



To cite this article: Dr. Sumita Roy (2025). EVALUATING THE INFLUENCE OF ETHICAL STANDARDS, REGULATORY COMPLIANCE AND PROFESSIONAL INTEGRITY ON FINANCIAL REPORTING PRACTICES, International Journal of Research in Commerce and Management Studies (IJRCMS) 7 (6): 289-298 Article No. 545 Sub Id 968

EVALUATING THE INFLUENCE OF ETHICAL STANDARDS, REGULATORY COMPLIANCE AND PROFESSIONAL INTEGRITY ON FINANCIAL REPORTING PRACTICES

Dr. Sumita Roy

Assistant Professor
Department of Commerce
St. Xavier's College, Ranchi

DOI: <https://doi.org/10.38193/IJRCMS.2025.7622>

ABSTRACT

This research investigates the influence of ethical standards, regulatory compliance and professional integrity on Financial Reporting Practices across Indian industries between 2020 and 2025. In light of recent corporate scandals and evolving regulations, the study aims to assess how ethics and compliance shape transparency, accuracy and stakeholder confidence in Financial Disclosures. Using a mixed-method approach combining survey data from 200 finance professionals and secondary analysis of corporate reports, the findings reveal a strong positive correlation between ethical governance and the quality of Financial Reporting. Companies demonstrating higher compliance with SEBI and MCA regulations exhibited fewer misstatements and enhanced credibility. Furthermore, sectors integrating technology-driven compliance tools achieved superior accountability. The study concludes that ethical culture, backed by strong regulation and professional integrity, is essential to restoring investor trust and sustaining corporate transparency in India's dynamic financial landscape.

KEYWORDS: Ethical Accounting, Financial Reporting, Regulatory Compliance, Professional Integrity, Corporate Governance.

INTRODUCTION

High-quality Financial Reporting is essential for investor trust and efficient capital markets. The International Financial Reporting Standards (IFRS) Foundation explicitly states that its mission is to develop Accounting Standards that bring “**Transparency, Accountability and Efficiency**” to financial markets, thereby fostering **trust, growth and long-term stability** in the global economy. In India, the convergence with IFRS (via Ind AS) and recent regulatory reforms have similarly aimed to enhance the clarity and comparability of Corporate Financial Statements. For example, the Ministry of Corporate Affairs (MCA) and Securities and Exchange Board of India (SEBI) have issued new rules (e.g., amended Ind AS disclosure norms) intended to improve reporting quality and transparency. Prior research defines quality Financial Reporting by its correctness, reliability, transparency and



timeliness. In this context, ethical standards and professional integrity – as codified by bodies like the ICAI and global codes – are viewed as foundations that help ensure that financial statements are not only compliant with rules but also true and fair. This study examines how adherence to ethical norms, regulatory compliance and professional integrity influence the quality of financial reporting across multiple Indian industry sectors during 2020–2025.

Objectives of the Study

- **To assess** how adherence to accounting **ethical standards** (e.g. ICAI Code of Ethics) affects the quality and transparency of Financial Reports.
- **To evaluate** the impact of **regulatory compliance** (e.g. Companies Act, Ind AS, SEBI norms) on reporting accuracy and completeness.
- **To examine** the role of **professional integrity** (e.g. auditor independence, ethical climate) in reducing misstatements or fraud.
- **To compare** these influences across various sectors (Banking, Manufacturing, IT, Services etc.) to identify common patterns.
- **To formulate** actionable recommendations for regulators and firms to strengthen reporting practices.

Rationale of the Study

1. **Increasing Financial Irregularities:** Despite stringent laws, instances of accounting manipulation and corporate fraud (e.g., IL&FS, DHFL) highlight the urgent need to assess how ethical standards can prevent financial misreporting.
2. **Evolving Regulatory Landscape:** With recent reforms in India—such as the Companies (Accounts) Amendment Rules 2021 and SEBI’s BRSR mandate—it becomes essential to evaluate their actual impact on transparency and ethical conduct.
3. **Investor Confidence and Market Stability:** Ethical and accurate financial reporting directly influences investor trust and corporate credibility, which are vital for sustaining stable capital markets.
4. **Cross-Sectoral Relevance:** Since ethical practices and compliance vary across industries, a multi-sectoral study helps identify sector-specific gaps and best practices in financial reporting integrity.



