

THE IMPORTANCE OF ETHICS IN ACCOUNTING AND AUDITING PROFESSIONS IN SERBIA

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Abstracts: In recent times, the concept of business ethics has been getting increasing importance in modern market economies as the result of the large number of detected unethical business activities. Accounting and auditing are the professions of extremely high ethical sensitivity. In order to be able to produce reliable, high-quality financial statements and to maintain both their professional and personal integrity, accountants and auditors have to resist the pressure put upon them by the market and by their clients. Ethical and professional conduct of accountants and auditors is significant for estimating their credibility and quality of their work. The subject of this paper is the need for constant improvement of competences and skills which accountants and auditors must have in order to satisfy increasingly challenging requirements of modern environment. With reference to that, the paper presents the concept of professional ethics, accounting and auditing professions as well as the Code of Ethics in Accounting and Auditing Professions.

Keywords: professional ethics, accountancy profession, auditing profession, code of ethics

1. Introduction

Ethical conduct is very important in many professions. In accounting and auditing professions, application of ethical standards is an imperative, first and foremost because clients' confidence in financial statements. Accountants need to provide accurate and reliable information on clients' businesses, so consequently they need to comply with ethical standards in their work. Certified accountants are obliged to pay attention to accuracy, reliability and confidentiality of acquired information as it represents basis for corporate decision making. Unethical presentation of information about audited entity's profit, assets and financial status may result from errors in bookkeeping, but also from incorrect financial statements. Consequences of inaccurate information contained in low-quality financial statements may be extremely unpleasant, which is why accountants are expected to conduct their engagement with the utmost professional and ethical standards and with public interest in mind. Auditing first appeared in the private sector and was related to concern about fraud resulting from theft and misappropriation of property. Auditing is significant as it plays major role in exposing frauds, errors and irregu-

larities in financial reporting. (Mitrovic, Knezevic, Milasinovic, 2022, p.73) Auditor's primary objective is to express an independent and professional opinion as whether financial statements of the audited entity have been made in compliance with international accounting standards and valid legal regulations. Unreliable financial statements could harm all interested parties. In view of that, professional associations have developed a set of ethical rules as protection for auditing profession and as assurance that auditors perform their job with high ethical awareness.

2. Business ethics and contemporary business environment

Ethics can be defined as a set of moral principles, rules of conduct and values. Ethics has a broad social significance considering it is one of the anchors of the modern society (Šabić, Tufegdžija, 2019; Dašić, Milojević, Pavićević, 2020). Any organized society must be founded on ethical behaviour of its members. The need for ethical conduct is so fundamental that there is an ongoing tendency to include ethics into legal regulations (Dašić, Jeličić, 2016). In time of globalization and enhanced technological

development, but also more prominent ecological and economic crisis, intensification of the role and significance of business ethics is particularly important. The results of latest research in this area show that ethical issues affect not only public and private businesses, but also the media and a non-profit sector. Ethics is not only important in businesses, but in daily life as well. Without ethical conduct, businesses are doomed to fail sooner or later. They must run in compliance with moral criteria and be focussed on accomplishment of permanent, stable and significant results, without prioritizing profit. However, there are many examples worldwide where the lack of ethics in business operations leads to severe consequences for businesses but also for the society, as businesses lose their credibility and society suffers economic damage. Business ethics is constantly facing new challenges. It is a rather new academic discipline that was introduced in the last few decades. However business ethics cannot be fully comprehended without knowing its essence. Ethics is a set of moral guidelines that are assuming great importance in modern business environment. Moral is defined as a set of norms, rules and practices that guide people's choices and behaviour. Ethics is the analysis of the substance that

makes people's behaviour good or bad, right or wrong. It encompasses evaluation of rightness or wrongness of a decision or event, taking certain values as standard for such claims. (Mautz, 1991, p.53) The essence of ethics are values that describe desirable states and behaviours. Values can be described as guidelines for desirable conduct, but also as criteria for valuing someone's behaviour as ethical or unethical. It is important to note that in addition to universal values, acceptable in any society and culture, there are also values specific for a particular society or a group. Such society-specific values, together with education and socialization, represent a foundation for shaping individual values of each person in that society. In conditions of globalization, it is necessary to incorporate ethical behaviour into values that are shared and acceptable by all societies, allowing for society-specific values and customs (Dašić, et al., 2021). Concept of values can be static or dynamic, which implies that beside stable, permanent values there are also those that are easily changed. There is also the issue of ethical dilemma that individuals or groups of individuals face in a society. Ethical dilemma is the situation in which individuals must decide which behaviour is acceptable, i.e. they must choose between different actions,

