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"Ethics of accounting and finance: trust, responsibility, and control"

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Table of Contents

Acknowledgements 2

Chapter 1 – Introduction 4

Chapter 2- Literature Review 8

2.1 Definition of ethics in accounting and financial framework. 8

2.2 Benefits of ethical behaviour 16

2.3 Trust, responsibility, and control concepts 23

2.3.1 Trust concept 23

2.3.2 Responsibility concept 28

2.3.3 Control concept 30

2.4 Legitimate aspects of ethics of accounting and finance 33

2.4.1 Sarbanes-Oxley act 33

2.4.2 International Financial Reporting Standards 41

Chapter 3- Methodology 44

Chapter 4 – Findings and Discussions 45

4.1 WorldCom scandal 45

4.2 Enron Scandal 51

Chapter 5 – Conclusion and Recommendations 57

References 59

Chapter 1 – Introduction

Situations like ethical misbehaviour in accounting and financial occasions happen each day. They typify the moral issues that accountants and financial specialists face, whether or not they are management accountants, tax accountants, auditors, valuation specialists, or accountants acting any variety of different accounting activities. Such things occurred long before the currently notorious Enron bankruptcy case, during which the auditors and consultants from the accounting firm of Arthur Andersen came beneath criticism for not suitably completing their responsibilities as accountants. In one instance, Arthur Andersen, functioning within the role of outside auditor, did not notice and/or disclose financial transactions whereby Enron shifted assets to a special purpose entity, that created the worth of the corporations seem to be significantly over it absolutely was. Whereas Andersen defenders declared that such activity was at intervals the law and customarily accepted accounting principles, critics maintain that accountants are obligated to try to add. We have seen the result of the Enron/Andersen case with the end of each Enron and Andersen, passage of the Sarbanes – Oxley Act, however, it is vital to recollect that the Enron/Andersen case failed to present new moral difficulties. It merely dropped at lightweight moral questions that had been simmering for run over 1 / 4 of a century, and sadly still simmer. Enron/Andersen, as a result of it, concerned billions of dollars and affected such a big amount of people's lives, illustrated dramatically the moral difficulties accountants face. The Enron/Andersen case, and each of the situations on top of raise these ethical questions: what's the suitable behavior in accounting and finance? What are accountants alleged to do? What are their responsibilities? The

eventualities are given higher than, ironically, raise another necessary purpose.

Individuals and systems are much alike. They each concede to temptations. Hence, any serious written material on ethics should examine the pressures the system exerts on individual accountants and their companies, and examine the rewards of the system to work out whether or not they align with its functions. These are the most important problems we are going to address during this research on accounting ethics. Ethics is an overarching concern all told areas of life; it is concerned all told human action. Human action is an activity that an individual is accountable, one that he or she will deliberately and may control, one that helps or harms the individual or others, and one that is deemed to be either just or unjust, right or wrong. In this research, we are going to examine the moral dimensions of the human action of accounting. To grasp it totally, we should first consider where and the way the activity of accounting and finance fits into the larger theme of human activities. We are going to look at how accounting and finance are each essential practices and vital professions. It is an important practice as a result of nowadays ' s economically developed system could not exist without accounting and finance. Business and therefore the financial market, as we all know it, would grind to a halt if there have been no way to account for the existence and disposition of the globe ' s wealth and goods. For markets to operate with efficiency, it is necessary to possess transactions supported correct portraits of the financial value of any entity being listed. Those portraits are painted by accountants. Power relationships, ownership claims, property rights, receivables, valuations and debts are all social constructs that outline who owns what and owes what to whom. All of those constructs are known and tracked by accountants and bookkeepers. As a result of its essential role in

following the sophisticated financial relationships in today's world, accounting has developed into a service profession. There are general moral responsibilities that accrue to professionals and specific responsibilities that arise from being an expert accountant. Covering all areas and activities that have an moral dimension would need an extraordinarily massive book. This research, therefore, will focus on what we tend to understand as major areas of concern for the ethics of accounting and finance. deciding, examining, and evaluating the needs of activities or practices is one amongst the most important tasks of ethics. This approach to ethics could be a practical one, because it involves an analysis of a perform or purpose. for instance, if we tend to take a purposeful approach to a knife, we tend to see that a knife includes a basic purpose or function – to chop. It is thought-about a decent knife, with respect to its basic function, if it cuts well; if it is a dull knife that does not cut sharply, it is thought-about a poor knife. However we are able to additionally analyze whether or not the function itself could be a worthy activity. Whether or not cutting is worthwhile depends on what is being cut and why – that is, the aim that the activity is engaged. Each activity is completed either for its own sake, during which case it is intrinsically worthy, or for the sake of something else, within which case it is instrumentally worthy. Cutting is an activity for the sake of something else, and it is judged as worthy or not counting on the aim that it is performed. A decent knife is used to slice food, or it is used to kill individuals. Providing correct financial pictures of business activities is an instrumental activity, because it offers an imperative service to people who want that data to have interaction in financial decision making. Whereas instrumental activities will offer great advantages to groups of people (and therefore be viewed as noble), they will additionally bring on great damage. Accounting and also the skills of the accountant is

utilised to try to do great damage to society if the needs for which the data is used are harmful or illegitimate.

With those goals in mind, I begin the research by briefly explaining the ethics of accounting and finance. Next, we will turn our attention to benefits of ethical behavior to organizations. Thirdly we will take a look at three vital concepts which cannot be underestimated when talking about a successful organization and business: trust, responsibility and control concepts. Then there will be an examination of two legitimate aspects: Sarbanes-Oxley Act (SOX) and International Financial Reporting Standards (IFRS). In the end, I will discuss two of the most embarrassing accounting and financial scandals: Enron and WorldCom cases.

Chapter 2- Literature Review

2.1 Definition of ethics in accounting and financial framework.

From the beginning of the Twenty-First Century society has witnessed an unexpecting and intolerable number of accounting scandals, including a substantial failure in the administrative oversight and reporting procedures, though the availability of the professional ethics standards evolved by the Institute of Management Accountants (IMA). In order to respond to those failures, it became clear to corporations that a critical glance of the connection between the accounting role and accounting professional was called for. Organizations are now analyzing ethics again in the accounting profession with a refreshed interest in teaching and developing people to strengthen strong ethical concepts and actions. Due to the vulnerability around an organization's financials, an education of accounting ethics is necessary as it is a crucial characteristic of the functions of auditors and accountants in the construction of financial statements. In general, the term ethics relates to morality or a code system which strongly offers the standard for distinguishing between true and false (Banerjee & Ercetin, 2014). Ethical dilemmas are general incidents in the workplace and arise from a condition where a class or a person must find a solution between two alternatives, where the result is not all the time black or white. For investors, managers and even small-business proprietors, it is vitally important to acquire a knowledge of accounting ethics and their purposes to keep away from financial and judiciary dilemmas due to the distortion of financial statements. Financial statements, made with the component of autonomy and maintaining the required moral qualities, limit mistakes and produce appropriate data for the clients of money related articulations. (Stice & Stice, 2012). Clients of money related

proclamations depend on the exactness, reasonable, and honest portrayal of monetary articulations and auditors' assessments in regards to whether the announcements speak to the reasonable estimation of the association. (Ronen, 2008). Indeed, even auditors and accountants, who are in charge of the honesty of an organization's financials, can use their ethics knowledge to defeat the moral problems that they look as they play out their parts. Eventually, the role of bookkeepers and their relationship to the generation of perfect and precise financial statements improves the notoriety of the organization in connection to speculators, loan bosses, and different clients. (Mukarushem & Kule, 2016).

Ethics in accounting is for the most part known as applied ethics, which emphatically stresses human and business morals, decisions, moral esteems, and their utilization in accounting. As a rule, the major moral drivers of accounting are a fitting practice and a decent standard of professionalism. As per Micewski and Troy (2006), the ethical obligation inside the business world is not comprehensive, however, lies under the specific set of moral conduct. A lion's share of the enterprises on the planet has organized moral issues in the accounting procedures, which expands the potential for conflict of interest. Break of ethical principles inside corporate finance practice, through financial misstatements, for the most part, harms an association's notoriety, consumer loyalty levels, and the trust of financial specialists on the organization. As indicated by Johannes Brinkman (2002), ethics is the field that displays the issues identified with malevolent and great, wrong and right, and bad habit and excellence. In this manner, ethics are utilized to look at moral standards, human conduct, and their endeavors to recognize good and bad. The improvement of ethical codes inside associations can secure the constancy of business transactions and financial procedures, which thus, influence employee execution,

