

# PERSONALITY AND MORAL CHARACTER TRAITS AND ACKNOWLEDGING THE PRINCIPLES OF MANAGEMENT ETHICS, AUDITING AND ACCOUNTING ETHICS

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*Keywords: financial report, internal and external audit, audit risk,  
code of ethics and morality, personality traits*

## Abstract

*In the world – based on recent frauds in financial reporting of partial deregulation of the financial system, as some of the causes for the latest economic crisis, there is once again a growing distrust in external audit,*

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*which again yields their growing distrust of the public and investors of the entire financial system. In recent years, even before the latest economic crisis, the emphasis in overlapping the gap in the quality of financial reporting was put on developing a model of internal audit functioning. Even besides the undoubtedly positive effect resulting from developing various models of internal control, sometimes catastrophic consequences of fraud were not avoided. International standards and code of ethics represent some of the instruments for the securing of independence and objectivity of auditors and professional accountants in regards to management demands. The objective of conducted interdisciplinary research was to point out the important role of personality traits and morality in acknowledgement of ethic principles by management, auditors and professional accountants in organization of corporate financial business operation, implementation of the systems of internal control and evaluating their functionality. This paper presents the results of personality trait research, evaluated by the questionnaire "Big five plus two" and of the morality of management, auditors and accountants from 15 companies (**public, joint stock, limited liability, middle and big companies, and auditing houses**). The research was conducted on the sample of 95 respondents (of both sexes, aged between 25 and 60). The results of this research have shown that ethics and morality in education of managers, auditors and accountants have a key role in acknowledging ethics principles in the course of performing their regular business and professional activities. Based on the conducted research, introducing an adequate education on basic concepts of ethics and professional code of ethics in high schools and higher education of managers, auditors and accountants is suggested, all leading to the goal of securing an unhindered implementation of the mentioned code of ethics within the model of corporate governance, as a key factor in the process of business decision making.*

## 1 INTRODUCTION

A high quality system of financial reporting, as well as the system of financial report supervision, reduces information risks and is a prerequisite for efficient

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performance of activities at the financial market. Financial reports as a sort of ID and biography of the company contribute to their being recognized as promising companies and industries, and subsequently direct capital towards them.

The pressure imposed by growing competition and opened market increases the threat of fraud in financial reporting. Numerous regulations, models of corporate governance, innovations of accounting standards and new regulating bodies have not prevented the occurrence of financial scandals caused by, primarily, unfair reporting of accountants and auditors (Tusek, Sever, p. 85).

Financial scandals disguised by false financial statements at the global and local level have brought about numerous regulations, innovation of international accounting standards, audit and internal audit. Sarbanes-Oxley Act, section 404, 2002.), (PCAOB, 2004.), (IFAC, 2005 – ISRS 4400). In addition to regulations and standards, new regulating bodies have also been created. There have been numerous attempts to supervise the quality of financial statements, as well as of the activities of external and internal auditors. On the other hand, the implementation of accounting standards at the global level (MRS, MSFI, GAAP) increases the freedom in evaluation and analyzing the balance sheets in business accounts of companies by the management (IFRS, IASB, GAAP, 2010.)

Financial reporting is a responsibility of company management. In the process of accountant's reporting, the key role belongs to independent external and internal auditors. Auditing is a process of verifying the accuracy of information of company's business accounts developed in compliance with legal regulations, accounting standards and internal regulations. Users of financial statements expect them to be prepared and presented in compliance with regulations and accounting codes of conduct and also expect from external auditors to contribute to the reporting process by adding: independence, technical expertise, integrity and objectivity. Assumptions are, among others, the following: that financial statements and accounting data are confidential, that the existence of an adequate system of internal control excludes potential irregularities, that an auditor acts within his/her scope of competence in auditing financial statements, that the professional status of an auditor imposes adequate professional

responsibilities (Soltani B.2009, p.4).

Accounting and auditing professions, among other things, confirm their status and responsibility to the broadest public by their codes of ethics. Auditors Code of Professional Ethics is a set of codes of conduct that an auditor needs to follow in order to protect auditing as a profession from improper behaviors of some auditors who might compromise the reputation of the profession. Code of Professional Ethics is adopted by the institute for auditing (accounting) based on general ethical codes and cumulative auditing experience. Normally, this code consists of four parts: concepts of professional ethics, codes of conduct for auditors, interpretation of the rules and applicability of the code under specific circumstances. The European Union of Accounting, Economic and Financial Professionals (Union Européenne des Experts Comptables Economiques et Financiers – UEC) recommends the compliance of the code of professional ethics to its members (FEE ,2010), (EFRAG, 2010), (EFAA, 2010).

