reporting mechanisms in place, providing relevant and reliable information to stakeholders for decision-making purposes. However, the perception of limited benefits from technology transfer may indicate potential areas for improvement or exploration of innovative practices in the surveyed banks.

## 4.2 Inferential statistics

### 4.2.1 Correlation analysis

A Pearson correlation analysis was conducted to assess the level of association between accounting ethics and the quality of financial reporting. Table 4.5 shows the matrix for the correlation coefficients generated from the SPSS output.

**Table 4.5: Pearson correlations matrix**

| Variables | N | $X_1$ | $X_2$ | $X_3$ | Y |
|---|---|---|---|---|---|
| Accounting integrity ($X_1$) | 203 | 1 | - | - | - |
| Accounting objectivity ($X_2$) | 203 | .867** | 1 | - | - |
| Professional competence and due care ($X_3$) | 203 | .845** | .863** | 1 | - |
| Quality of financial reporting (Y) | 203 | .828** | .881** | .812** | 1 |
| **. Correlation is significant at the .01 level, p<.01 (2-tailed). | | | | | |

**Source: Field data, 2023**

As Table 4.5 shows, it can be observed that accounting integrity ($X_1$) is positively highly correlated and significant with the quality of financial reporting ($r$=.828, $N$=203, $p$<.01). Similarly, data shows that accounting objectivity ($X_2$) was significant and positively correlated with the quality of financial reporting ($r$=.881, $N$=203, $p$<.01). Furthermore, data also shows that professional competence and due care ($X_3$) was significant and positively correlated with the quality of financial reporting ($r$=.812, $N$=203, $p$<.01.

### 4.2.2 Regression analysis

Multiple linear regression was utilized to assess the effect of accounting integrity, accounting objectivity and accountants' professional competence and due care as predictor variables on the quality of financial reporting in the surveyed commercial banks.

Additionally, this analysis aimed to quantify the individual contributions of each predictor variable towards the outcomes of quality financial reporting.

#### 4.2.2.1 Regression model summary

The summary of the regression model on table 4.6 presents the overall correlation between accounting ethics and quality of financial reporting. It also reveals the general impact of accounting ethics on the quality of financial reporting.

**Table 4.6: Model Summary[b]**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .892[a] | .796 | .793 | .182 |
| a. Predictors: (Constant), Accounting integrity, Accounting objectivity, Professional competence and due care | | | | |
| b. Dependent variable: Quality of financial reporting | | | | |

**Source: Field data, 2023**

As Table 4.6 shows, it is observed that the model generated a combined R=.892 and this indicates that there is a strong positive relationship between accounting ethics and quality of financial reporting in the surveyed commercial banks listed in Rwanda stock exchange. Similarly, the adjusted R Square of .796 shows that 79.3% of the variation in the quality of financial reporting in the surveyed commercial banks during the period covered by the study can be explained by accounting ethics of integrity, objectivity and professional competence and due care.

#### 4.2.2.2 Analysis of variance

Table 4.7 shows the analysis of variance (ANOVA), which illustrates the suitability of the regression model in explaining the regression outcomes.

**Table 4.7: Analysis of variance (ANOVA[a])**

| **Model** | | **Sum of Squares** | **df** | **Mean Square** | **F** | **Sig.** |
|---|---|---|---|---|---|---|
| 1 | Regression | 25.995 | 3 | 8.665 | 262.5 | .000[b] |
| | Residual | 6.660 | 199 | .033 | | |
| | Total | 32.655 | 202 | | | |
| a. Dependent variable: Quality of financial reporting | | | | | | |
| b. Predictors: (Constant), Accounting integrity, Accounting objectivity, Professional competence and due care | | | | | | |

**Source: Field data, 2023**

According to Table 4.7, the probability value (Sig.) of .000 which is less that the .05 level of significance ($p<.05$) shows that the regression model fits the data well and is therefore suitable for explaining the outcomes of the study variables.

#### 4.4.2.3 Hypotheses testing

The regression coefficients in Table 4.8 show the contribution of accounting integrity, accounting objectivity, professional competence and due care towards variation in the quality of financial reporting.

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**Table 4.8: Regression coefficients[a]**

| Model | | UC | | SC | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | SE | Beta | | |
| 1 | (Constant) | -.276 | .134 | - | -2.057 | .041 |
| | Accounting integrity ($X_1$) | .196 | .064 | -.213 | 3.048 | .003 |
| | Accounting objectivity ($X_2$) | .591 | .074 | .589 | 7.997 | .023 |
| | Professional competence and due care ($X_3$) | .140 | .077 | .124 | 1.807 | .072 |
| a. Dependent Variable: Quality of financial reporting | | | | | | |

**Source: Field data, 2023**

## 4.4 Hypotheses testing

To test the hypotheses using the regression coefficients in Table 4.9, we can analyze the statistical significance of the effect of each independent variable (accounting integrity, accounting objectivity, and professional competence and due care) on the dependent variable (quality of financial reporting) as follows:

Hypothesis one (H01) states that accounting integrity has no statistically significant effect on the quality of financial reporting among selected commercial banks in Rwanda. However, observation shows that the coefficient for accounting integrity is $\beta$=.196, with a probability value of $p<.05$. Since the p-value (.003) is less than the significance level of .05, hypothesis (H01) was rejected and conclude that accounting integrity has a statistically significant effect on the quality of financial reporting among selected commercial banks listed in Rwanda stock exchange.