relationship, and reliability of the organization. The part of accountants concerning the auspicious and precise planning of financial reports is of noteworthy significance to managers, investors, and other senior management officials. Adherence to ethics in accounting additionally helps in guaranteeing consistency with internal control frameworks with gauges. In this way, accountants can distinguish and measure asset wastage, explore, and perform roles that can contribute to the development of strategy development and fraud recognition in an association (Elias, 2002). Unethical behaviors not just corrupt the reliability and validity of an individual yet the organization too, improving the probability of criminal exercises that could bring about the abatement in benefit levels (Sims, 2003) It's essential for accountants to seriously adhere to behavioral accounting profession ethics. The dishonest activities, within the financial system, occur once accountants and managers don't adhere to the standards of earnings management ethics. In these cases, managers and accountants alter financial data. This alteration typically entails the addition of planned leads to the financial statements, which provides totally different results than the particular ones. This behavior of earnings manipulation inside the accounting profession is sometimes noted as earnings management (Ronen & Yaari, 2007). It ends up in doubt, particularly once dishonest activities or knowledge infringement present itself. The social norms or the structure culture linking earnings management ethics play an intensive role in deciding the norms ascertained in a corporation. it's believed that the acts, amendments and therefore the articles of Sarbanes-Oxley Act might facilitate in conveyance the ethical standards among the monetary set-ups (Strohm, 2006). Failure to decrease structure tolerance, to the degree of earnings management in response to the Sarbanes-Oxley Act, can end in a considerable discrepancy between an organization's culture and

social group norms for earnings management behavior. Moreover, the professed management over ethical behavior includes factors associated with the direct involvement of managers and accountants in earnings management. The Sarbanes-Oxley Act was introduced when varied, high-profile company accounting scandals like Enron, Tyco, and WorldCom cask capitalist confidence within the United State (Grama, 2015). The Sarbanes-Oxley Act powerfully advocates that Associate in Nursing organization's management ought to have correct and truthful financial reportage (Vay, 2006). Additionally, the ability levels of Associate in Nursing organization's control system in revealing its weaknesses ought to give cheap assurance that there'll be correct and truthful reportage. The same provisions square measure meant to confirmethical earnings management practices by organizations. Therefore, the Sarbanes-Oxley Act focuses on preventing organizations from committing dishonest or dishonest acts, specifically in financial data reportage.

Accountants contend with the intimate money details of people and organizations. Some have the flexibility to execute million-dollar transactions, et al. assist with safeguarding retirement funds of cab drivers and social staff.

Ethical codes are the basic principles that accounting professionals value more highly to abide by to reinforce their profession, maintain charitable trust, and demonstrate honesty and fairness. those that be a part of organizations and secure the credentials to gift themselves to the general public as CPAs or IIAs try to safeguard the name of the profession.

Sadly, not everybody who works within the accounting field is trustworthy. Daily violations of public and personal trust occur, and settlement ethical dilemmas are not every time finish favorably. the

subsequent are five areas that merit the eye of anyone considering operating within the accounting profession.

1. Independence and Objectivity

Ethics and independence go arm in arm within the accounting profession. A vital part of trust is creating unbiased choices and proposals that profit the consumer. Conflicts of interest, for instance, demand exposure beneath independence tips. Profiting from the sale of one monetary product over another could lead on to a bias that skews financial recommendation to a customer.

To remain objective and freelance, it's additionally necessary to confirm that recommendations don't seem to be subject to outside influence. an accountant's skilled judgment is compromised if they subordinate their judgment to somebody else's.

2. Integrity

Demonstrating integrity means that being easy and honest altogether business and skilled relationships. Upholding integrity needs that accountants do not associate themselves with info that they believe is materially false or dishonorable — or that misleads by exclusion.

3. Confidentiality

Disclosure of financial data or revealing the disposition of a possible merger by an accounting skilled while not categorical permission violates the trust that is the muse of an efficient relationship — unless there's a legitimate or professional reason to try and do, therefore.

4. Professional Competence

As technology, legislation, and best practices amendment, an expert accountant should stay up to this point. To exercise sound judgment, an accountant should keep abreast of developments that might have an effect on a decision's outcome.

Practicing reasonable care means that recognizing your ability level and not suggesting that you just have experience in a section where you do not. Consulting with alternative professionals could be a customary follow that helps to bond a complex of people and generate respect.

Similar pointers additionally apply to accounting professionals who control others. These accountants should make sure that the subordinates receive correct coaching and steerage as they perform their responsibilities.

5. Professional Behavior

Ethics need accounting professionals to go with the laws and rules that govern their jurisdictions and their bodies of labor. Avoiding actions that might negatively have an effect on the name of the profession may be a rational commitment that business partners et al ought to expect.

Ethics generally worry about human behavior that is acceptable or "right" which is not acceptable or "wrong" supported typical morality. General ethical norms comprehend veracity, honesty, integrity, respect for others, fairness, and justice. They relate to any or all sides of life, together with business and finance. financial ethics is, therefore, a set of general ethics.

Ethical norms are essential for preserving stability and compliance in social life, where individuals act with one another. Identification of others' desires and aspirations, fairness, and cooperative efforts to cope with common problems are, as an example, sides of social behavior that provide social stability. Within the procedure of social evolution, we have improved not solely an instinct to worry for ourselves however additionally a conscience to worry about others. There might arise conditions within which the requirement to worry for ourselves

runs into conflict with the requirement to worry about others. In such things, ethical norms are required to guide our behavior. As Demsey (1999) puts it: "Ethics represents the commit to resolve the conflict between stinginess and selflessness; between our material desires and our conscience."

Ethical dilemmas and ethical infringements in finance are often attributed to a confusion within the conceptual framework of contemporary financial-economic theory and therefore the widespread use of a principal-agent model of relationship in financial transactions. The financial-economic theory that underlies the trendy capitalist system is predicated on the rational-maximizer paradigm, that holds that people are self-seeking (egoistic) which they behave rationally once they look for to maximize their own interests. The principal-agent model of relationships mentions a briefing whereby one party, acting as an agent for an additional, carries out concrete functions on behalf of that other. Such adjustments are an integral a part of the trendy economic and financial system, and it is troublesome to imagine it functioning without them.

The behavioral presumption of the advanced financial-economic hypothesis runs counter to the thoughts of reliability, dedication, constancy, stewardship, and worry for others, that underlie the conventional concept - agent relationship. The conventional idea of an organization depends on moral esteems. However, if individuals are balanced maximizers, at that point organization in the interest of others in the customary sense is unthinkable.

The moral predicament introduced by the issue of conflicts of interests has been tended to in some parts of finance, for example, corporate governance, by changing over the organization relationship into an absolutely legally binding relationship that uses a carrot-and-stick

way to guarantee moral conduct by operators. In corporate governance, the issue of conflict between administration (agent) and investors (principal) is depicted as an agency problem. Market analysts have built up an organization hypothesis to manage this issue. The agency theory expects that both the agent and the principal are self-intrigued and mean to boost their pick up in their relationship. A basic case would be the situation of a store administrator going about as an operator for the proprietor of the store. The store chief needs however much pay as could reasonably be expected for as meager work as would be prudent, and the store proprietor needs however much work from the administrator for as meager pay as could reasonably be expected. This hypothesis is without esteem since it does not condemn whether the augmentation conduct is great or terrible and is not worried about what a simply pay for the chief may be. It drops the thoughts of genuineness and dedication from the agency relationship on account of their contradiction with the essential presumption of reasonable maximization. The agency theory transforms the customary idea of agency relationship into an organized (authoritative) relationship in which the principal can impact the activities of agents through motivators, inspirations, and discipline plans. The principal basically uses money related prizes, disciplines, and the agency laws to summon steadfastness from the agent.

The majority of our requirements for financial services—management of retirement funds, stock and security investing, and insurance against unexpected occasions, to give some examples—are with the end goal that they are better endowed to others since we have neither the capacity nor an opportunity to complete them successfully. The corporate gadget of contractualization of the agency relationship is, nonetheless, excessively troublesome making it impossible to apply to a large number of financial dealings amongst people and organizations that

happen in the financial market each day. People are not as well-organized as investors, and they are regularly ignorant of the agency problem. The absence of data likewise restricts their capacity to screen an agent's conduct. Thusly, what we have in our mind-boggling present-day financial framework is a dumbfounding circumstance: the regularly expanding requirement for completing things by others from one viewpoint, and the depiction of human instinct that stresses narrow-minded conduct on the other. This confusing circumstance, or the irregularity in the establishment of the advanced capitalist system, can clarify the vast majority of the moral issues and declining ethical quality in the cutting edge business and finance arena.

2.2 Benefits of ethical behaviour.

Ethics means moral concepts. Ethical conduct is the standards which you keep for yourself of the elements of fairness, honesty, and responsibility and how you treat other people in all parts of your life. It respects the diversity, dignity and also rights of individuals and categories of people. Ethical conduct is applying norms to whatever place you hold in the community, in commerce, and even behind your own doors where only you have information what you do and even when it is unfavorable to do so.

Ethical indicates that there are norms of morality that an individual should obey and is crucial for everyone. For instance, robbery and murder are not only unlawful but are commonly regarded as erroneous, while slyness, while not properly illegal, is usually considered to be immoral. Ethical standards describe behaviors morally admitted as good and true as opposed to sinister or untrue in a special setting it is especially important for the organization for a lot of reasons. One clear reason is it determines the standards for employees, management and generates a tone for a business as a whole. For instance, is it moral to pay

a graft to gain a business contract? Is it morally true to allow a business to capture information that may discourage a job applicant from joining the business? Is it ethical to request someone to accept a vacancy that is not useful for their career development? Is it true to do private business on working time? It would not be viewed as ethical for a business to put the soundness of its employees in danger, or cheat its investors, regardless of whether there was no possibility that the business would be discovered out.These samples feature why there is a requirement for keeping up elevated requirements of moral conduct and good guidelines at work put. It is the normal direction that organizations need their employees to hold while at work and vital in light of the fact that each individual's behavior influences the connections inside an organization along these lines taking a negative toll on the general execution of an organization.