Although legal regulations impose relatively high standards in terms of transparency, availability of reliable and relevant stock exchange data, the public, as well as potential investors, have little belief into information published by the companies. Basic characteristics of financial markets in 1990's – technological inflating of shares and their deflating in 2000, coincided with significant failures in corporate governance (Soltani B. 2009. p. 450). Thus, the concept of corporate governance always includes two terms: responsibility and transparency, and after a few large stock exchange scandals had shaken the American and European corporations, this concept was amended by two additional categories: morality and ethics.

Ethics, as a branch of philosophy, or moral philosophy, studies the moral of an individual, nation or a social class. It studies how our decisions affect other people. It is a study of human rights and obligations, moral standards that people use while making decisions and the nature of people relations. Human resources of an organization, i.e. individual traits of employees represent a crucial link in ethical behavior (Bogdanović, 2008, p. 296). Ethics in its narrower sense is a theory on how we should behave, and in the wider sense of the term it is inseparable of the conduct so it includes morality, representing implemen-

tation of ethical principles (Bogdanović, 2008, p.296). High level of importance of ethics in business operation has been initiated by negative tendencies implied by a series of thorough assessments of the international market, more familiar by the name of "moral crisis" which occurs through the crisis of the general, professional and business moral, where instead of altruism, tolerance and humanity we face opposite phenomena of egoism, aggression, manipulation, etc. (Bogdanović, 2008, p.297).

Despite the undoubtable positive effect incurred by the development of different models of internal control, frauds have not been avoided – as well as sometimes catastrophic consequences of frauds. Therefore the question is raised what is the role of contextual factors (personality traits) of management, auditors and accounting professionals in the compliance with ethical principles. In other words, in identifying the objectives of this multidisciplinary research, we have set on from the following hypotheses:

1. that personality traits are significantly connected to morality and ethics;
2. that the study of ethics has a significant influence, i.e. shows significant influence upon morality and ethical quality of people who are facing moral dilemmas.

The objective of conducted interdisciplinary research (by the questionnaire Big Five plus two) was to point out the important role of personality traits and morality in acknowledgement of ethic principles by management, auditors and professional accountants in organization of corporate financial business operation, implementation of the systems of internal control and evaluating their functionality, as well as their reflexions to the objectivity of financial statements.

## **2 ATTITUDE TOWARDS MORALITY AND ETHICS AS INTEGRAL ELEMENTS OF BUSINESS AND AUDIT RISK**

The main topic of this paper is to observe the attitude of managers, accoun-

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tants and auditors towards the compliance with ethical and moral principles in business in general, and thus towards the statements in financial reports.

Previous auditing standards required from the auditor to comply with the principle of confidentiality of data, while they used to prepare a special (confidential) report on the observed weaknesses in the system of internal controls (*Management letter*) exclusively for the governance bodies.

Frauds which happened in large American and European multinational companies strongly affected the standards of auditing, for the first time based on the American law a special Public Company Accounting Oversight Board (PCAOB) was formed which significantly broadened the scope of responsibility of auditors and management. Broadening of the scope of responsibility of the management and auditors, implied, primarily, the obligation of management to submit the report on the efficiency of the internal control system and the obligation of the auditor to provide his opinion of that report. The auditor usually confirms that the report has been prepared in compliance with the COSO standards, and that the audit was planned and performed in compliance with PCAOB standards, which require to gain reasonable understanding that effective control over financial reports has been established. However, following this wording the auditor is significantly protected from responsibility by the wording "Due to limitations regarding the nature of this matter internal controls over financial reports may not hinder and uncover false statements in financial reports..." (Cvetanović M. 2007, p.54).

Such broadening of the scope of management and auditor's responsibility to express its opinion based on sufficient evidence led to more detailed elaboration of the standard related to uncovering of criminal acts. IFAC standard for 2007, ISA (MSR) 240, introduces the responsibility of an auditor to consideration of criminal acts. The given standard in principle introduces the responsibility of an auditor to discover misstatements of financial statements as a result of criminal acts. In addition, the standard differentiates errors from criminal acts. Errors are involuntary misstatements. On the other hand, criminal acts are deliberate actions by one or more individuals, members of the management, governing bodies, employees or third party, who perform frauds in order to gain material

benefits in an illegal and unallowed manner. According to the standard criminal acts are divided in two categories: 1) misappropriation of funds and 2) deliberate misstatement of financial reports. ISA 250 Consideration of Laws and Other Regulations in an Audit of Financial Statements, though of the same importance as ISA 240 shall not be considered in this paper.