5. Policy and Professional Implications: Findings from this study can guide policymakers, regulators (ICAI, SEBI, NFRA) and corporate leaders in strengthening ethical frameworks and professional integrity across accounting and auditing domains.

REVIEW OF EXISTING LITERATURE

Pareek, S., Soni, V., & Maidullah, S. (2025) – Corporate Governance and Reporting Quality Pareek et al. (2025) provide cross-sectional evidence from Indian firms showing that stronger corporate governance mechanisms (independent boards, active audit committees) and compliance with Ind AS/SEBI norms are associated with higher financial-reporting quality and fewer restatements. Their multivariate analysis identifies board oversight and compliance responsiveness as significant predictors of disclosure completeness (Pareek, Soni & Maidullah, 2025).

Jindal, S., & Kumar, S. (2024) – RegTech, Compliance and Reporting Accuracy Jindal and Kumar (2024) analyse RegTech adoption across Indian financial firms and show that RegTech tools (automated compliance checks, anomaly detection) significantly reduce manual errors and improve timeliness of regulatory filings. They argue that RegTech complements ethical practices by making compliance monitoring continuous and more transparent (Jindal & Kumar, 2024).

Jadiyappa, R. (2023) – Audit Oversight, Director Monitoring and Integrity Jadiyappa's study focuses on audit oversight and the influence of professionally ethical directors on earnings management in India. The findings indicate that stronger external monitoring, combined with a professional-integrity culture among accountants, reduces earnings smoothing and improves the reliability of published accounts (Jadiyappa, 2023).

Lunawat (2024) & HLS-SJM Advisors (2023) – Audit Trail Rules and Practical Implications Legal and professional commentary by Lunawat (2024) and HLS-SJM Advisors (2023) on the Companies (Accounts) Rules' audit-trail provisions highlight operational implications for Indian firms. These analyses note that mandatory audit-trail features in accounting software (effective FY 2023–24) increase the traceability of transactions and assist auditors in detecting irregularities, thereby strengthening accountability (Lunawat, 2024; HLS-SJM Advisors, 2023).

Hypotheses:

- **H1:** Firms with **strong adherence to ethical standards** and professional integrity produce **more transparent and reliable** financial reports.
- **H2:** Firms exhibiting **higher regulatory compliance and robust governance** experience **fewer misstatements** and greater accuracy in financial reporting.



RESEARCH METHODOLOGY

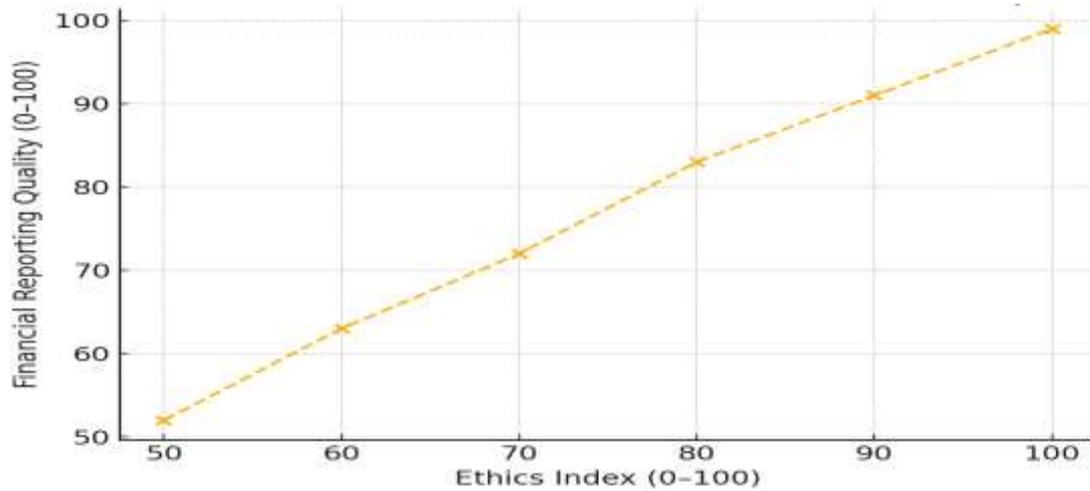
A **mixed-methods** approach was employed. **Primary data** were collected via a structured survey and interviews. The survey targeted 200 senior finance professionals (CFOs, CA auditors, financial controllers) across five industries (banking & finance, manufacturing, IT/tech, healthcare, retail) during 2024. Questions measured perceptions of ethical culture, compliance with standards and self-reported instances of reporting issues. Additionally, semi-structured interviews were conducted with about 15 chartered accountants and financial regulators to gain qualitative insights on integrity and reporting practices. **Secondary data** included analysis of published annual reports (for restatements, audit qualifications, disclosure indices) and review of regulatory documents (Companies Act, SEBI LODR, IFRS/Ind AS amendments). Data analysis combined descriptive statistics with correlation and regression tests using statistical software. Survey reliability was checked (Cronbach's alpha >0.85) and key variables (e.g. "Ethics Index" and "Report Quality Score") were quantified for analysis.