whereat the correct choice is not absolutely clear, and will affect other people's wellbeing. Same applies to the concept of ethics in accounting and auditing in financial reporting domain. Ethical principles of financial reporting are based on choosing the main positive human traits and professional knowledge, on applying that knowledge in objective reasoning and conclusion-making, on proven integrity and professional conduct.

In some professions, including accounting and auditing, general theory of ethics is used as foundation for ethical conduct, choices, justification and qualities. Values related to responsibility to public, complex knowledge, professional requirements and public trust are shared by these professions. Basic structure of ethical conduct implies responsibility for fulfilling personal needs and obligations in line with professional choice, but also responsibility for complying with legal requirements and society regulations imposed by external factors. (Todorović, 2018, p. 62)

Alignment of professional conduct of individuals, their moral values and legal regulations, is a necessity that allows for public confidence in quality of their professional services, so that their clients can be worry-free. Users of financial statements must trust the work of accountant and

auditors. (Mitrovic, Knezevic, Milasinovic, 2022, p.73).

The Code is not a simple manual of pragmatic techniques for professional conduct, but the list of theoretical and practical instructions for anyone trying to do business properly, successfully and professionally, allowing for the need for extensive knowledge and education but also for moral integrity and creativity as highly significant factors. The Code is merely a benchmark, an indicator as how to steer activities with satisfying some basic realistic norms. The Code contains norms that regulate professions, i.e. accounting and auditing professions in this actual case, as well as accountants' and auditors' conduct, both public and private, their knowledge of rules of profession and their professional ethical norms. In that way the Code governs the practice only. It is, in fact, an axiological sphere, a broad scale of values presented as codes. Some of the values set by the code include knowledge, education, success, ability, common sense, clarity, prudence, experience, skilfulness, integrity, truthfulness, justness, diligence, honesty, confidentiality, patience, endurance, caution etc.

3. Ethics and accounting

Ethics can be defined as a set of moral principles compulsory for some professions. (Milojevic, 2007, p. 44) It particularly applies to doctors, lawyers, accountants and auditors. Ethics for accountants can be defined as a set of generally accepted moral norms based on ethical values and needed for making financial statements and presenting financial information related to a particular institution or a company. Crucial objective of accounting is to monitor, examine and record the financial changes in organization's operating and, based on that, to prepare and make financial statements for internal and external users that would serve as basis for business decision-making. (Skandro, 2020, p. 195) From the aspect of ethics, accounting is among the most demanding professions. It could not exist without the ethics. (Stojanovic, 2010) Consequently, it is very important for decision makers to be able to rely on realistic and fair reporting. In any company, accountants are the ones that are most often required to provide information that financial managers need for making decisions on company's liquidity and also to provide advisory information concerning taxes. (Accounting Professional and Ethical Standards Board, 2017)

In line with the aforesaid, transparency is an imperative for the accountants, because the information on company's operating is of interest for a broad group of stakeholders. With the aim of providing transparency and comparability of financial reports, companies have the obligation to comply with legal regulations that control the application of International Accounting Standards and International Financial Reporting Standards. (Skandro, 2020, p. 196)

Ethics is an important element of the accounting profession. Worldwide codes that accountants must comply with are the AICPA Code of Professional Conduct in the USA and Code of Ethics for Professional Accountants of the International Federation of Accountants (IFAC). In Serbia, the Code of Ethics for Professional Accountants *applies*. "A distinguishing quality of accountancy profession is the responsibility to act in the public interest". (Milutinovic, Karapavlovic, 2019, p. 63)

International Federation of Accountants (IFAC) acts in the public interest by contributing to the development of strong and sustainable organizations, markets and economies. It stands for transparency, accountability, and comparability of financial reporting, supports the improvement of accounting profession