Without going further into motives of criminal acts, the essence of the standard in question is the responsibility of the bodies in charge of business management and the responsibility of the management to establish the system of internal controls which is to prevent or discover criminal acts. Simultaneously the standard identifies the limitations that the auditor is facing due to the nature of the matter in question and lists the responsibilities of the auditor for their discovery, but limited to materially significant items. Therefore it is necessary for the auditing team to discuss the subjectivity of financial reports to errors caused by criminal acts.

However, from this paper's perspective it is highly important to point out the fact that criminal acts mostly occur due to non-functioning of the system of internal control. Frauds committed by employees who are not members of management can be discovered through audits of the functioning of internal control system or other audits. However, when management is involved in criminal acts, then it is more difficult to discover them. Controls which mostly function well, can be sidestepped by the management. Therefore auditors implement additional procedures.

Therefore, according to MSR 240 the auditor is only reasonably convinced that financial reports in total do not contain material misstatements as a result of a criminal act or error. Auditors can never be completely convinced into guaranteed non-existence of materially significant errors in financial statements primarily due to the method of testing based on samples and because of inherent limitations of internal control.

Being aware of all the limitations of audits, an auditor is required to plan an Audit Risk AR (taken as an allowed risk) based on the statistical value of the sample and acknowledging the existence of three types of risks:

$$AR=IR \times CR \times DR \quad (1)$$

1. inherent risk IR or the risk due to non-existence of internal controls;
2. control risk CR or the risk that significant errors may occur due to mis-statements of the company management. The study of the internal control system leads to a subjective judgement of the level of control risk (high, medium, low);
3. detection risk DR or risk that auditing procedure shall not discover significant errors in financial statements, balances or transactions. (qualitative and quantitative auditing risk assessment is a result of the assessment of its main elements of inherent and control risk).

According to MSR 400 interrelations of the elements of audit risk can be represented by a table (Dumičić K. 2005. p. 272):

		<u>Auditor's assesment of control risk CR</u>		
		<u>High</u>	<u>Medium</u>	<u>Low</u>
<u>Auditor's assesment of Inherent risk IR</u>	<u>High</u>	DR low	DR low	DR medium
	<u>Medium</u>	DR low	DR medium	DR high
	<u>Low</u>	DR medium	DR high	DR high

**FIGURE 1.** Detection risk (DR) as a function of other elements of risk

*Source: Authors calculation*

Based on the afore mentioned it is confirmed that there are elaborate rules for all participants in the process of financial reporting: managers, accountants and auditors, but nevertheless there is a certain risk of non-compliance with the prescribed rules, which we face in everyday practice.

Reasons for noncompliance to prescribed rules may be in the lack of knowledge of the prescribed rules, insufficient knowledge of the rules or their deliberate avoidance. Any of these non-compliances is most often caused by non-observance of



moral norms and ethical principles by an individual or by a specific group. In other words, it can be concluded that the risk of misconduct by managers, accountants and auditors according to ethical principles in business operation and in general is permanent.

If we consider audit risk AR, as a function of inherent risk IR, control risk CR and detection DR, we can assume that in itself it partially expresses the risk of negative attitude of managers, accountants and auditors (internal and external) towards moral and ethical principles. It could be said that the mentioned ethical risk is primarily included by the inherent risk, and somewhat less by the control risk, which in itself presupposes the existence of certain systems of internal control. Although lower ethical risk is included in the control risk CR, the latter is more harmful primarily due to its being nonapparent. Also, because it is caused by avoidance of the existing systems of internal control it therefore could have larger harmful consequences. Confirmation can be found in accounting and auditing standards, which as being aware of these facts prescribe mandatory specific consideration of presupposed ethical standards both in the company in question, considering it as a level of compliance to the business ethics, and also in the course of auditing procedure itself.

Being aware of this risk and in order to mitigate it, professional codes of ethics are prescribed. The code of ethics for professional accountants was developed by IFAC Ethics Committee. The code of ethics is the basis which is elaborated and applied by member organizations of IFAC. It establishes the principles of objectivity, integrity and professional expertise of accountants (and auditors) and it is applied to all professional accountants (and auditors). In the Republic of Serbia the Article 2 of the Law on Accounting and Audit Code of Ethics for Professional Accountants is classified as a part of mandatory professional accounting legislation.

