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Ethical values in the organization and the quality of accounting information

Monize Ramos do Nascimento[1], Rodrigo de Souza Gonçalves[2], Raíssa Aglé Moura de Sousa[3]

[1]Universidade Federal de Goiás, Goiânia - GO, Brazil.
[2]Universidade de Brasília, Brasília- DF, Brazil.
[3]Universidade Federal da Bahia, Bahia - BA, Brazil.

[1]monizeramos@ufg.br
[2] roadgoncalves@gmail.com
[3] raissa.agle@hotmail.com

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Orleans Silva Martins
Paulo Roberto da Cunha

Abstract

Objective: Investigar o impacto da ética gerencial sobre a qualidade das informações contábeis.
Method: Foram analisadas 272 empresas não financeiras listadas na B3 no período de 2010 a 2019. Como *proxy* de qualidade da informação foram adotados os modelos de Kothari et al. (2005) e Collins et al. (2017), assumindo que maiores volumes de *accruals* estão relacionados a redução no nível de qualidade da informação. Como *proxy* de ética gerencial foram verificados os casos de fraudes corporativas ocorridos no Brasil. Os testes econométricos foram realizados através de regressão linear e quantílica.
Results or Discussion: s resultados demonstram que o nível de ética gerencial afeta a qualidade das informações contábeis. Isso pode ser explicado pelo menor nível de transparência de informações e pela consequente maior assimetria informacional.
Contributions: The results have practical repercussions in relation to the attention that should be given by both the accounting professional and the gatekeepers to the treatment of the ethical issue in the associations, since their deficiency can cause bias in the information disclosed to external users. Thus, to combat the occurrence of fraud and bring improvements to the quality of accounting information, in addition to the implementation and continuous improvements of control and monitoring policies in companies, the dissemination of management ethics programs should be part of a senior management strategy that seeks improvements in the transparency and quality of accounting information.

Keywords: Information Quality; Business Ethics; Corporate Fraud; Earnings Management.

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Introduction

In the context of accounting, ethics can be associated with values and moral standards that provide guidance to the accounting professional to ensure the quality of reported financial information (Man & Ciurea, 2016). Higher quality accounting information contributes to a greater number and level of attributes on the financial performance of an entity, making the accounting process more relevant and improving the decision-making process of external users, especially analysts who make their forecasts with greater accuracy (Dechow, Ge, & Schrand, 2010; Lobo, Song, & Stanford, 2012).

The ethical dilemma in business management can be associated both with the problem that professionals may face when presenting financial statements truthfully and fairly and with the pressure to protect management interests (Kiradoo, 2020). This pressure (including accounting professionals) can result in unethical conduct, influencing the financial and non-financial performance of entities (Choi & Pae, 2011; Cummings, 2000; Im & Nam; 2019).

The study by Cressey (1953) reported pressure and opportunity as elements of the so-called Fraud Triangle, demonstrating that these elements represent relevant motivations for committing fraud. Bhasin (2016) and Gupta and Kumar (2020) corroborate by stating that these aspects are present in several frauds that occurred in the financial statements contemporaneously.

For Kiradoo (2020), the financial crisis of the last decades showed that the main reasons that contributed to its occurrence were related to distortions in the process of recognition, measurement and disclosure of financial information, which were hidden through unethical practices and conduct.

Some examples of accounting maneuvers that were used to present a balanced financial position were the cases of Enron, Parmalat, Tyco, WorldCom and GE, which had greater international repercussion, and specifically in Brazil, cases such as those of Banco Panamericano, Banco Cruzeiro do South and BBVA. As a result of these maneuvers, these companies went into financial collapse or had a substantial reduction in their assets, exposing the fragility of the financial information preparation process.

In this context, the accounting professional is subject to pressure (one of the elements of the fraud triangle) that can lead him to have an unethical conduct to the point of using artifacts that may harm the quality of the accounting information through the earnings management, for example (Gupta & Kumar, 2020). In view of this possible consequence, the level of ethics of a company and its characteristics from the point of view of vulnerabilities in the preparation of financial statements have been recognized as a relevant factor by the market and regulatory bodies, especially in the last 20 years, even increasing the adoption of compliance and business ethics practices by improving the level of awareness of managers (Im & Nam, 2019).

Against the backdrop of numerous challenges in the business environment faced by boards of directors, executives and managers, unethical corporate activity is one of the most significant, in terms of its potential negative impact, and the most difficult to deal with properly due to its multifaceted and difficult to characterize (Schwartz, 2013).

Given the above, we seek to answer the following question: how does managerial ethics impact the quality of accounting information? To answer this question, the present study aimed to investigate the impact of managerial ethics on the quality of accounting information.

The subject is relevant, because when the issue of ethics is not adequately addressed in the corporate environment, its impact can occur on different parties involved, such as loss of managers' jobs (Karpoff, Scott Lee, & Martin, 2008), reduction of shareholder confidence and, consequently, an impact on the stock market (Wang, Ashton, & Jaafar, 2019), in addition to having perpetuating effects on the future quality of financial reports (Choi & Pae, 2011). Therefore, it is important to deepen the knowledge on the subject, which can cause harmful chain effects, as explained. The understanding of these factors is a relevant instrument for building a culture that is favorable to ethical development and, at the same time, contributes to the desirable sustainability of the business (Almeida, 2007).