Most business specialists point to various activities that proprietors and chiefs can take to help guide their organization down the way of ethical business conduct. Moral models shield the business from embarrassments and counteract them later on. Setting up an announcement of authoritative esteems additionally alluded to as 'codes of conduct', gives the employees and the business in general with a particular structure of expected or acknowledged practices inside the work environment. Ethical explanations suggest the workers, business partners, and the whole society a steady picture of the organization's working standards (the tenets and directions) that should be followed, why the organization exists, what it accepts, and how it plans to act to ensure that its actions agree to its maintained convictions. Doing dynamic audits of these vital plans and targets will determine that they are not in strife with the organization's fundamental moral principles. What's more, exploring the standard working systems and execution

estimations will guarantee the entrepreneurs and supervisors that it is very much organized and does not energize deceptive conduct.

Studies have demonstrated that ethical investment has been a developing part of business speculation since the 1970s, there has been a move from customary benefit and a free-showcase business way to deal with a moral approach, for customer interests. A business that carries on morally concentrate their organization on exercises in meeting all obligations to employees, clients and providers are granted a high level of loyalty, genuineness, quality, and efficiency over the long haul. Ethical investment is one method for reacting to issues of social obligation in business choices and exercises and maintaining a strategic distance from to act self-serving. It is basically worried about how the benefit is made and how much benefit is made, dissimilar to the traditional profit and free-market business approach which is just worried about how much benefit is made. Moral financial specialists hold benefit making a best corporate need and try to amplify benefit and rate of return in the meantime as limiting and staying away from negative social impacts where conceivable. On the positive side, general society will start to perceive and to respect singular organizations for their commitments to taking care of most resolute issues. It likewise adjusts the interests of investors, when the premiums of the two gatherings are centered around the long haul soundness of the organization. The supporters of investor value underestimate this long-term focus, they accept that for its own future prosperity, an organization will need to be receptive to its employees, consumers, and people in general and this is the ideal approach to acknowledge genuine investor value.

Socially accountable factors in parts of public concern incorporate nature, sustainability, globalization impacts for instance

abuse, child-labour, social and ecological harm anyplace on the planet, corruption, furnished clash and political issues, staff and clients relations, for example, education, health and security, the obligation of care, and so forth. It likewise incorporates the local group and other social effects on individuals, for example, their wellbeing and prosperity. For instance, Dell started a program of cycling of PCs at no cost to buyers and Shell began to coordinate with environmental groups. They set an organization record by offering back to the general public.

Carrying on ethically additionally enhances the nature of work life and improves the part of each business in making a situation where employee pride blooms and burglary misfortunes vanish as individuals are treated with reasonableness and uniformity, regard and respect, esteemed as people and where individuals perform with certain ethics and respectability. Positive outcomes are accomplished when workers are given a positive reason for trust and regard and a moral vision to live by. In the event that representatives trust all are held to comparable exclusive expectations, they likely will feel better about themselves, their colleagues, their association and carry on ethically when managing clients and business partners. Employees are more probable wildly loyal, persevering and gainful.

Surely, ethical organizations have preference over their rivals as research demonstrates that consumers are accustomed to purchasing items from organizations that have open acknowledgment, an organization record or being advanced. Improving client loyalty to the brand is presumably the absolute most effective motivating force for persuading organizations to receive ethics as a lifestyle.

Another favorable position of acting ethically is that it advances better staff maintenance and fascination, great organizations cannot work without great individuals. When one neglects to be a decent manager

they lose great staff on the grounds that the best staff needs to work for really mindful and ethical businesses and it decreases the probability of pulling in great new-starters. Moral measures additionally assume an imperative part of insurance of organization resources, workers that have regard for their association, tend to regard and ensure the advantages of that association. Workers who are treated with poise and regard, who take pride in their association and its morals. Numerous businesses need employees to act ethically in light of the fact that such a notoriety is useful for business which thusly can mean bigger profits. For instance, the working environment dictates the dressing protocol(a uniform) for employees, the clearest pointers of the workers' feeling of their association. Both men and women should maintain most extreme nobility in the place they work. The working environment likewise manages verbal and non-verbal propriety i.e. respectful and socially rectify conduct. How one carries on in the work environment goes far in building a stone strong notoriety, commendations and awards in the years to come. Additionally, reassuring workers to act ethically can spare cash by lessening employee robbery, downtime, and claims. Since numerous untrustworthy demonstrations are also unlawful, a firm that enables laborers to participate in out of line practices may be arraigned. It is seen that employees not having regard for their organization and colleagues energize numerous types of burglary, for example, individual long-distance telephone calls on organization accounts, cushioning of work charges and cost accounts, taking office supplies home. What's more, a worker with minimal self or hierarchical pride causes lost supplies and hardware as well as can subject that association to misfortunes underway, time, polished skill, overhead charges, activity, notoriety, state of mind, soul drive and client regard.

It is essential that employees have a distinct comprehension of their organization's moral gauges and a sentiment management bolster for acting inside those benchmarks. Instructing morals to a worker is not generally efficient. The administration must set cases by their own arrangement with ethical models and standards.

Ethical conduct implies being ethically capable and clings to acknowledged conduct in the workplace. Most extreme profitability and inventiveness are accomplished when people work in regards to the moral soundness of their position and a feeling of certainty. Then again, the individual thinks that it is important to take part in depleting duplicity, bringing about decreased achievement and reduced viability while rehearsing unethical behavior.

Business ethics are more critical than any time in nowadays in keeping up a practical and profitable business. It is never again worthy of a business to work in a totally self-intrigued way, having no respect for the effect it has on the whole society. In the cutting edge business environment, there is a solid accentuation on organizations meeting their consistency and ethical commitments. Exchanging in an ethical and socially cognizant way will profit organizations off all sizes at various levels

Goodwill and Publicity

One of the important points of interest of acting in an ethical way is the chance to encourage a feeling of goodwill among the overall society toward your business. Consumers are progressively worried about using items created in an environmentally sustainable manner and where the producers are paid a fair salary for their work. Being viewed as meeting your social and societal commitments will charm your business to the general population and draw in socially mindful purchasers.

Shareholders and Investors

By and large, it will be critical to investors that your business is overseen by an ethical mold. Transparent accounting procedures and a drawing in, consultative association with your investors will stimulate trust in your business. Investors will be all the more ready to place capital into a business that they can see is ethically overseen, in light of the fact that there is less probability that the business will be established on dangerous practices. Morally minded investors may likewise be unwilling to put resources into a business that they see as socially or naturally unreliable.

Competitive Edge

Ethical conduct can serve to separate your image from those of your rivals in the event that you work in an oversubscribed market, offering you an aggressive edge. Recognizing your item and business hones as being established on solid ethical standards makes your item or administration more appealing to customers- a great case of this model would be the Body Shop, a cosmetic shop whose items are not tested on animals.

Moral Obligations

An effective contention for maintaining your business in an ethical way, besides the budgetary advantages that can be picked up, is the ethical commitments your business has towards the society. A successful business takes from the society as benefits, which are circulated among its employees, chiefs, and investors in wages and dividends. As a necessary piece of society, the business has an ethical obligation to carry on in toward employees and outsiders and to be aware of its environmental effect.

Knock-On Effects

The knock-on effects of embracing a solid moral ethos will benefit a business. Legit, open accounting procedures will help manufacture a more grounded financial base for the organization and may help keep away from claims or authorizes for misbehavior. The knock-on effect of decently compensating workers and meeting your tax duties will be a prosperous, more strong local economy, which will profit everybody over the long run.

2.3 Trust, responsibility, and control concepts.

2.3.1 Trust concept

Trust relationships are crucial to the conduct of the business. Some fundamental level of trust is required just to have employment contracts, or to take part in business transactions. Beyond such minimum limits, trust also has a noteworthy part.

The level of trust in business connections—regardless of whether outside, e.g. in deals or warning parts, or inward, e.g. in an administrations work—is a more noteworthy determinant of accomplishment than whatever else, including content magnificence.

How might we consider trust? There are some core trust models which are taken from The Trusted Advisor (with Maister and Galford, Free Press, 2000), and Trust-based Selling (McGraw-Hill, 2006). There are three.

The Trust Equation: a deconstructive, expository model of the segments of reliability;

The Trust Creation Process: a procedure model of confiding in creation through individual communication—primarily discussions;

The Trust Principles: four standards, or qualities, which fill in as guides for basic leadership and conduct to build trust.

The Trust Equation

Trust is a bi-sidelong relationship—one trusts, and the other one is the trusted. While the two are connected, they're not a similar thing. The trust equation is a model for the last part—the person who might be trusted. It is about reliability.

Regularly we expect in excess of one thing when we use the word trust. We use it to portray what we consider what individuals say. We likewise use it to portray behaviors. We use it to depict regardless of whether we feel good imparting certain data to another person. Also, we use the same word to demonstrate whether or not we feel other individuals have our interests on the most fundamental level, versus their own advantages.

Those four factors can be portrayed as Credibility, Reliability, Intimacy, and Self-Orientation. They can be consolidated in an equation.

The Trust Equation

Credibility has to do with the words we talk. In a sentence, we may state, "I can trust what she says about intellectual property; she is exceptionally trustworthy regarding the matter.