In addition, certain companies adopt their "own" codes of ethics which employees are required to observe. In our larger companies and auditing firms such regulations are prescribed.

Some companies conduct occasional or mandatory surveys which point out to the specific personality traits of employees by conducting tests, such as FACET5,

or the test conducted in this paper VP+2. The analysis and keeping records of these findings in such companies is a responsibility of HR function.

The subject of this research, as we already stated in the introductory part of the paper, is the assumption that certain personality traits can be identified by questionnaires, and that simultaneously it is possible to test them regarding the attitude towards morality and ethical qualities

### 3 RESEARCH METHOD

The research was conducted in the Republic of Serbia and included employed managers, accounting professionals, and internal and external auditors. During October and November 2010, on a sample of employees in 15 companies (public, joint stock., limited liability companies, middle and big companies and auditing houses). The research included a sample of 95 respondents, between 25 and 60 years of age. The average age of respondents was 45. The number of female respondents was 58, and male 37. University degree was held by 89.5% respondents, while 10.5% finished secondary school. During their education 27.4% respondents studied ethics as a subject, while 72.6% of them did not. The research was conducted in November 2010 on a sample of employees from 15 companies.

The research used the following questionnaires:

1. Questionnaire Big five plus two (abbreviated version)
2. Questionnaire Morality
3. Questionnaire "Assessment of Ethical Quality of Procedure"

**Questionnaire Big five plus two** (Smederevac, Mitrović, Čolović, 2009) consists of 184 statements and a listed five level Likert rating scale. It represents an operationalization of the combination of a five factor and a seven factor model. It consists of 7 rating scales: Neuroticism, Extraversion, Conscientiousness, Agreeableness, Openness, Negative valence and Positive valence, each of subscales has specific subscales.

**1. Neuroticism** is a dimension of individual differences in the level of reaction to potentially threatening stimuli. The differences in this dimension may range from overly reactive, even to stimuli which an average person would consider as benign, to extreme unresponsiveness characterized by cool-headedness and stability even in situations when an average person would react.

**2. Conscientiousness**, is a dimension of individual differences related to the attitude towards responsibilities. Differences in this dimension may range from overly active, characteristic for workaholics to extremely inactive, characteristic for inert, passive and lazy people. Contrary to difference in temperamental dimensions, such as Neuroticism, Extraversion, and also Agreeableness, in which reactions to certain types of stimuli is dominant, Conscientiousness includes a more dominant voluntary component and to a certain degree may be considered as the strength of person's will.

**3. Agreeableness**, in this questionnaire, dimension of Agreeableness includes three subscales, named Aggressiveness, Accommodativeness and Even temper.

**4. Extraversion** is a dimension of individual differences in the level of reaction to external environment. Differences in this dimension may range from overly reactivity, characteristic for introverts, up to non-reactivity characteristic for extroverts.

**5. Openness to experience** is a trait which includes the tendency towards achievement and improvement and for the most part it is defined by cultural factors, since manifestations of this tendency in everyday life need to be shaped by the culture.

**6. Negative valence incorporates the traits of** is manifested through by intrusiveness, boasting and domination over other people, which can be manifested by ridicule, crude jokes or provocations. Lack of insight into the issues of own attitude, when observed from the aspect of morality represents the most important aspect of this trait. Negative self-concept, is a trait of personalities who have a strong negative self evaluation as a result of the sensation of own incompetence.

**7. Positive valence includes the traits of superiority and positive self concept.** High scores are achieved by people who overestimate their own importance,

love to socialize with important people, compete and compare with others. Positive self-concept is typical of the people who have high self esteem and positive attitude towards their own capabilities, talents and virtues.

In this research a shorter version of the scale was used.

Metrical properties of this questionnaire subscale are of adequate reliability, values of Cronbach alpha are higher than 0.70 for all subscales.

TABLE 1. Reliability of the subscales of Big five plus two questionnaire

Subscales	Reliability Cronbach alpha
Aggressiveness	,796
Extraversion	,812
Neuroticism	,863
Negative valence	,840
Openness	,829
Positive valence	,835
Consciousness	,774
Morality	,407/,470
<i>Consciousness</i>	,890

Source: Authors calculation

**Morality Questionnaire** – is created for the purpose of this research and it contains 11 questions. The first eight questions are closed ended question with an offered five level scale of responses for the respondents to choose from and are related to the respondents evaluation of morality. The last two question are with a pre-existing multiple choice and are related to the evaluation of behavior in regards to own moral principles and for situations of moral dilemmas.