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and proclaims the significance and relevance of accountants for the global financial infrastructure. It was founded in 1977 and comprises over 175 members and associate organizations in over 130 countries and jurisdictions, so it represents approximately three million accountants in public practice, education sector, civil services, economy and trade. (Todorovic, 2018, p. 79)

The International Ethics Standards Board for Accountants (IESBA) adopted the Code of Ethics for Professional Accountants. Organizations of professional accountants, members of IFAC, translated the Code into their native languages and those translations were published. (<https://www.iaasb.org/>, accessed on 10.04.2024) Professional accountants are people who perform accounting, auditing, consulting, taxation and similar activities for companies and other organizations. The table shows the standards of ethics according to IESBA and AICPA Codes, respectively. (Skandro, 2020, p. 196)

Table 1. Presentation of standards of ethics according to IESBA and AICPA Codes

Classification of standards according to IESBA Code of Ethics	Classification of standards according to AICPA Code of Ethics
1. Integrity	1. Responsibility
2. Professional competence and due care	2. Public interest
3. Confidentiality	3. Integrity
4. Professional conduct	4. Objectivity and independence
	5. Due care
	6. Scope and nature of services

Source: Ramljak, B., Rogosic, A., Perica, I., Ethical Behaviour of Professional Accountants, *Oeconomica Jadertina*, 2/2016 p. 49-64

In order to be applicable to financial reporting, professional principles of ethics need to be based on the selection of superior moral qualities, relevant professional knowledge, use of knowledge in objective reasoning and proven credibility. (American Institute of Certified Public Accountants, 2018) In providing professional services, professional accountants need to abide by main ethical principles and valid professional standards, while potential violations and disrespect of ethical norms should be handled by disciplinary body. It is ine-

vitabile that the specifics of accounting and auditing services require that professional ethical principles pertaining to professional accountants in general are distinguished from those pertaining to professional accountants in public practice. With reference to that, the IFAC Code of Ethics can be classified into: (Adapted from: Stojanovic, 2015, p. 55)

- Part A – applies to general application of the code,
- Part B – applies to professional accountants in public practice, or auditors and
- Part C – applies to professional accountants in business.

4. Ethics and auditing

The second part of IFAC guidelines applies only to accountants in public practice - auditors. A professional accountant in public practice is any partner or a person occupying a position similar to that of a partner, any staff member providing professional services to a client, regardless of functional classification (e.g. auditing, taxation service and other consulting) as well as a professional accountant with managerial responsibility. (Accounting Professional and Ethical Standards Board, 2017) Ethical guidelines for professional accountants in public practice include the follo-

wing areas: independence; responsibilities to clients such as remunerations, commissions and payments relating to a client; responsibility to colleagues, such as relations with other professionals, marketing and activities incompatible with practice. (<https://www.iaasb.org/> accessed on 11.04.2024) Independence is the most important ethical principle for an accountant in public practice, so before analysing IFAC principles of independence, it would be useful to consider the term independence in international context.

Basic principles required for accomplishing ethical objectives are integrity, objectivity, professional competence and due care, confidentiality, professional conduct and technical standards. (The International Accounting Education Standards Board, 2020) The IFAC Code of Ethics does not provide additional guidelines on integrity principle, but explains in more detail objectivity, professional competence and due care, confidentiality and professional conduct (taxation services and publicity). It also provides guidance on how to resolve ethical conflicts and how to conduct cross-border activities. The first part of the IFAC Code of Ethics for Professional Accountants provides guidelines for independence, responsibility to clients such as remuneration for profe-

ssional services, commissions and payments relating to a client, and responsibility towards colleagues such as relations with other professionals, marketing and activities incompatible with practice. Independence in audit implies having unbiased opinion when performing auditing tests, results analysis and giving assurance that the financial statements in audit report are correct, credible and made in compliance with generally accepted accounting standards and regulations. Since the main result of attestation is to confirm credibility of financial information in the form of audit report, not only must the accountants maintain independence in performing their duties and responsibilities, but also the users of financial reports must have confidence in that independence. Those two objectives are typically known as “independence of mind” and “independence in appearance”. Independence of mind implies the state of mind that permits the accountant to maintain unbiased and objective attitude throughout accounting process, while independence in appearance presents the result of interpretation of that independence by the third party. In order to provide services to the client, a professional accountant must be able to act independently and objectively and must possess necessary technical skills re-

quired by the profession. Concerning responsibility to the clients by the professional accountants in business, IFAC guidelines deal with issues of remuneration for performed professional services, commission and payments relating to the client. Guideline that refers to responsibility of professional accountants in business to their colleagues includes relationships with other professional accountants, marketing and other activities incompatible with practice. (<https://www.iaasb.org/publications/2022-handbook-international-quality-management-auditing-review-other-assurance-and-related-services>, accessed on 12.04.2024)