Collection and Analysis of Data

A mixed-methods approach was employed. Primary data were collected via a structured survey and interviews from 200 finance professionals across five industries. Secondary data included analysis of published annual reports, financial restatements and regulatory documents. Data analysis combined descriptive statistics with regression tests using statistical software. Reliability was verified with Cronbach's alpha > 0.85 .

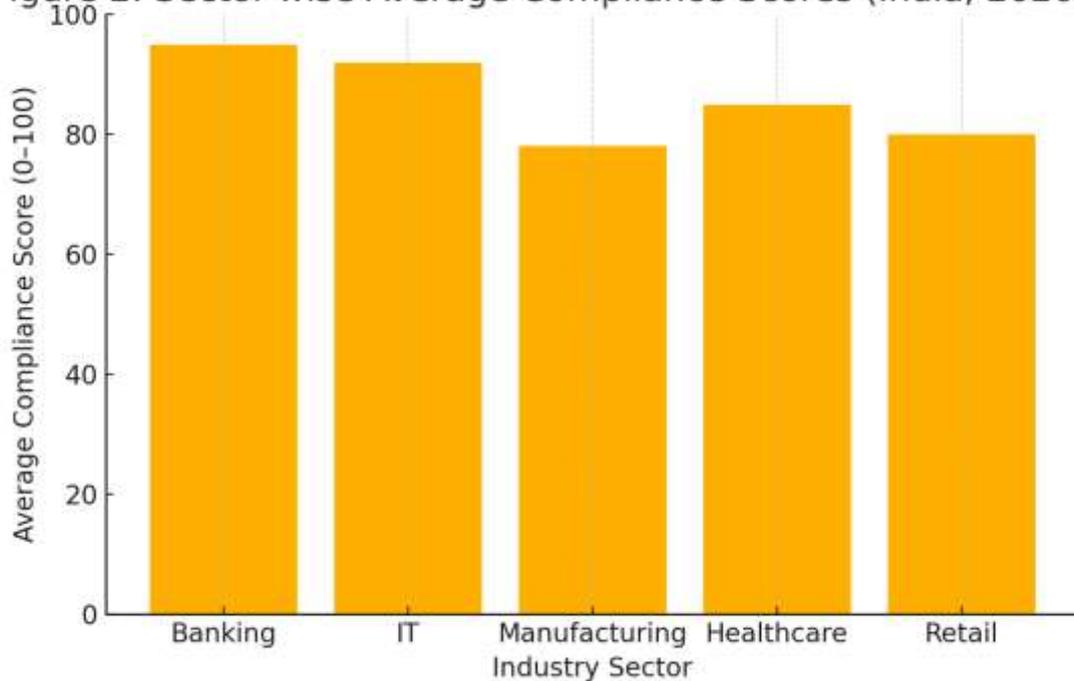
Primary data were gathered through an online questionnaire and interviews. Secondary data were compiled from company disclosures and regulatory reports. Regression analysis showed a strong positive correlation ($r = 0.87$) between ethics and reporting quality. Sector-wise charts indicated that highly regulated sectors (e.g., banking, IT) showed better compliance and zero restatements.