Reliability of the instrument created to measure morality is very low. Reliability was initially identified for the scale consisting of the following elements:

*Moral is what is good for me*

*I believe it is necessary to do to other what we would like them to do to us*

*It is sufficient to obey the law in order to be considered moral*

*I should do good regardless of the consequences it might have on me*

*Moral are acts which take into consideration the interests of other people*

*Morality is a very subjective category, it depends on personal preferences*

*Moral is all that makes more good than evil*

*There is an universal moral truth to which we all should stick to*

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Subsequently the statements *Morality is a very subjective category, it depends on personal preferences* and *There is an universal moral truth to which we all should stick to*, have been eliminated

In calculations these statements were not taken into account since they did not have adequate psychometric properties.

Since the validity in that case was adequate, this instrument was conditionally accepted as adequate.

**Questionnaire “Estimation of the Ethic Quality of an Act“** – has been created for the purpose of this research. It consists of six questions with offered five level scale of responses. Questions are related to the estimation of the ethical quality of an act in an imaginary situation in a company.

Reliability of the instrument created for measuring of the ethical quality is adequate.

The scale of ethical value consists of the following statements:

*If a financial director would accept an applicaton of his best friend*

*If a financial director would not accept an applicaton of his best friend*

*Estimate Your ethical quality as a financial director*

*Estimate Your ethical quality as a financial director of the company „A“*

*If you would ask for a favor Your friend (financial director of the company „A“)*

*If you would not ask for a favor Your friend (financial director of the company „A“)*

## 4 RESULTS

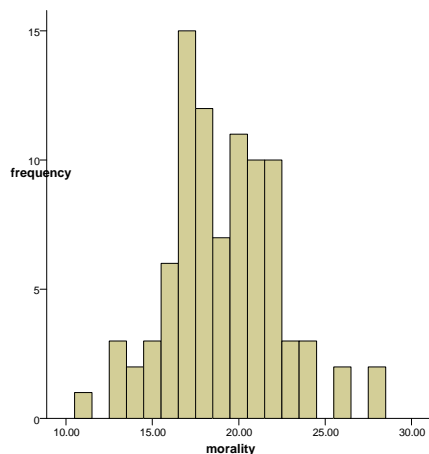
Received data from all three used questionnaires were submitted to a score distribution analysis. Results of control of score distribution from all three used questionnaires are presented in Table No. 2.

TABLE 2 Descriptive indicators of score distribution of specific scales of used questionnaires

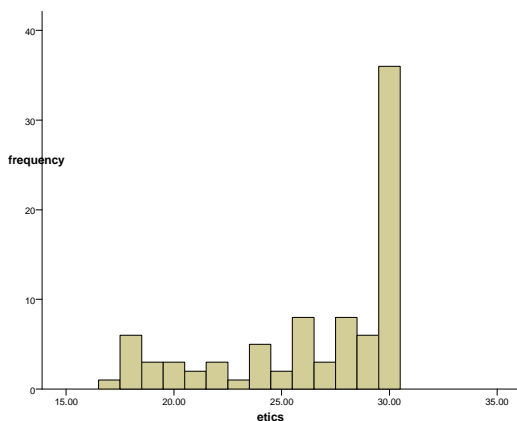
	Morale	Ethics	Aggressiveness	Extraversion	Neuroticism	Conscientiousness	Candor	Negative valence	Positive valence
No. of valid	90	87	92	91	92	93	93	92	91
No. of missing	5	8	3	4	3	2	2	3	4
Arithmetic mean	19,13	26,55	22,53	37,58	20,39	41,39	38,58	16,93	30,65
Standard deviation	3,21	4,16	6,32	5,98	6,91	5,59	6,03	6,53	6,82
Skewness	0,28	-0,98	0,51	-0,41	0,46	-0,19	-0,47	1,14	-0,11
Median	19,00	28,00	22,00	38,00	20,00	41,00	39,00	15,00	31,00
Q1	17,00	24,00	18,00	34,00	16,00	37,00	35,00	12,00	26,00
Q3	21,00	30,00	27,00	42,00	25,00	46,00	43,00	19,75	35,00

*Source: Authors calculation*

Results show that calculated scores for the Morality sub-scale are grouped around the central value, distribution of scores is symmetric and very much reminds of a normal distribution (skewness is 0,28) Figure 2. Distribution of scores calculated for the Ethics sub-scale is extremely negatively asymmetric (skewness is -0,98) Figure 3, which points to the fact that respondents for the most part represent their behaviour as ethical.