By contrast, **reliability** should do with activities. We may state, for instance, "If he says that he will bring the order tomorrow, I believe him, since he's trustworthy."

Intimacy alludes to the wellbeing or security that we feel while entrusting somebody with something. We may state, "I can believe her with that data; she's never abused my confidentiality, and she could never humiliate me."

Self-orientation alludes to the focal point of the individual being referred to. Specifically, regardless of whether the individual's attention is fundamentally on himself or herself or on the other individual. We may say, "I can't believe him on this arrangement—I don't agree with the idea that he cares enough about me, he's he is only concentrated on what he will get from this deal."

Increasing the value of the variables in the numerator increases the estimation of trust. Increasing the estimation of the denominator—that is, self-introduction—diminishes the value of trust.

Since there is just a single variable in the denominator and three in the numerator, the most imperative factor is self-introduction. This is purposeful. A dealer with low self-orientation is allowed to truly, genuinely, sincerely focus on the client. Not for his own purpose, but rather for the client. Such a concentration is uncommon among sales representatives (or individuals all in all, so far as that is concerned).

Taking a gander at belief along these lines covers a large portion of the regular implications of assuming that we experience in ordinary business interactions. Note that the contents are completely individual, not institutional.

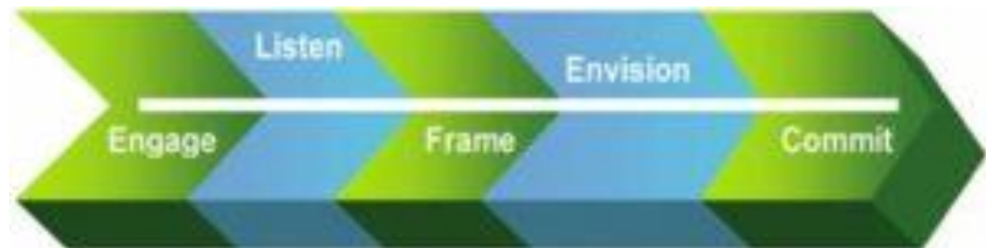
Individuals don't fundamentally confide in institutional substances, they trust other individuals. The parts of credibility and reliability are in some cases used to portray organizations or Web sites, however in any event as frequently to describe individuals. Alternate segments—intimacy and self-orientation—are completely about individuals.

Trust in finance and accounting requires great "scores" on every one of the four factors in the equation. In any case, the most imperative, by a wide margin, is low levels of self-orientation.

Living the four trust esteems is the ideal approach to build your trustworthiness.

The Trust Creation Process

Trust commonly gets created at the individual level, amongst individuals, and more often in discussions. The Trust Creation Process is a five-step model for that procedure:



Draw in the customer in an open discussion about issues that are vital to the customer;

Tune in to what is vital and genuine to the customer; procure the privilege to offer arrangements;

Edge the genuine root issue, without the dialect of fault, by means of provisos, issue proclamations, and theories; go for broke to investigate delicate issues—explain a perspective.

Think about a substitute reality, including win-win particular descriptions of results and outcomes, including enthusiastic and political states; elucidate benefits—clarify what's in question; be substantial about future states;

Focus on noteworthy subsequent stages that infer critical duty and development with respect to each party.

The most effective advance in the Trust Creation Process by a wide margin is the Listening step. The two most normal blunders by and by are:

- Insufficient listening, and
- Jumping too rapidly to the last, action step.

The Trust Principles

Being or getting to be trustworthy cannot be diminished to unadulterated behaviors. You can't bottle it in a competency sample. Our activities are driven by our convictions, and our convictions are driven by our values or standards. Reliable conduct is much excessively intricate, making it impossible to counterfeit without the beliefs and values behind them. In the event that your esteems don't drive you to carry on in a reliable way constantly, you'll be found out rapidly.

Consequently, the Trust Equation and the way we utilize the Trust Creation Process model are only results of the standards we hold. There are four specific principles representing trustworthy behavior:

A focus on the Other (customer, client, inside colleague, manager, partner, subordinate) for the Other's sake, not similarly as a way to one's own ends. We frequently hear "customer focus," or "client driven." Yet these are terms very regularly confined as far as an economic advantage to the individual attempting to be trusted.

A collaborative way to deal with relationships. Collaboration here means an ability to work together, making both joint objectives and joint approaches to deal with getting there.

A medium to long-term relationship point of view, not a here and now value-based focus. Focus on connections sustains transactions, yet focus on exchanges interferes with connections. The most beneficial relationships for both gatherings are those where different transactions after some time are expected in the way to deal with every exchange.

A tradition of being transparent in every one of one's dealings.

Transparency has the immense prudence of helping review who said what to whom. It likewise builds reliability, and brings down self-orientation, by its eagerness to keep no insider facts.

Applying these standards to the greater part of our activities will build up the fullest possible kind of trusting a relationship.

2.3.2 Responsibility concept

Financial responsibility alludes to the way toward overseeing cash and other comparable resources in a way that is viewed as profitable and is likewise to the greatest advantage of the individual, or the family, or the business organization. Being capable of budgetary errands and money management includes the development of a mentality which makes it conceivable to look beyond the requirements of the present in order to accommodate the necessities of future. Plus, it is essentially vital to comprehend the different fundamental standards in order to accomplish a high level of financial responsibility.

The process of financial responsibility

- The procedure of financial responsibility initiates with understanding the contrast between what you want and what you need. Being clear with this difference is useful in guaranteeing that the more vital purchases are dealt with, while the purchases not fundamental to keep up are obtained in the wake of satisfying the requirements. For example, a few cases of needs and requirements incorporate food, shelter, and clothing. Most of the people additionally feel that getting educational qualifications of university level has also turned into a fundamental need in the present day world.

By what means would owners be able to and administrators show financial responsibility?

The sort and level of financial responsibility rely on the sort and size of the business. In any case, proprietors and operators of a business can exhibit their financial responsibility in various ways like:

- Obtaining commercial environmental impairment liability insurance
- Demonstrating self-insurance
- Obtaining surety bonds, guarantees, or letters of credit

- Placing the requisite amount into a trust fund run by a third party
- Relying on coverage proffered by a state financial assurance fund

Furthermore, local governments include four extra consistency strategies custom fitted to their specific characteristics like a bond rating test, a guarantee, a financial test, and a dedicated fund.

Cost of demonstrating financial responsibility

The cost of demonstrating financial responsibility depends upon the technique used. In addition, it likewise, sometimes, relies on the kind of framework used. The most well-known systems used to adjust to the prerequisites of financial responsibility incorporate state funds and insurance.

Accounting responsibility is the moral duty an accountant has to the individuals who rely on his work. An accountant has a duty to his customers, his organization's managers, investors and creditors, and in addition to outside administrative bodies. Accountants are in charge of the legitimacy of the financial statements they chip away at, and they should play out their obligations as per every relevant rule, norms, and laws.

Accounting responsibility changes marginally in light of the accountant's association with the tax filer or business being referred to. Autonomous accountants with various customers see classified information, going from individual Social Security numbers to business sales information, and must watch accountant-customer privilege. They can't impart private individual or business information to contenders or others.

Likewise, accountants who work for accounting firms additionally have an obligation to keep data private, yet they likewise

have a duty to their firm. Specifically, they should precisely track their hours and errands finished. For instance, if a bookkeeper is completing a review, he should just tick off things he has really finished, as opposed to imagining he has done things he has not to accelerate the procedure or support his logged hours.

In the event that an accountant works specifically for a business, as an internal accounntant, he approaches data numerous others in the organization do not, going from financial numbers to news about staff cutbacks, and he likewise needs to treat this data discretely. Notwithstanding having a duty to the general population who work at the organization, in-house accountants are additionally responsible to creditors and investors. On the off chance that an accountant does not maintain his obligations, it can effectively affect the accounting industry and even the whole financial markets.

In spite of the fact that accountants have a lot of obligation to their customers if the Internal Revenue Service finds a blunder in an individual's tax return, it does not consider the tax preparer or accountant answerable. Or maybe, the IRS alters the return and considers the citizen in charge of the extra tax, charges, and punishments. Be that as it may, a person who has been wronged by an accountant's unfortunate behavior can bring a claim of carelessness against the accountant in view of the reality the accountant ruptured his obligation to the customer and caused individual or financial harms.

2.3.3 Control concept

Ethics is characterized as the tenets or gauges overseeing the direction of people or associations. The ethical conduct of a worker relies on variables, for example, his/her ethical logic, moral decision ideology, other individual elements, hierarchical/position-related elements, and outside environmental components.

The ethical arrangement of an individual comprises of his/her moral rationality and moral choice belief system. A person's moral reasoning represents the accumulation of moral rules that he/she holds. There are three distinctive ethical philosophies of insight that people take after under various circumstances in the hierarchical set-up. These are - utilitarianism, individual rights, and justice.

The ethical decision ideology is worried about how extraordinary people apply their moral methods of insight in basic leadership when looked with moral quandaries. Ethical decision ideologies can be arranged in view of two measurements: idealism, the conviction that acting morally guarantees positive outcomes, and relativism, the conviction that ethical esteems rely upon conditions.