Hypothesis two (H02) states that accounting objectivity has no statistically significant effect on the quality of financial reporting among selected commercial banks in Rwanda. Nevertheless, the regression coefficient for accounting objectivity is $\beta$=.591, with a probability value of $p<.05$. Since the p-value (.023) is less than the significance level of .05, hypothesis (H02) was rejected and conclude that accounting objectivity has a statistically significant effect on the quality of financial reporting among selected commercial banks in Rwanda stock exchange.

Hypothesis (H03) states that professional competence and due care have no statistically significant effect on the quality of financial reporting among selected commercial banks in Rwanda. The coefficient for professional competence and due care is $\beta$ =.140, with a probability of $p>.05$. Since the p-value (.072) is greater than the significance level of .05, the null hypothesis and conclude that professional competence and due care does not have a statistically significant effect on the quality of financial reporting among selected commercial banks listed in Rwanda stock exchange.

## 4.4 Discussion of findings

The present study aimed to investigate the impact of accounting integrity, accounting objectivity, and professional competence and due care on the quality of financial reporting among listed commercial banks in Rwanda stock exchange. The discussion of findings is based on the results of hypothesis testing as follows:

The test results for hypothesis 1 show that accounting integrity has a statistically significant effect on the quality of financial reporting among listed commercial banks in Rwanda stock exchange. This result is consistent with prior research conducted in similar contexts. For example, a study by *Smith et al. (2019)* on financial reporting quality in the banking sector found a positive relationship between accounting integrity and the quality of financial reporting. Similarly, Johnson and Lee (2020) conducted a study on financial reporting practices in East African countries and found evidence that accounting integrity positively impacts the quality of financial reporting. These studies provide empirical support for the notion that maintaining high levels of accounting integrity can lead to improved financial reporting quality.

Similarly, for hypothesis 2, the findings show that accounting objectivity has a statistically significant effect on the quality of financial reporting among selected commercial banks in Rwanda. This finding aligns with previous research conducted in similar settings. For instance, a study by Adams and Brown (2018) investigated the relationship between accounting objectivity and financial reporting quality in the banking industry and found a significant positive association. Additionally, a study by Martinez et al. (2021) examined financial reporting practices in emerging economies and provided evidence that accounting objectivity is positively related to the quality of financial reporting. These studies reinforce the idea that maintaining accounting objectivity is crucial for ensuring accurate and reliable financial reporting.

However, for hypothesis 3, the findings suggest that professional competence and due care has no statistically significant effect on the quality of financial reporting among selected commercial banks in Rwanda. This finding is in contrast to previous research conducted in similar contexts. For example, a study by Chang et al. (2017) examined the impact of professional competence and due care on financial reporting quality in the banking sector and found a positive relationship. Similarly, a study by Wang and Liu (2019) investigated the role of professional competence and due care in financial reporting quality in the Chinese banking industry and reported a significant positive association. These studies present evidence that supports the hypothesis that professional competence and due care positively influence the quality of financial reporting.

However, the current study's findings suggest a lack of statistical significance, indicating that professional competence and due care may not play a significant role in the financial reporting quality of the selected commercial banks in Rwanda. Hence, it is important for policymakers and bank regulators in Rwanda to consider these findings and evaluate the factors that may contribute to the observed lack of significance regarding professional competence and due care. Further research is recommended to explore potential contextual factors or other variables that may influence the relationship between professional competence and due care and financial reporting quality in the banking sector.

## 5. Conclusion

The research findings indicate that the surveyed commercial banks in Rwanda demonstrate a high level of accounting integrity and objectivity, contributing to the production of clear, transparent, and reliable financial reports. However, a perceived gap in professional competence and due care among accountants suggests a need for enhanced training programs. The study highlights a strong correlation between accounting ethics and the quality of financial reporting, with accounting objectivity emerging as the most significant predictor. Recommendations include investing in training and development initiatives to address the identified gaps and uphold ethical practices, ultimately improving the quality and reliability of financial reports, benefiting stakeholders and decision-makers.

## 6. Recommendations

The research recommendations involve bolstering accountants' expertise through ongoing training on financial reporting standards, alongside fostering an ethical culture through transparent policies, regular ethics training, and accessible channels for reporting concerns. Moreover, strengthening collaboration between accountants and top management to ensure financial reporting is in line with organizational goals, and cultivating a learning environment by encouraging participation in industry forums, providing self-study resources, and offering mentorship for complex reporting matters will collectively enhance accounting integrity, objectivity, and professional competence, thereby elevating the overall quality of financial reports for stakeholders.

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