**FIGURE 2** Score distribution histogram calculated for the Morality scale  
*Source: Authors calculation*



**FIGURE 3** Score distribution histogram calculated for the Ethics scale  
*Source: Authors calculation*

Control of differences between genders was conducted with t-tests. The control showed that there is no difference between men and women in terms of

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morality and ethics, and that there is no difference in specific sub-scales of the questionnaire Great five plus two.

Control of differences between the respondents of different qualifications (in the sample, respondents had secondary and higher education) was conducted with t-tests. T-test results show that there is no difference in the scores of the Ethics sub-scale, and in the scores of specific sub-scales of the questionnaire Big five plus two. The only determined difference is among people with a different qualification level according to the scores determined for the Morality questionnaire ( $t=2,204$ ,  $p=0,05$ ). Results of control of difference in the Morality questionnaire showed that respondents with lower qualifications expressed higher morality ( $M_1=21,20$ , and  $M_2=18,88$ ) (Table 3). In this research we did not manage to ensure more equal qualification level of the respondents (10,5% of respondents had secondary qualifications, while 89,5% of respondents had higher qualifications), so it is possible that the obtained result could have been different on a larger sample. The obtained result may also be explained with that the respondents with secondary qualifications in the sample were employed at positions with lower responsibilities, which gave them fewer opportunities to come into serious ethical dilemmas.

**TABLE 3** T- tests results

	Levene's test of equality of variances		T-test				
	F	p	t	df	p(2-way)	Difference	Std. difference error
Morality	2,655	,107	2,204	88	,030	2,325	1,055
Ethics	5,079	,027	-1,021	10,180	,331	-1,866	1,829
Aggressiveness	,879	,351	-,334	90	,740	-0,710	2,128
Extraversion	,225	,636	1,650	89	,102	3,278	1,987
Neuroticism	1,060	,306	-1,609	90	,111	-3,693	2,295
Negative valence	,795	,375	-,273	90	,786	-0,600	2,199
Candor	,005	,946	-,155	91	,877	-0,314	2,028
Positive valence	,551	,460	1,039	89	,302	2,486	2,393
Conscientiousness	,173	,679	1,516	91	,133	2,816	1,858

*Source: Authors calculation*

With Sprirman's correlation coefficient it was determined that there is no connection between the age of the respondents and number of years of work experience with scores of the Ethics and Morality questionnaires.

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Results of control of differences between persons who studied the subject of ethics during their schooling and those that did not, in all three questionnaires, showed that there is a difference between persons, depending on whether they studied ethics during their schooling in terms of:

1. Morality (t=2,271, p=0,05 )
2. Ethics (t=2,071, p=0,05 )
3. Negative valence ( t=1,824, p=0,07, marginal statistical significance)

TABLE 4 T- test results

	Levene's test of equality of variances		T-test				
	F	p	t	df	p	Difference	Std. difference error
Morality	,102	,750	2,271	88	,026	1,749	0,770
Ethics	,646	,424	2,071	85	,041	2,028	0,979
Aggressiveness	,071	,791	-,048	90	,961	-0,072	1,490
Extraversion	,156	,694	,604	89	,547	0,852	1,410
Neuroticism	1,299	,257	,480	90	,632	0,781	1,627
Negative valence	3,384	,069	1,824	90	,071	2,794	1,532
Candor	,031	,860	-,020	91	,984	-0,028	1,417
Positive valence	,246	,621	,611	89	,543	0,981	1,607
Conscientiousness	2,073	,153	,097	91	,923	0,127	1,314

Source: Authors calculation

TABLE 5 Descriptive indicators of morality score in relation to previous studies of ethics

	Did you study ethics during your schooling	N	Arithmetic mean	s	Std. difference error
Morality	Yes	22	20,455	3,188	0,680
	No	68	18,706	3,125	0,379
Ethics	Yes	24	25,083	4,283	0,874
	No	63	27,111	4,004	0,505
Negative valence	Yes	24	19,000	7,564	1,544
	No	68	16,206	6,021	0,730

Source: Authors calculation

Respondents who studied ethics during their schooling have higher values in the Morality questionnaire, while on the sub-scale, the negative valence of the questionnaire Big five plus two has lower values. This result supports the fact that

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studying ethics in the course of education may contribute to greater awareness and sensitivity of people to morality and ethical issues. Possibly people who have studied ethics during their schooling will have greater awareness about what is ethical and what is not, and that they will behave differently in moral dilemma situations. The result points to the fact that with additional education, which would include subjects related to ethics and morality, would contribute to the development of moral values and ethical principles in future managers, accounting staff and auditors.