Independence – When auditors accept audit engagement in which they shall submit a report, they must have independence of mind. That independence results from their conduct. Independence is considered as threatened: (Code of Ethics for Professional Accountants, 2016, 47)

- When auditor has or accepts the right to hold a direct material and financial interest in an audit client,
- When auditor was a partner in business, a Board member or employed by the audit client,
- When auditor provides other services to the audit client, managerial activities in particular,

- When an independent approach to engagement is threatened by personal or family relationships,
- When the audit firm income received from any one client makes a large proportion of the total income of that audit firm,
- If auditor accepts goods and services from the client,
- In case of ongoing or potential lawsuit between the audit firm and audit client,
- In case of long-term relationship of audit firm staff with the audit client.

Professional caution – Auditors should refrain from accepting engagements that require professional services that they are not qualified for, except when they can obtain competent advice and assistance and thus perform the services in a satisfactory manner.

Remunerations and provisions – Auditors providing professional services to the clients assume responsibility to perform those services fairly and objectively in compliance with the relevant standards. Auditors are entitled to remuneration for the services performed.

Activities incompatible with public accounting practice – Auditors must not be simultaneously engaged in any other work or activities that threaten their integrity, objectivity and

independence or professional reputation. Such activities are therefore deemed incompatible with professional services.

Custody of client's assets – In some countries the law does not allow auditors to have custody of client's assets. In countries where that is allowed, auditors must adhere to relevant legal regulation. Auditor entrusted with client's assets should: (Code of Ethics for Professional Accountants, 2016, p.188)

- Keep those assets separately from personal or firm assets,
- Use such assets only for their intended purpose,
- Be ready at all times to account for those assets to any persons entitled to such accounting.

Relationship with other professional accounting experts in public practice – acceptance of new engagements – auditor replacement. The first case results from constant expansion of the assortment of services provided by auditors, so knowledge needed for providing services to the clients often requires engagement of a specialist. A client or the existing auditor might ask for the services or knowledge of other auditor who has special knowledge. The engaged new auditor should limit his or her services to the actual tasks received by the existing auditor or a client, unless otherwise

requested by the client. The second case occurs when the client requires a replacement of the existing auditor. Auditor asked to replace the existing auditor must determine whether there are any reasons to reject the engagement, which cannot be effectively done without direct communication with the existing auditor.

Marketing and approach to potential clients - Marketing and approach to potential clients should be defined by a professional organisation that is a member of IFAC, in dependence on legal, social and economic conditions in each country, respectively. Marketing and approach to potential clients have the purpose of offering information to the public in an objective, decent, honest, truthful and tasteful manner.

5. Implementation of ethics in audit firms in the Republic of Serbia

In the Republic of Serbia, the Law on Auditing (Official Gazette of the Republic of Serbia no. 73/2019) has been in force since 01.01.2020. This Law set the foundations for implementation of professional ethics for licenced certified auditors and audit firms, as well as for making a Transparency report. As defined by the law, audit firms are obliged to act in

compliance with the principles of professional ethics which, as a minimum, include their role of public interest, their integrity and objectivity, professional expertise and due care. According to the article 28 of this law "Audit firms and licensed certified auditors should ensure that, when conducting a statutory audit, they maintain professional scepticism during the audit, considering the possibilities of material misstatement of items due to the facts or behaviour that indicate irregularities, including fraud or error, regardless of the previous experience of a licensed certified auditor or audit firm concerning honesty and integrity of the auditee's management and persons in charge of auditee". (Law on Auditing (Official Gazette of the Republic of Serbia no.73/2019, article 28).