A man who scores high on idealism and low on relativism is an 'absolutist'. A man with a low score on both idealism and relativism is called an 'exceptionist'. A man who scores high both on idealism and relativism is named a 'situationist'.A person who scores low on idealism and high on relativism is referred to as a 'subjectivist'.

A person's esteem framework is a vital factor that decides if he/she will carry on ethically or unethically when faced with an ethical dilemma. Other individual components which impact ethical behavior incorporate the age of the individual, the conscience quality, his/her locus of control, and the level of ethical improvement. The choices taken by the people in the past are critical variables that impact the present and future basic leadership. These choices frame the choice history of the person. The moral rationality of the individual and the moral choice belief system affect his/her decision history.

Authoritative factors directly affect the conduct of workers and the moral basic leadership process. A portion of the authoritative elements that impact the conduct of the workers is the hierarchical culture and structure, performance measurement systems, position-related factors, and the reward systems. Environmental elements impacting moral conduct incorporate the political and economic elements, the legal condition in which the association works, and the social components.

The coordinated system for ethical behavior draws out the connection between all the distinctive variables – ethical philosophy, moral choice belief system, decision history, individual elements, authoritative components, and the external elements. It helps in understanding the means engaged in ethical decision making and conduct and gives pointers on the matter of how this conduct can be controlled by managers.

With regards to management control, moral issues can emerge in any division or capacity of an association. On the monetary front, the moral issues may emerge because of the making of budgetary slack and oversee profit. Budgetary slack is a think modest representation of the truth of incomes or potentially exaggeration of costs in the financial plan. It is caused by administrative aim as opposed to by an unexpected mistake in the estimation procedure. Regardless of whether the chief feels that making slack is moral or exploitative relies on his/her identity qualities (identified with genuineness and decency). It likewise relies upon the degree of open interchanges conceivable between the supervisor and his/her bosses with respect to the capacity and the help important to accomplish the coveted targets. Income administration is utilized by associations to demonstrate the budgetary execution to be superior to anything they

really are. This may deceive partners who utilize the budgetary articulations to survey the association's money related quality. Moral issues in the business work emerge when the salesmen are experiencing tension from the higher specialists to accomplish focuses on a specific end goal to acquire motivating forces or acknowledgment.

2.4 Legitimate aspects of ethics of accounting and finance

2.4.1 Sarbanes-Oxley act

The purpose of the Sarbanes-Oxley Act was to crack down on corporate fraud. For example, the Sarbanes-Oxley Act, in addition to creating the Public Company Accounting Oversight Board (PCAOB) (which does exactly what its name would suggest), also banned the act of company loans being given to executives. The Act also provides whistleblowers with job security so that those who witness something unlawful can report it without fearing they will be terminated as a result.

Named for sponsors Senator Paul Sarbanes and Congressman Michael Oxley, the Act became law on July 30, 2002, and is enforced by the Securities and Exchange Commission. A number of events that occurred between 2000 and 2002 set up the history of the Sarbanes-Oxley Act. The highly-publicized frauds that took place at companies like Enron, Tyco and WorldCom highlighted the fact that significant problems existed with regard to conflicts of interest, and the incentives that companies were handing out to their high-level employees.

The Act is effective at holding CEOs personally accountable for the errors that can occur within the accounting audits within their companies. As one might expect, the early history of the Sarbanes-Oxley Act shows that many were pessimistic about the Act at first. For one thing, they worried that it would make the U.S. less enjoyable to do

business with. They also thought it was nearly impossible to implement. For example, the Sarbanes-Oxley Act was considered to be too corrective and expensive to actually enforce.

However, looking back on the history of the Sarbanes-Oxley Act, it is now even clearer that regulation of the banking industry was incredibly important, due to the financial crisis that occurred in 2008, often referred to now as "the Great Recession." The most notable elements of the Great Recession, which lasted from December 2007 to June 2009, were the bursting of the housing bubble and the drop of the stock market. Many people found themselves living in homes that were suddenly worth less than what they owed on them, and poverty rose as income levels dropped, most people could no longer afford their expenses.

Banking practices of the time also contributed in a major way to the enactment of the Sarbanes-Oxley Act. The fact that firms needed to borrow money should have told the investors that the firms were not safe to invest in. Such was the case with Enron. However, several major banks gave Enron loans while either ignoring or simply misunderstanding the risks the company was facing. As a result, investors and their clients were hurt by bad loans when Enron couldn't pay them back, which led to large settlement payments being made by the banks. The Sarbanes-Oxley Act was created, in part, to prevent something like this from happening again. Elements of the Sarbanes Oxley Act

Title III contains several important elements of the Sarbanes-Oxley Act. Specifically, it pertains to a company's "Corporate Responsibility for Financial Reports." This section includes all of the certifications that a financial report is supposed to contain before being submitted. Organizations who attempt to avoid fulfilling these

requirements can be penalized in accordance with the provisions of the Act.

Examples of required certifications include acknowledgments that:

The signing officers have reviewed the report

The report does not contain any false statements or omissions, nor is it misleading in any way

The financial statements and related information presented are a fair and accurate representation of the company's financial condition

Additional elements of the Sarbanes Oxley Act can be found within its eleven Titles, which are outlined below.

Title I: Public Company Accounting Oversight Board (PCAOB) – Mentioned earlier, the PCAOB oversees the accounting firms that provide auditing services to businesses. It defines and enforces the procedures necessary for audits to be in compliance with the Act.

Title II: Auditor Independence – This section restricts auditing companies from providing non-audit services, such as consultations, to the same clients. It also addresses things like requirements for new auditor approvals and auditor reporting.

Title III: Corporate Responsibility – The section specifies the individual responsibilities that senior executives are expected to take to ensure the accuracy and completeness of a company's financial reports.

Title IV: Enhanced Financial Disclosures – This section details the reporting requirements for financial transactions, including the controls that are put in place to ensure the accuracy of financial audits and reports.

Title V: Analysts Conflicts of Interest – This section defines the code of conduct for security analysts and requires that any known conflicts of interest be disclosed as soon as one becomes aware of them.

Title VI: Commission Resources and Authority – This section defines the conditions under which a person can be banned from practicing as a financial authority.

Title VII: Studies and Reports – This section talks about the effects that can occur from public accounting firms being consolidated, as well as the role of credit rating agents in security market operations.

Title VIII: Corporate and Criminal Fraud Accountability – This section goes into the details surrounding the criminal penalties that one can incur from manipulating, destroying, or altering financial records or interfering with investigations. This is also the provision that contains whistleblower protections.

Title IX: White Collar Crime Penalty Enhancement – This section recommends stronger sentencing guidelines for white-collar crimes and conspiracies. It also makes the failure to certify financial reports a criminal offense.

Title X: Corporate Tax Returns – This is perhaps the simplest element of the Sarbanes Oxley Act. This section requires that the Chief Executive Officer (CEO) of a company be the one to sign the company's tax return.

Title XI: Corporate Fraud Accountability – This section talks about corporate fraud and records tampering insofar as being criminal offenses, and then ties those offenses to their respective penalties.

The Sarbanes-Oxley Act (commonly called "SOX") reformed corporate financial reporting and the accounting profession. Congress passed SOX in 2002 after a string of corporate scandals, most prominently at Enron and WorldCom, shocked the public and rattled markets. Revelations that corporate executives filed misleading financial statements and of cozy relationships between accounting firms and the companies they audited were a common feature in these scandals.

Sarbanes-Oxley sought to enhance the integrity of corporate financial reporting and better regulate the accounting profession.

Impetus for Reform: the Enron Scandal

Publicly traded companies file periodic financial reports. These provide the public with important information on a company's assets, liabilities, revenue, cash flow, and business operations. This steady stream of data is immensely important to the market. Investors rely on it to decide whether to buy or sell stock, partners and competitors rely on it to make business decisions, and the market as a whole relies on it to analyze companies and industries. All of this activity plays a role in assessing a company's value - especially its stock price. So when financial statements are wrong, misleading, or even completely fraudulent there can be widespread repercussions.

This is precisely what led to SOX. Beginning in 2001, a series of corporate scandals involving financial reporting and accounting practices erupted. Enron, then the seventh-largest company in America, became embroiled in a scandal over its accounting practices and eventually collapsed. Subsequent investigations uncovered widespread efforts to manipulate the company's stock price. Enron executives systematically misrepresented the company's assets, hid liabilities, and overstated its earnings. Numerous Enron executives were eventually convicted of financial crimes and its accounting firm, Arthur Anderson, later went out of business. The Enron scandal and a similar scandal at WorldCom prompted Congress to pass the Sarbanes-Oxley Act in 2002.

Sarbanes-Oxley Act: Key Provisions

Sarbanes-Oxley made numerous reforms to corporate financial reporting and the accounting profession. SOX requires corporate executives to certify the accuracy of their company's financial statements; maintain and assess internal controls to prevent wrong,

misleading, or fraudulent financial data; and imposes criminal penalties for misleading shareholders and altering documents to impede an investigation. Sarbanes-Oxley also established an oversight board for the accounting profession, regulates the relationship between corporations and accounting firms, and shields corporate whistleblowers from retaliation.

Executives Must Certify Financial Statements

Sarbanes-Oxley requires a public company's chief executive officer and chief financial officer to certify the accuracy of its financial reports. These executives are required to certify that they've reviewed the financial reports, that the reports are accurate, and that the company has internal controls in place to ensure accurate financial disclosures and prevent fraud and misrepresentation.