Connection of personal characteristics measured by the questionnaire Big five plus two with results from the morality questionnaire was made using Spearman's correlation coefficient. Analysis of the significance of Spearman's correlation coefficients show that there is:

-a negative connection between the score from the Morality questionnaire and score of Neuroticism (Spriman's  $\rho = -.230$ ,  $p=0,05$ ). The result shows that more moral persons in the research proved to be more stable and that they respond less to potentially threatening stimuli. Such persons in moral dilemma situations react more stable, respecting morality and ethical principles.

-a positive connection between the score from the Morality questionnaire and score of the Positive valence (Spriman's  $\rho = .178$ ,  $p=0,10$ , marginal statistical significance); which means that more moral persons have a positive valence, high self-esteem and a positive attitude towards own abilities, talent and virtues.

By multiple regression analysis was determined that there is no greater connection between the scores of selected personality dimensions and score from the Morality questionnaire (  $R = .361$ ,  $F(7; 76) = 1,626$ ,  $p > 0,05$ )

By multiple regression analysis it was determined that there is no greater connection between the scores of selected personality dimensions and answer to the question *Do you always act in accordance with moral principles you represent?* as an indicator of morality practice ( $R = .182$ ,  $F(7; 78) = .383$ ,  $p > 0,05$ ).

Analysis of the significance of Spearman's correlation coefficients show that there is:

1. A negative connection between the score of Ethics and score from the Negative valence (Spriman's  $\rho = -.314$ ,  $p=0,01$ ); which means that persons

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who rate ethics higher have less expressed negative valence. Persons with a less expressed negative valence are not intrusive, boastful and have no need to dominate other people, and in this research they showed that they have greater respect for ethical principles.

TABLE 6. Connection of scores from specific scales determined by Spearman's correlation coefficient

		Morality	Ethics
Aggressivene ss	Spirman's correlation coefficient	-,176	-,128
	p(2-way)	,101	,239
	N	88	86
Extraversion	Spirman's correlation coefficient	,141	,073
	p(2-way)	,194	,508
	N	87	85
Neuroticism	Spirman's correlation coefficient	-,230(*)	-,113
	p(2-way)	,031	,300
	N	88	86
Negative valence	Spirman's correlation coefficient	-,118	-,314(**)
	p(2-way)	,270	,003
	N	89	87
Candor	Spirman's correlation coefficient	-,073	,112
	p(2-way)	,496	,300
	N	89	87
Positive valence	Spirman's correlation coefficient	,178	,022
	p(2-way)	,098	,839
	N	87	85
Conscientiou sness	Spirman's correlation coefficient	,162	,123
	p(2-way)	,128	,257
	N	89	87

Source: Authors calculation

By multiple regression analysis it was determined that there is no greater connection between the scores of selected personality dimensions and score of Ethics ( $R=,270$ ,  $F(7; 74)=,835$ ,  $p > 0,05$ ).

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## 5 DISCUSSION

Accounting collects, classifies, records, summarizes, reports others on financial information. The task of accounting is to value and connect business events that affect the business operations of companies and organizations. Accounting presents the business events to other subjects since they affect relationships with other companies and with the community. The accounting task is to reduce the enormous amount of detailed information to practical and understandable information.

Society's needs for revision have been continuous ever since there is conscious economic activity and recording of transactions. The independent auditor should act as a trusted agent for the company. Reliability should not be placed more broadly in the execution in relation to what is justifiable by performed work and expertise of auditors. The needs of the community are not fixed, they changed and improved over time. The auditor is always in a position to do as much as the society expected. That is why the auditing methods have changed and improved over time. The linking factor ever since the emergency of the profession is the duty of auditors to do their job in a way that does not betray the expectations arosed in the laity, as well as not to cause more expectations than those that may be legitimate business activity.

Our inner mental processes make a tangle of wires or cords to pull us, and since they are conflicting, they are pulling us in opposite directions and actions; it is the very basis of the difference between virtue and wickedness (Platon 1990, p. 44.).

Education consists of attracting and directing children according to what the law is declared valid and to what the fairest and oldest people, on the basis of their personal experience, declared as such (Platon 1990, p. 59.).

Being without any respect for the reasoning or judgment of a better man, that is one could say, is the very boldness which is a consequence of excessive freedom (Platon 1990, p. 109).