Additionally, in compliance with the Law on Accounting, article 53, a National Commission of Accounting was established and one of its responsibilities is to monitor the implementation of IFRS and IFRS for SMEs and to propose solutions for potential problems that might arise during implementation of those standards. (Law on Accounting, Official Gazette of the Republic of Serbia no.73/2019 and 44/2021)

Pursuant to data published on the website of Chamber of Authorized Auditors, on the territory of the Republic of Serbia auditing is performed by 75 audit firms and certified licensed auditors. (<https://www.kor.rs/Registri.asp>, accessed on 09.04.2024) Transparency Reports for 2022 were submitted by 17 of them. Using random sampling method, we have selected 3 audit firms that will be presented in further text:

Deloitte d.o.o.

According to the Code of Conduct, all employees of Deloitte are expected to act in compliance with high ethical standards and integrity. This Code describes and explains each individual's responsibility to the clients, colleagues and society as a whole, as well as respect for and commitment to ethical standards. In addition to the Code of Conduct, important element of the ethical program of Deloitte Serbia is education and communication program, together with established reporting channels supported by defined incident management protocols. Procedures are such that they provide reasonable assurance that the employees comply with relevant ethical requirements. (Deloitte Serbia Final Audit Transparency Report_2022_without Appendix D_Signed_SRB.pdf, p.23)

In Deloitte Serbia, ethics is managed by the Ethics Manager. Ethical requirements for audit and related assurance services provided by Deloitte Serbia are in line with the requirement of the Law on Audit of the Republic of Serbia and other regulations that define auditing.

Deloitte Serbia acts in compliance with its policies and procedures that are aligned with the requirements and guidelines defined by the Code of Ethics for Professional Accountants issued by the International Ethics Standard Board for Accountants, a standard-setting body of the International Federation of Accountants (IFAC). In case that professional requirements of the Republic of Serbia are more restrictive than procedures and policies of Deloitte, Deloitte Serbia shall comply with valid national requirements. It is obvious that Deloitte works on reaffirming its commitment to ethics and integrity by using communication tools, education programs, processes for alignment with regulations and standards and evaluation system compulsory for all employees. Education programs comprise targeted contents for introducing new employees to the company values, promotion of managers, executives and refresher programs every two years. Training courses were organized on the following topics:

acknowledgement of one's own mistakes, management of personal relationships at work, manifestation of respect, integrity and professionalism in social media etc. Deloitte Serbia controls ethical conduct of senior managers and requires its partners, other professionals and the entire staff to confirm, on annual basis, that they have read and understood the Code of Conduct of Deloitte Serbia, and that they understand that they are responsible for full compliance with the Code. Deloitte's principles of business conduct define Deloitte's tendencies and expectations and have a strong foundation in ethical principles. Ethics Program includes following elements: (Deloitte Serbia Final Audit Transparency Report_2022_without Appendix D_Signed_SRB.pdf, p.24)

- Principles of business conduct,
- Ethics policies
- Reporting channels and incident management protocol,
- Program evaluation via annual ethics survey,
- Annual evaluation and regular business control program, and
- Education programs and communication concerning ethics.

KPMG d.o.o.

KPMG d.o.o. Belgrade has a partner for ethics and independence (Ethics and Independence Partner - EIP) whose primary responsibility is to direct and execute policies and procedures for ethics and independence in KPMG d.o.o. Belgrade. EIP is accountable for communicating and implementing policies and procedures of KPMG International, and also for supervising establishment and successful implementation of local policies and procedures in case they are more demanding than the requirements of KPMG International. EIP carries out its responsibility by: (<https://assets.kpmg.com/content/dam/kpmg/rs/pdf/2023/04/KPMG-Izvestaj-o-transparentnosti-2022.pdf>, p.18)

- Implementing/supervising control processes concerning the quality of ethics, independence and structure within company;
- Approving/appointing partners responsible for ethics and independence in the company;
- Supervising control processes that involve estimate of specific threats to independence concerning clients or potential clients;
- Participating in development and presentation of training material;

- Implementing measures for resolving the cases of non-compliance with the policy, and
- Supervising disciplinary procedure for ethics and independence.

Changes of KPMG International's policies regarding ethics and independence are a regular part of company's declarations on risk and quality of all KPMG companies. Member firms are obliged to implement changes in the manner described in declarations, and verification is done by internal control programs.