Companies Maintain Internal Controls to Prevent Fraud

Sarbanes-Oxley requires companies to develop internal controls to ensure the accuracy of its financial reports. Each financial report contains an internal control report, and a company's annual year-end report assesses the effectiveness of those internal controls. A company's external auditor is required to attest to this internal control assessment as well.

The Public Company Accounting Oversight Board

Sarbanes-Oxley established the Public Company Accounting Oversight Board (PCAOB). This non-profit, private sector board regulates accountants auditing public companies - a significant proportion of all accountants. The PCAOB can issue rules and regulations related to accounting. Before SOX, the accounts were a self-regulated profession similar to medical professionals and lawyers.

Criminal Penalties

New criminal offenses and enhanced penalties for corporate fraud and related misdeeds were enacted as well. Sarbanes-Oxley makes it a crime to defraud shareholders of publicly traded companies through the filing of misleading financial reports. Executives face fines of up to $1 million and ten years imprisonment for knowingly certifying financial reports that don't comply with the SOX's requirements. Those penalties are enhanced for executives who "willfully" certify noncompliant financial reports: they face fines of up to $5 million and up to twenty years imprisonment. Sarbanes-Oxley also criminalizes the falsification and destruction of records to impede or influence an investigation.

Whistleblower Protections

Sarbanes-Oxley also took steps to protect employees who report corporate fraud, also known as whistleblowers. The act prohibits retaliation against whistleblowers who lawfully report corporate misdeeds. Companies may not "discharge, demote, suspend, threaten, harass, or discriminate against" employees who provide information to investigators or testify in enforcement proceedings. SOX created a civil action for employees who are subjected to retaliation, allowing them to sue an employer for violating this provision.

All companies (both foreign and domestic) that have registered equity or debt securities under the Securities Exchange Act of 1934 are subject to the Sarbanes-Oxley Act. Foreign public accounting firms must also comply with the Act if they perform work for companies subject to the Act.

In general, Sarbanes-Oxley raised financial standards in three main areas: corporate governance, securities analysis, and the performance of audit work.

One of the most important goals of the Act is to ensure that company directors and officers are aware of and accountable for the financial condition of the companies they manage.

This is most evident in the Act's requirement that the board of directors of most public companies has an audit committee. This committee must appoint, inspect, regulate, and control the actions of the company's auditing firm. The auditors in turn report directly to the audit committee.

Additionally, the CEO and CFO of any company subject to the Sarbanes-Oxley Act must certify in writing that the company's financial disclosures comply with the law and accurately represent the company's condition. To prevent directors and officers from issuing misleading financial statements in order to obtain personal benefits, the Sarbanes-Oxley Act makes it a federal crime for a company officer to pressure or manipulate an auditor into signing off on misleading financial statements. Further, if a company is forced to restate its financials, then in most cases the firm's CEO and CFO must give back any bonuses, compensation, or profits made on personal trades of the company's securities during the year after the faulty documents were initially disclosed.

One of the fundamental philosophies underlying Sarbanes-Oxley is that those who are aware of corporate wrongdoing have the ability and means to correct it. As a result, the Sarbanes-Oxley Act extends whistleblower protections to employees. The Act also states that if a company's internal lawyer discovers material securities law violations, then the attorney must report these violations to the company's chief counselor CEO, and on up the chain of command to the board of directors if no appropriate response is given.

Sarbanes-Oxley also directs the SEC to subject securities analysts to stricter rules regarding conflicts of interest. In particular, the Sarbanes-Oxley Act seeks to improve the objectivity and independence of securities analysts by further separating the investment banking and securities analysis functions of most financial-services companies. (Sarbanes-Oxley Act)

2.4.2 International Financial Reporting Standards

International Financial Reporting Standards (IFRS) are a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB), and they specify exactly how accountants must maintain and report their accounts. IFRS were established in order to have a common accounting language, so business and accounts can be understood from company to company and country to country.

The point of IFRS is to maintain stability and transparency throughout the financial world. This allows businesses and individual investors to make educated financial decisions, as they are able to see exactly what has been happening with a company in which they wish to invest.

IFRS are standard in many parts of the world, including the European Union (EU) and many countries in Asia and South America, but not in the United States. The Securities and Exchange Commission (SEC) would not switch to International Financial Reporting Standards in the near term but will continue reviewing a proposal to allow IFRS information to supplement US financial filings. Countries that benefit the most from the standards are those that do a lot of international business and investing. Advocates suggest that a global adoption of IFRS would

save money on alternative comparison costs and individual investigations, while also allowing information to flow more freely.

In the countries that have adopted IFRS, both companies and investors benefit from using the system since investors are more likely to put money into a company if the company's business practices are transparent. Also, the cost of investments is usually lower. Companies that do a lot of international business benefit the most from IFRS.

IFRS are sometimes confused with International Accounting Standards (IAS), which are the older standards that IFRS replaced. IAS was issued from 1973 to 2000, and the International Accounting Standards Board (IASB) replaced the International Accounting Standards Committee (IASC) in 2001.

IFRS covers a wide range of accounting activities. There are certain aspects of business practice for which IFRS set mandatory rules.

- Statement of Financial Position: This is also known as a balance sheet. IFRS influences the ways in which the components of a balance sheet are reported.
- Statement of Comprehensive Income: This can take the form of one statement, or it can be separated into a profit and loss statement and a statement of other income, including property and equipment.
- Statement of Changes in Equity: Also known as a statement of retained earnings, this documents the company's change in earnings or profit for the given financial period.
- Statement of Cash Flow: This report summarizes the company's financial transactions in the given period, separating cash flow into Operations, Investing, and Financing.

In addition to these basic reports, a company must also give a summary of its accounting policies. The full report is often seen side by side with the previous report, to show the changes in profit and loss. A

parent company must create separate account reports for each of its subsidiary companies.

Differences exist between IFRS and other countries' Generally Accepted Accounting Principles (GAAP) that affect the way a financial ratio is calculated. For example, IFRS is not as strict on defining revenue and allow companies to report revenue sooner, so consequently, a balance sheet under this system might show a higher stream of revenue than GAAP's. IFRS also has different requirements for expenses; for example, if a company is spending money on development or an investment for the future, it does not necessarily have to be reported as an expense (it can be capitalized).

Another difference between IFRS and GAAP is the specification of the way inventory is accounted for. There are two ways to keep track of this, first in first out (FIFO) and last in first out (LIFO). FIFO means that the most recent inventory is left unsold until older inventory is sold; LIFO means that the most recent inventory is the first to be sold. IFRS prohibits LIFO, while American standards and others allow participants to freely use either.

IFRS originated in the European Union, with the intention of making business affairs and accounts accessible across the continent. The idea quickly spread globally, as a common language allowed greater communication worldwide. Although only a portion of the world uses IFRS, participating countries are spread all over the world, rather than being confined to one geographic region. The United States has not yet adopted IFRS, as the GAAP is viewed as the "gold standard".

Currently, about 120 countries use IFRS in some way, and 90 of those require them to fully conform to IFRS regulations.

IFRS is maintained by the IFRS Foundation. The mission of the IFRS Foundation is to "bring transparency, accountability, and efficiency

to financial markets around the world." Not only does the IFRS Foundation supply and monitor these standards, but it also provides suggestions and advice to those who deviate from the practice guidelines.

The official IFRS website has more information on the rules and history of the IFRS.

The goal with IFRS is to make international comparisons as easy as possible. This is difficult because, to a large extent, each country has its own set of rules. For example, U.S. GAAP is different from Canadian GAAP. Synchronizing accounting standards across the globe is an ongoing process in the international accounting community. (IFRS, Issued standards)

Chapter 3- Methodology

This division reveals investigation methodology which embraces full information about data gathering, study method.

Research covers assistive and essential information. Optional data are specific that they are gathered by different specialists or diverse data sources, including research works, online resources such as books

and journals and so on. Essential information is collected by the directly scientist. There are assorted procedures for information gathering: observation, survey, and interview. My examination is in light of assistant information. I have gathered the information from various sources. Statistics are mainly gained from OECD, UNCTAD, World Bank, different scholar works and economic books and publications.

Now I want to provide methodologies that have been utilized as a piece of my proposition.

1. Research investigation technique is involved identified with the journals, topic articles, reports, working papers, lists of sources (books), individual sites (pages) and weblogs containing basic information about looked into themes. The graphs and statistics used in research have been taken from unique government bodies, reports of global association and organizations, for example, World Bank, UNCTAD, OECD

2. As an exploration strategy, contextual analysis procedure is settled in the Social Sciences. This approach may illuminate hone by representing what has functioned admirably, what has been accomplished and what have been the issues or problems. It is a sort of research request that analyzes a genuine contemporary wonder. I have used this method to illustrate Chinese model which can give a great deal of data regarding transnationalization strategies and, at the end can demonstrate the good impact of this procedure comprehensively.