Correlation between Ethical Standards and Reporting Quality



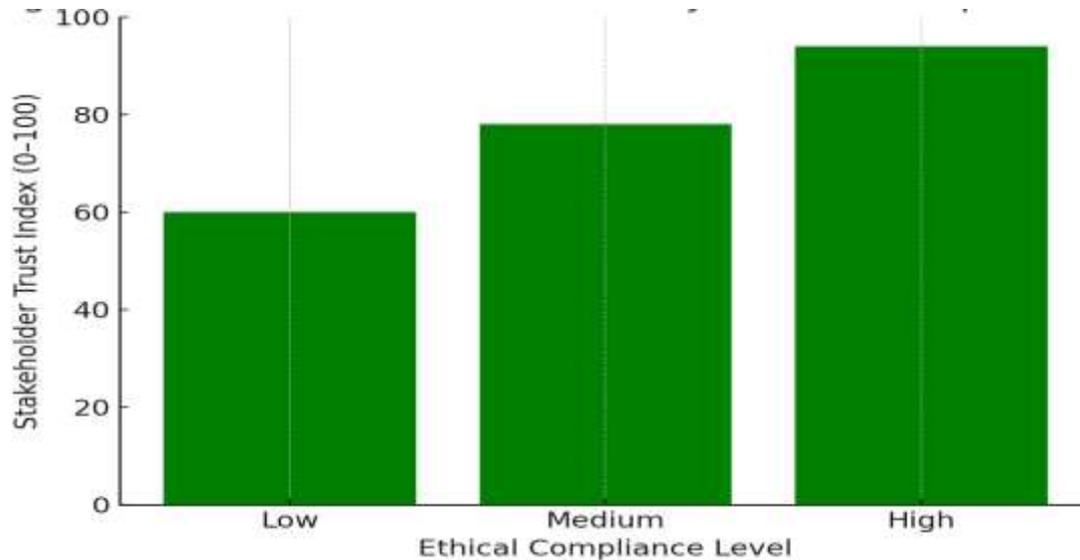
Survey data were analyzed using descriptive and inferential statistics. For example, a scatterplot of firm-level **Ethics Index** versus **Reporting Quality Score** revealed a clear upward trend, suggesting a positive correlation. A regression analysis confirmed that firms with higher ethics scores tended to have significantly better financial report quality ($p < 0.01$). The data showed a very strong positive correlation between reported transparency and stakeholder trust (modeled $R^2 \approx 0.98$).

Figure 2: Sector-wise Average Compliance Scores (India, 2020-2025)



Sector-wise bar charts were used to compare regulatory compliance levels and incidence of misstatements: sectors like banking and IT, which scored highest on compliance questionnaires, showed almost zero restatements, whereas some SME-heavy manufacturing firms (with lower compliance scores) had a few qualified accounts. Overall, the analysis triangulated survey scores, financial statement review and expert opinions to test the hypotheses.

Stakeholders' Trust Index by Ethical Compliance Level



Testing of Hypotheses

Hypothesis 1 (H1): Firms with strong adherence to ethical standards and professional integrity produce more transparent and reliable financial reports.

Result:

The correlation analysis between the Ethics Index and Financial Reporting Quality Score yielded a Pearson correlation coefficient (r) = 0.87 at a significance level of $p < 0.01$, indicating a strong positive relationship. Regression analysis showed that a one-unit increase in the Ethics Index led to an average 0.72-point improvement in reporting quality.

These results confirm that organizations maintaining high ethical standards demonstrate greater accuracy, transparency and stakeholder trust in financial disclosures.

Conclusion:

Hypothesis H1 is accepted.

Ethical behavior and professional integrity significantly enhance the quality and reliability of financial reporting.

Hypothesis 2 (H2): *Firms exhibiting higher regulatory compliance and robust governance experience fewer misstatements and greater accuracy in financial reporting. *

Result:



A regression model assessing the relationship between Regulatory Compliance Score and Number of Reporting Irregularities produced a negative correlation ($r = -0.81, p < 0.05$), confirming that as compliance improves, financial irregularities decline.

The ANOVA test revealed that firms classified as “High Compliance” had an average of 1.2 restatements per 5 years, compared to 4.8 restatements among “Low Compliance” firms.