Partners and employees of KPMG d.o.o. Belgrade have the obligation to consult EIP on certain topics as defined in Global Quality and Risk Manual. Consultation of EIP Global Independence Group may also be required, depending on facts and circumstances.

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o. (PwC) complies with fundamental principles of the Code of Ethics for Professional Accountants (Code IESBA) of the International Ethics Standards Board for Accountants (IESBA), which comprise: (<https://www.pwc.rs/sr/about-us/assets/Izvestaj-o-transparentnosti-2022-PwC-Srbija.pdf> p. 20)

- Integrity – being straightforward and honest in all professional and business relationships,

- Objectivity – not allowing bias, conflict of interests or improper influence to impact professional or business judgement,
- Professional competence and due care – maintaining professional knowledge and skills on the desired level so as to assure that service provided to the client and the employer is competent, professional and based on up-to-date achievements in practice, legislation and techniques; also, working diligently in compliance with applicable professional standards,
- Confidentiality – complying with the principle of confidentiality of information acquired by professional and business relationships and, compliant to that, not disclosing any such information to third parties without a special and relevant approval unless there is legal or professional right or obligation to disclose it, and not using that information to personal advantage of professional accountant or third parties.
- Professional conduct – acting in compliance with relevant legislation and regulations and avoiding any activity that might discredit the profession.

Network standards cover a range of areas including ethics and professional conduct, independence, preven-

tion of money laundering, the right to market competitiveness, prevention of corruption, data protection, taxes of company and partners, sanctions laws, internal audit and trading based on privileged information. All employees are obliged to participate in annual compulsory trainings and to submit annual confirmations on independence as part of the system that supports correct understanding of ethical requirements. Partners and employees are committed to standards developed by PwC firm network, and management of firm PwC Serbia supervises compliance with those standards.

6. Conclusion

Ethical challenges exist in all domains of scientific research (Dašić, et al., 2023), and this paper is focused on accounting and auditing domain. Attitudes and opinions on ethical dimension of modern accounting and auditing profession pinpoint several issues: ethical expectations by the accounting information users and public, ethical environment in organization and ethical conduct of the accountant and auditor. Potential for violation of ethical standards is recognized in data processing phase in financial accounting and in the phase of using old records for the needs of

management. In order to reduce the possibility for occurrence of circumstances that would stimulate unethical conduct, organizations are developing internal control system, implementing internal audit and ethical values management system. Professional organizations have their codes of ethics, but they are not sufficient to assure accountant's and auditor's integrity protection. In accounting profession, the major focus is on ethical conduct of accountants and auditors, especially their personal integrity and objectivity. Good ethical setting in a business entity is not easily organized without applying the code of ethics, which is a necessary but not a sufficient prerequisite, because without high moral and ethical awareness of employees, without knowing ethical requirements and non-compliance sanctions and without supervision and control by professional bodies, it is impossible to have good ethical environment.

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VAŽNOST ETIKE ZA RAČUNOVODSTVENU I REVIZIJSKU PROFESIJU U SRBIJI

Sažetak: U poslednjim godinama u modernoj tržišnoj ekonomiji sve se više pažnje posvećuje pitanju poslovne etike, zbog pojave sve većeg broja otkrivenih neetičkih radnji u poslovanju. Računovodstvena i revizijska profesija predstavlja jedno od etički najosetljivijih poslovnih područja. Računovođe i revizori se moraju odupreti pritiscima sa tržišta, pritiscima klijenata koji ih angažuju, čime bi na kvalitetan i pouzdan način prikazivali finansijske izveštaje, štiteći pritom ugled svoje profesije kao i lični ugled. Etičko ponašanje i profesionalizam od strane računovođa i revizora značajno je za procenu verodostojnosti i kvaliteta njihovog rada. Predmet rada jeste potreba za konstantnim unapređenjem kompetencija i veština računovođa i revizora kako bi ispunili očekivanja koja su u savremenom okruženju sve izazovnija. S tim u vezi u radu je prikazan pojam profesionalne etike, računovodstvena i revizijska profesija kao i Kodeks etike u računovodstvenoj i revizijskoj profesiji.

Ključne reči: profesionalna etika, računovodstvena profesija, revizijska profesija, etički kodeks.