Chapter 4 – Findings and Discussions

4.1 WorldCom scandal

Summary

On June 25, 2002, WorldCom, the Country's second biggest long-distance telecommunications organization, reported that it had exaggerated profit in 2001 and the first quarter of 2002 by more than

$3.8 billion. The declaration shocked financial experts and, going ahead best of accounting issues at different enterprises, noticeably affected the financial markets. The accounting manoeuvre in charge of the exaggeration – grouping installments for utilizing other organizations' correspondences arranges as capital expenditure – was described by the press as shameful, and it was promptly inquired as to why Arthur Andersen, the organization's outside auditor at the time, had not distinguished it. WorldCom petitioned for bankruptcy protection on July 21st. On August 8th, the organization declared that it had likewise controlled its savings accounts as of late, influencing an extra $3.8 billion. Reaction in Washington was quick. On June 26th, the U.S. Securities and Exchange Commission (SEC) accused the organization of huge accounting misrepresentation and immediately acquired court arrange banning the organization from decimating financial records, constraining its installments to past and current administrators, and requiring an autonomous monitor. Hearings were held by the House Committee on Financial Services on July 8th and by the Senate Committee on Commerce, Science, and Transportation on July 30th. A few organization officials have been prosecuted. The crucial economic issue going up against WorldCom is the huge oversupply in the Country's telecommunications capacity, a result of excessively hopeful projections of Web development. WorldCom and different telecommunications firms confronted lessened request as the dot-com boom finished and the economy entered subsidence. Their incomes have missed the mark regarding desires, while the debt they went up against to fund development stays high. As stock market estimation of these organizations has dived, the corporate management has had an effective motivating force to take part in accounting hones that cover terrible news.

Foundation.

WorldCom Inc. started as a little Mississippi supplier of long distance telephone service. During the 1990s, the firm made a progression of acquisitions of different telecommunications firms that boosted its announced incomes from $154 million in 1990 to $39.2 billion in 2001, putting it 42nd among Fortune 500 companies. Critical acquisitions incorporated the 1998 takeover of MCI, which made it the second biggest U.S. long distance carrier, and the acquisitions of UUNet, CompuServe, and America Online's data network, which put WorldCom among the main operators of Web infrastructure. The major financial issue standing up to WorldCom is the huge oversupply in telecommunications capacity that developed in the 1990s, as the business raced to construct fiber optic systems and other foundation in view of excessively idealistic projections of Internet development. WorldCom and different broadcast communications firms have confronted lessened request as the dot-com boom finished and the economy entered subsidence. Their incomes have missed the mark regarding desires, while debt has gone up against to back mergers and framework speculation remains. WorldCom isn't the main telecommunications firm stuck in an unfortunate situation. The challenges of Qwest Communications, Global Crossing, Adelphia, Lucent Technologies, and Enron (which had significant interests in web wanders) have been broadly reported. As in these different firms, financial specialists in WorldCom have endured real misfortunes: the market estimation of the organization's regular stock dove from about $150 billion in January 2000 to under $150 million starting at July 1, 2002. Contingent upon the result of the bankruptcy procedures, the stock may soon be useless. The idea to avoid or postpone stock market losses of this magnitude

encouraged management to get involved in accounting procedures that conceal awful news.

The Accounting Manoeuvre.

In its June 25th proclamation, WorldCom conceded that the organization had characterized over $3.8 billion in installments for line costs as capital consumptions instead of current costs. Line costs are what WorldCom pays different organizations for utilizing their interchanges systems; they comprise chiefly of access expenses and transport charges for messages for WorldCom clients. Supposedly, $3.055 billion was misclassified in 2001 and $797 million in the principal quarter of 2002. As per the organization, another $14.7 billion of every 2001 line costs was dealt with as a current expense.2 By exchanging some portion of a present cost to a capital record, WorldCom expanded the two its net salary (since costs were downplayed) and its advantages (since promoted costs are dealt with as a venture). Had it not been distinguished, the move would have brought about lower net salary in ensuing years as the promoted resource was devalued (deterioration is a cost that decreases net wage). Basically, promoting line expenses would have empowered the organization to spread its present costs into the future, maybe for a long time or much more. WorldCom's accounting had been addressed before its June 25 affirmation. In March 2002, the SEC asked for information from the firm about a scope of financial detailing subjects, including (1) debated bills and deals commissions, (2) a 2000 charge against income identified with discount clients, (3) accounting strategies for mergers, (4) advances to the Chief, (5) coordination of WorldCom's PC frameworks with those of MCI, and (6) WorldCom's following of Wall Street investigators' profit desires. On July 1, 2002, WorldCom reported that it was likewise examining conceivable abnormalities in its hold accounts. Organizations set up

these records to give a pad to unsurprising occasions, for example, future expense liabilities, however, they shouldn't control them to change detailed income. On August eighth, WorldCom conceded that it had disgracefully utilized its stores as of late. The prosecutions issued August 28th charged that savings accounts were lessened with a specific end goal to give credits against line costs.

Examining Inquiries.

As indicated by starting records, the treatment of line costs as capital expenditure were found by WorldCom's internal auditor, Cynthia Cooper, in May 2002. The auditor talked about the misclassification with the CFO at the time, Scott D. Sullivan, and the organization's controller at the time, David F. Myers. Ms. Cooper detailed the issue to the leader of the review panel of WorldCom's top managerial staff, Max Bobbitt, approximately June twelfth, who thus asked the organization's present outside evaluator, KPMG, to examine. (WorldCom had supplanted Arthur Andersen, which had filled in as its outside inspector since 1989, with KPMG on May 16, 2002.) The CFO, Scott D. Sullivan, was requested to legitimize the treatment and, after further discourses, he was rejected on the day WorldCom made its open declaration, June 25th. Mr. Myers surrendered that day also. Supposedly, Mr. Sullivan had not counseled with Arthur Andersen about arranging some line costs as capital expenditure, and Andersen has kept up it was not told of them. On July fifteenth, notwithstanding, Illustrative Tauzin, Chairman of the House Energy and Commerce Committee, said that inward WorldCom reports and email messages showed that the Organization's administrators knew as ahead of schedule as the mid-year of 2000 that the accounting treatment was uncalled for. Internal auditors are an early line of protection against accounting blunders (e.g., mixed up groupings with no aim to betray) and accounting extortion (e.g., intentionally false

orders with the aim to bamboozle). One inquiry with respect to WorldCom is the reason it took over a year for the organization's inward inspectors to find the misclassification; seemingly, considering the measure of expenses being promoted (generally, $750 million each quarter) and the effect on net pay and resources, this may have been gotten before. Harder inquiries may be asked of Arthur Andersen. To a few eyewitnesses, the way that Andersen was not told that line costs were being promoted is unessential; they contend that Andersen ought to have composed its review to identify misclassifications of this extent. A few onlookers additionally take note of that Andersen ought to have considered the inexorably unstable financial state of WorldCom and gave careful consideration to the likelihood of forceful accounting rehearses.

A few Outcomes.

Preceding the June 25th declaration about accounting issues, WorldCom stock had tumbled from a high of $64.50 an offer in mid-1999 to under $2 an offer. The value fell beneath $1 an offer promptly after the declaration and afterward to pennies an offer upon news that there may be further accounting anomalies. While much and maybe the greater part of this decay may be credited to the association's changing monetary prospects, the accounting manoeuvre portrayed above is probably going to have harmed speculators who kept on holding the offers or even purchased more in suspicion of a bounce back. WorldCom workers who hold the organization's stock in their retirement designs have additionally endured misfortunes. Toward the finish of 2000, around 32%, or $642.3 million, of WorldCom retirement stores were in organization stock; those ventures have tumbled to under 4%, or under $18.7 million, of the assets. WorldCom does not expect workers to possess organization stock in their retirement designs, and they are

allowed to offer the offers they do have. WorldCom petitioned for Chapter 11 bankruptcy protection on July 21st. (The objective of a Chapter 11 bankruptcy is to keep the firm in business under a court-directed recovery design.) While the organization announced $103.8 billion in resources as of the finish of March 2002, it additionally has $41 billion paying off debtors on which it must make installments. The WorldCom bankruptcy is the biggest in U.S. history; in the examination, Enron recorded resources of $63.4 billion when it petitioned for liquidation in December 2001. One factor influencing WorldCom's future is whether its clients change to different broadcast communications transporters. On July first, the Shrubbery Organization declared that it was thinking about precluding WorldCom from encourage national government contracts. (The Federal Aviation Administration has rejected WorldCom's offered to modernize its correspondences frameworks.) How insolvency would influence administration to clients holding WorldCom contracts is an issue the Elected Interchanges Commission is checking. Quickly after the June 25th declaration, WorldCom expressed that it would cut 17,000 of its 85,000 workers. The degree to which these rejections would have happened without the association's accounting issues isn't clear. (Wearing, 2005)

4.2 Enron Scandal

Review of Enron's Ascent and Fall

All through the late 1990s, Enron was generally viewed as one of the nation's most inventive organizations - another economy dissident that spurned smelly, old enterprises with their bulky hard resources for the freewheeling universe of online business. The organization kept on building power plants and work gas lines, yet it turned out to be better known for its remarkable exchanging organizations. Other than

purchasing and offering gas and power fates, it made entire new markets for such crackpot "products" as communicating time for sponsors, climate prospects, and Web data transfer capacity. Enron was established in 1985, and as one of the world's driving power, petroleum gas, interchanges and mash and paper organizations before it bankrupted in late 2001, its yearly incomes ascended from about $9 billion out of 1995 to over $100 billion of every 2000. Toward the finish of 2001, it was uncovered that its detailed money related condition was maintained considerably by systematized, precise, and inventively arranged accounting extortion. As per Thomas (2002), the drop of Enron's stock cost from $90 per share in mid-2000 to under $1 per share toward the finish of 2001, made investors lose about $11 billion. Also, Enron reconsidered its money related proclamation for the past five years and found that there was $586million in misfortunes. Enron tumble to bankruptcy on December 2, 2001. One of the lessons of the Web blast is that it's frequently troublesome for examiners to comprehend and assess new sorts of organizations. What's more, officials like Mr. Skilling, who once swore at an examiner amid a phone call for making a pointed inquiry about Enron's monetary record, don't do much to encourage the sort of open request that could prompt better data. In any case, the Enron disaster is additionally meaningful of another issue that has turned into very obvious over the most recent couple of years: Wall Street's loss of objectivity. Venture banks profit from endorsing or merger bargains than they do from intermediary expenses. Experts at these organizations frequently confront clashing loyalties. They can be placed in the situation of worrying as much about whether a CEO may discover a report hostile to whether a financial specialist may think that it is accommodating.