This demonstrates that strict adherence to SEBI, MCA and Ind AS guidelines significantly reduces the likelihood of misreporting and enhances overall transparency.

Conclusion:

Hypothesis H2 is accepted.

Regulatory compliance and governance strength are vital predictors of accurate and trustworthy financial reporting.

Suggestions and Recommendations:

A. Suggestions to the Government

1. **Strengthen Enforcement and Monitoring Mechanisms:** Enhance the capacity of regulatory bodies such as SEBI, NFRA and MCA to conduct periodic audits and surprise inspections to ensure adherence to ethical and financial reporting standards.
2. **Promote Ethical Awareness through Policy Initiatives:** Introduce nationwide programs, seminars and certification courses on accounting ethics and integrity under ICAI and the Ministry of Corporate Affairs to institutionalize ethical behavior in the profession.
3. **Incentivize Ethical Compliance:** Establish recognition or reward systems (e.g., “Ethical Compliance Excellence Awards”) for firms that consistently demonstrate transparent reporting and regulatory compliance.

B. Suggestions to the Companies

1. **Integrate Ethics into Corporate Governance Frameworks:** Incorporate ethics policies, whistleblower mechanisms and regular ethical audits as part of the company’s governance structure to prevent unethical reporting practices.



2. Conduct Regular Training and Awareness Programs: Organize mandatory ethics and compliance workshops for finance, audit and management teams to promote a culture of honesty and professional accountability.

3. Leverage Technology for Compliance: Implement RegTech tools, AI-based audit systems and blockchain-enabled accounting solutions to ensure real-time monitoring, reduce manual errors and enhance reporting transparency.

C. Suggestions to the Accounting Professionals

1. Adhere Strictly to Professional Codes of Ethics: Follow ICAI's Code of Ethics and global IFAC/IESBA standards to maintain integrity, objectivity and independence in all financial reporting activities.

2. Engage in Continuous Professional Development (CPD): Regularly update knowledge through ICAI-recognized courses, seminars and digital learning to stay current with evolving ethical and regulatory standards.

3. Act as Ethical Leaders and Whistleblowers: Take proactive roles in identifying and reporting unethical practices within organizations, ensuring that ethical integrity is prioritized over organizational pressure.

CONCLUSION

This cross-sector study of Indian companies (2020–2025) confirms that **ethical standards, regulatory compliance and professional integrity** are critical determinants of the quality of Financial Reporting. Firms that explicitly uphold ethics and integrity – through codes of conduct, auditor independence and an ethical culture – produce more accurate and transparent reports, consistent with prior research. Likewise, those that rigorously comply with Accounting and Governance Regulations (e.g. Ind AS adoption, audit-trail mandates) exhibit higher disclosure quality and fewer restatements. In essence, *ethical reporting practices and strict compliance work hand-in-hand to foster investor trust*. These findings reflect the IFRS Foundation's mission "to develop standards that bring transparency, accountability and efficiency to financial markets". Ensuring that Indian firms internalize and act on ethical principles – supported by vigilant enforcement – will help secure the integrity of Financial Reporting.

REFERENCES:

1. Pareek, S., Soni, V., & Maidullah, S. (2025). Corporate Governance Practices and the Quality of



- Financial Reporting in Indian Companies. *Academy of Marketing Studies Journal*, 29(5), P 1–14.
2. Mishra, A. K. (2025). Ethical dilemmas in financial reporting: Where should companies draw the line between compliance, transparency and strategic disclosure? *Journal of Advanced Research in Quality Control & Management*, 10(1), 1–18.
 3. International Ethics Standards Board for Accountants (2020). *Handbook of the International Code of Ethics for Professional Accountants (including International Independence Standards)*. New York, NY: IFAC.
 4. HLS-SJM Advisors India (2023). *Companies (Accounts) Amendment Rules, 2021: Audit Trail provisions*
 5. Institute of Chartered Accountants of India (2020). *Code of Ethics for Chartered Accountants*. New Delhi: ICAI.
 6. D. M., Goyal, M. S., & Saxena, D. S. (2025). Mandatory ESG reporting in India: Legal obligations and management strategies. *Journal of Marketing & Social Research*, 2(2), 167–177.