Benedict Kotruljevic from Dubrovnik set the rules of ethics in 1563 which have been used ever since. Those were the rules of business ethics on the quality, on

the monopolistic market position and unfair competition, on helping the poor, on the vocational training of ignorant.

We should point out the need for continuing education in accordance with these recent trends in the development of internal auditor profession, not only for internal auditors, but also the management of Croatian companies in terms of awareness and action increase in relation to some forms of internal monitoring of the company operations (Tusek B., North P., 2007, p. 293).

Summing up the above thoughts, it can be concluded that, in consideration of the history up to the present times, there ethical risks have always been present, and societies have fought against them, and sought its reduction and elimination, in many ways. That struggle has always been difficult and slow, basic weapon of struggle has always been education of the people on the basic moral and ethical principles. When it comes to professions (accountants, lawyers, auditors, doctors) one need continuous and well-thought specialized education in the field of ethics.

## 6 CONCLUSION

In today's economic environment auditing philosophy should provide direction for audit practices that add value to financial statements. In addition to these codes that determine the conduct and work rules of external auditors of financial statements, there are codes for the public sector auditors, for Internal Auditors (the Institute of Internal Auditors), for the work of accountants. The Ethics Committee is a body for establishing standards, and it is set by the International Federation of Accountants (IFAC). The Ethics Committee develops and publishes in the public interest high quality ethical standards and other pronouncements for professional accountants to be used around the world. IFAC Code of Ethics for Professional Accountants and interpretations relating to all professional accountants, including those in public practice, business operations, education and public sectors. Code of Ethics for Professional Accountants establishes ethical principles for the 2.5 million professional accountants who are members of bodies that are part of IFAC. The main reasons for the existence

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of codes of ethics in these professions is the need for public confidence in the quality of services they provide.

There are very detailed sets of rules for all participants in the process of financial reporting: managers, accountants and auditors, but nonetheless there is still a risk, ethical risk, of non-compliance with prescribed rules, the fact everyday practice proves it.

The reason for non-compliance with prescribed rules may lie in their ignorance, insufficient knowledge or their intent to avoid them. When there is any sort of non-compliance, its cause usually is a failure to comply with moral norms and ethical principles, by individuals or groups. Or it can be concluded that there is always the risk of poor relations between managers, accountants and auditors under the ethical principles in business in general.

Conducted research was aimed to check the personality traits and respect of the principles of ethics and morality of auditors, managers and accounting staff. The findings obtained show that less educated respondents express greater morality, with the assumption that employees in workplaces that require less responsibility and accountability are not exposed to behavior pressures in situations of moral dilemma.

This research showed that stable personalities tend to be more moral since they less intensely react to potentially threatening stimuli. These individuals react more stably to moral dilemmas, more respecting the principles of morality and ethics. At the same time more moral person have more self-esteem and a positive attitude toward their own abilities, talents and virtues, and during the candidate selection process for the duties of auditors, managers and accounting staff, one should choose those workers who exhibit these characteristics. The persons who validate more ethical principles are not intrusive, boastful and have no need to dominate other people.

The research conducted and the findings obtained support the hypothesis that people who researched and studied the subject of ethics during their education showed higher values on the questionnaire of morality, while in the subscale, the negative valence of the Questionnaire Big Five plus two have lower values. This result supports the notion that the study of ethics cases during education can

contribute to greater awareness and sensitivity of people to issues of morality and ethics. People who have studied the subject of ethics, may have greater awareness of what is ethical and what is not, and may behave differently in a moral dilemma.

The study of ethics during education may enhance the awareness of auditors, managers and accounting staff in a moral dilemma about what is ethical and what is not, and should along with education that has ethics and moral subjects contribute to the development of moral and ethical principles in future managers, accounting staff and auditors.

On the basis of the research conducted it may be suggested that the adequate education in basic concepts of ethics and codes of ethics of the profession in the system of secondary and higher education of managers, auditors and accounting staff is introduced, to ensure the smooth application of the given ethical codes in the model of corporate governance as a key factor in a decision-making process. Summing up the above findings, these still highly interesting topics of relationship between managers, auditors and accounting staff, according to the principles of morality and ethics in the situation of a choice dilemma between right and wrong procedure, the possible directions of further research impose themselves:

1. it is necessary to carry out research involving the students who are getting educated and preparing for these professions in order to observe their “yet not corrupted” attitudes to situations that raise moral dilemmas,
2. it would also be very significant to analyze this phenomenon from the of sociological i.e. general social point of view,

bearing in mind the general social aspect of this phenomenon, it would be interesting to carry out its comparative analysis in relation to the countries in the region.

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