The Reasons for Enron's bankruptcy

1. **Honesty**

The absence of honesty by the administration about the soundness of the organization, as indicated by Kirk Hanson, the official executive of the Markkula Community for Connected Morals. The senior officials trusted Enron must be the best at all that it did and that they needed to ensure their notorieties and their pay as the best administrators in the U.S. The obligation that is owed is one of good confidence and full divulgence. There is no proof that when Enron's President told the representatives that the stock would most likely ascent that he likewise unveiled that he was offering stock. Besides, the workers would not have scholarly of the stock deal inside days or weeks, as is conventionally the case. Just the examination encompassing Enron's bankruptcy empowered investors to learn of the President stock auction before February 14, 2002, which is the point at which the auction would some way or another have been revealed. Why the deferral? The stock was sold to the organization to reimburse cash that the Chief owed Enron—and the offer of organization stock qualifies as a special case under the customary executive and officer divulgence necessity. It doesn't need to be accounted for until 45 days after the finish of the organization's monetary year. (The Conference Board, Inc., 845)

2. Interest

It has been proposed that irreconcilable circumstances and an absence of autonomous oversight of administration by Enron's board added to the company's crumple. Additionally, some have proposed that Enron's pay approaches incited a nearsighted spotlight on income development and stock cost. Moreover, late administrative changes have concentrated on upgrading the representing SPEs and fortifying interior accounting and control frameworks. We survey these issues, starting with Enron's board. (Gillan SL, Martin JD, 2007) The irreconcilable

situation between the two parts played by Arthur Andersen, as inspector yet in addition as an advisor to Enron. While examinations proceed with, Enron has tried to rescue its business by turning off different resources. It has petitioned for Chapter 11 bankruptcy, enabling it to rearrange while shielded from banks. Previous CEO and administrator Kenneth Lay has surrendered, and rebuilding master Stephen Cooper has been gotten as between time CEO. Enron's center business, the energy exchanging arm, has been tied up in an unpredictable manage UBS Warburg. The bank has not paid for the exchanging unit, but rather will impart a portion of the benefits to Enron.

3. Enron and the reputation of Arthur Andersen

The disclosure of accounting inconsistencies at Enron in the second from last quarter of 2001 made controllers and the media concentrate on Andersen. The size of the affirmed accounting mistakes joined with Andersen's part as Enron's evaluator and the far-reaching media consideration, give an apparently capable setting to investigate the effect of reviewer notoriety on customer showcase costs around a review disappointment. CP examines the offer value response of Andersen's customers to different data occasions that could lead financial specialists to modify their convictions in regards to Andersen's notoriety.(Nelson KK, Value RA, Rountree BR, 2008) Maybe most harming to Andersen's notoriety was their affirmation on January 10, 2002, that representatives of the firm had crushed archives and correspondence identified with the Enron engagement. For an example of S&P 1500 firms, CP reports that in the 3-day window following the destroying declaration (0, +2), Andersen customers encountered a noteworthy −2.03% advertise response, and this response was altogether more negative than for Huge 4 customers. Andersen's Houston office customers, where Enron was headquartered, encountered a much more grounded negative market

response than Andersen's non-Houston clients.2 Generally, CP finishes up the destroying declaration significantly affected the apparent nature of Andersen's reviews, and that the subsequent loss of notoriety negatively affected the market estimations of the company's different customers. In this investigation, we report new discoveries that shed light on whether this occasion ponders confirm is steady with an examiner notoriety impact. In this manner, we don't propose that examiner notoriety does not make a difference. As talked about above, there is plentiful proof that notoriety is vital to reviewers and their customers. Or maybe, our motivation is to decide if customer returns around Andersen's destroying declaration and related occasions can be considered proof of a notoriety impact, or whether the outcomes are jumbled by different impacts.

4. Mark to market

As a public organization, Enron was liable to outer wellsprings of administration including market weights, oversight by government controllers, and oversight by private elements including evaluators, value investigators, and FICO assessment offices. In this area, we recap the key outside administration instruments, with accentuation on the part of outer reviewers. This strategy requires that once a long haul contract was marked, the measure of which the benefit hypothetically will offer on the future market is accounted for on the current monetary proclamation. So as to continue pacifying the financial specialists to make a steady benefitting circumstance in the organization, Enron brokers were constrained to gauge high future money streams and low rebate rate on the long haul contract with Enron. The distinction between the figured net present esteem and the initially paid esteem was viewed as the benefit of Enron. Actually, the net present esteem detailed by Enron won't occur amid the future years of the long haul contract. It is almost

certain that the projection of the long haul wage is excessively hopeful and swelled.

5. SPE—Special Purpose Entities

Accounting principle enable an organization to prohibit an SPE from its own particular budgetary articulations if an autonomous gathering has control of the SPE and if this free gathering claims no less than 3 percent of the SPE. Enron needs to figure out how to conceal the obligation since high obligation levels would bring down the speculation review and trigger banks to review cash. Utilizing the Enron's stock as a guarantee, the SPE, which was going by the CFO, Fastow, obtained extensive wholes of cash. Furthermore, this cash was utilized to adjust Enron's exaggerated contracts. Accordingly, the SPE empower the Enron to change over advances and resources loaded with obligation commitments into pay. What's more, the assuming control by the SPE made Enron exchanged more stock to SPE. Notwithstanding, the obligation and resources bought by the SPE, which was really troubled with a huge measure of obligations, were not given an account of Enron's money related report. The investors were then deceived that obligation was not expanding and the income was notwithstanding expanding.

Prisoner's dilemma shown in Enron's case

At the season of the company's crumple, Enron was occupied with an extensive variety of exercises including energy generation and the exchanging of energy-related wares and subsidiaries. Accordingly, a large number of its exercises were possibly subject to oversight by the Commodities and Futures Trading Commission (CFTC) or the Federal Energy Regulatory Commission (FERC). The CFTC's essential mission is to guarantee that the item prospects and choices markets work in an open and aggressive way, while the FERC controls the interstate

transmission and market for energy items. Obviously, the essential wellspring of government oversight for traded on an open market firm is the Securities and Trade Commission (SEC). We talk about each of these thusly. In the zero-total diversion, each gathering is attempting to secure more picks up for themselves regardless of whether the best result is participating with each other. Clearly, to seek after most extreme benefits, wrongdoings like accounting extortion will hurt the investors' advantages. Arthur Andersen, as examiner yet additionally as the advisor to Enron, must be in charge of the two chiefs and investors since the provided accounting data has a direct impact on economic advantages of both parties. Clearly, the chiefs and Arthur Andersen chose betraying the investors to get maximum level of self-interest. (Wearing, 2005)

Chapter 5 – Conclusion and Recommendations

To sum up, with the help of this research and sources which were used we may state that ethical behavior in accounting and finance has crucial importance in wellbeing and endurance of any organization or business.

When we talk about ethics in accounting and financial framework it is for the most part known as applied ethics, which emphatically stresses human and business morals, moral esteems, decisions and their utilization in accounting and finance. As a rule, the major moral drivers of accounting and finance are a fitting practice and a decent standard of professionalism. Ethical behaviour not only prevents legitimate fines but also brings numerous benefits with itself, for instance, customer and investor reliability, reputation, competitive edge and etc. In order to behave ethically, all companies must take care of three principal concepts: trust, responsibility, and control.

On the other hand ethics of accounting and finance have some legal aspects: Sarbanes-Oxley Act and International Financial Reporting Standards. Both of them are accepted and being applied in business transactions worldwide.

We may also add some recommendations for future in order to maintain an ethical workplace of accounting and finance:

Firstly, ethical policies must be enforced in any kind of workplace. Because if there is an unethical behavior, there must be some consequences. If a manager is cheating or lying to customer and you tolerate it, at the same time you are teaching other employees to be unethical, according to Josephson.

It is also important to outline possible punishments for unethical conduct, but it should be used as the last choice. Because employees respond better to positive fortification. That is why establishment of reward system in order to promote ethical behavior is vital as well.

Another facility companies should apply is setting up privacy for whistleblowers. If employees fear revenge from others, it would be very difficult to bring important matters to attention by them.

Ethical behavior is highly valued by every organization and individual today. In my opinion, applying these methods would asses creating ethics within the organization.

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