This research advances in relation to studies by Moon (2007), Choi and Pae (2011), Mahdavikhou and Khotanlou (2012) and Im and Nam (2019), which addressed the relationship between managerial ethics and the quality of accounting information, due to the fact that it is opportune to investigate this relationship using additional approaches, since there is neither a single concept nor a variable that can synthesize the meaning of managerial ethics.

In this sense, 272 non-financial companies listed on B3 were analyzed, in the period from 2010 to 2019, separating those classified as ethical from those classified as unethical (classification based on cases of corporate fraud), confronting the quality of their financial information, in which the earnings management models proposed by Kothari et al. (2005) and Collins et al. (2017) were used.

The results demonstrate that the level of managerial ethics affects the quality of accounting information, which has practical repercussions in organizations, given that greater importance must be given both by the accounting professional and by the gatekeepers to the treatment of the ethical issue in the entities, since its deficiency can cause bias in the information disclosed to external users.

2. Theoretical Fundamentals

2.1 Integrity in the Workplace and Its Developments

In a general sense, "ethics" refers to a set of norms, principles, or moral values that guide people's behavior (Sherwin, 1983). In the business context, it is defined as the study of business situations, activities and decisions in which issues and errors are addressed (Crane & Matten, 2010), making it essential for the proper functioning of the capital market (Dupont & Karpoff, 2019), since it is the basis for the relationship between the agent and the principal (Seeger & Ulmer, 2003).

Contemporary debate on the topic began in the United States during the 1970s, in particular as a reaction to business scandals and changing public perceptions. A company that operates ethically will be directly and indirectly sensitive and responsive to the reasonable needs of its various stakeholders, for example, employees, customers, suppliers, the local community, the environment and society (Morris & Dunne, 2008). Therefore, ethics is a collective enterprise, not a solitary one (Azmi, 2006)

The possible consequences of ethics were explored in academic research. Among the benefits, we can mention that acting ethically improves the financial and non-financial performance of the company (Verschoor, 1998), in addition to creating a competitive advantage (Azmi, 2006). On the other hand, lack of ethics can result in tragedies such as Bhopal gas', which occurred in 1984 in India; the Exxon Valdez oil spill disaster, in 1989; and the Enron financial scandal, which occurred in 2001, bringing lessons on diversity and potential ethical consequences associated with business environments (Choi, Lee, & Park, 2013; Schwartz, 2013).

In this way, when ethics is not adequately disseminated in the organizational environment, it can increase the probability of managers seeking to maximize their personal utilities at the expense of third-party financial investment, especially because they do not have full knowledge of the decisions taken and about the reliability of the information contained in the financial statements. Thus, business ethics is put to the test in the manager's decision-making process in which he uses his discretion (Seeger & Ulmer, 2003), which, on the one hand, should act in favor of the principal's interests, maximizing the company value; on the other hand, it can be carried out opportunistically. This may occur due to the asymmetry of information between agents and principals, explained by the Agency Theory (Jensen & Meckling, 1976).

According to Agency Theory, the cooperative relationship develops when one individual (the principal), in an economic exchange, grants authority to another (the agent) to act on his or her behalf, and the welfare of the principal is affected by the agent's decisions (Wright, Mukherji, & Kroll, 2001). The concern is that the well-being of the principal may not be maximized, because the principal and the agent tend to have different goals and risk predispositions (Wright, Ferris, Sarin & Awasthi, 1996). This type of practice occurs when incentives are used to transmit information for their own benefit or that of the firm, choosing accounting methods and estimates that do not adequately reflect the economic conditions of the organization (Watts & Zimmerman, 1986), which may violate the objective of the financial statements, which is to provide useful and quality information to users.

2.2 Quality of Accounting Information and (non) Ethical Conduct

The quality of accounting information can be defined as the extent to which financial statements provide useful information to investors and creditors in their investment decisions (Schipper, 2003; Schipper & Vincent, 2003). In light of the objective of financial statements, it can be said that information arising from reports is considered to be of high quality when it presents a true and fair financial position and performance, in accordance with generally accepted standards.

When accounting standards are applied rigorously and consistently, capital market participants will have higher quality information and will be able to make

better decisions, since the use of high quality standards enhances the comparability and transparency of financial information (Tarca, 2013).

The link between the quality of accounting information and unethical management conduct has been suggested in accounting disasters, as this lack of ethics, reflected in the ambition and greed of top executives, is linked to most financial breakdowns (Abid & Ahmed, 2014; Choi & Pae, 2011). In this way, the performance of a company, as well as the quality of the reports, reflects the fulfillment of management responsibilities and, consequently, the quality of the report may reflect managerial ethics (Im & Nam, 2019).

In the accounting literature, the quality of accounting information is conditioned to the information's qualitative characteristics assumptions meeting (Pronouncement CPC 00 (R2)), which is based on its reliable representation and relevance. As the use of accounting discretion is carried out in a way that does not reflect the faithful representation, the information loses quality to the point of reducing its usefulness for the external user, which can be done through the use of earnings management (Healy & Wahlen, 1999).

The use of earnings management by those responsible for the financial statements occurs when discretionary accruals are used to achieve a certain economic result that interests them (either to increase or decrease profit) and, as a result, these agents act on the margins of ethical principles and the interests of the principal (Abid & Ahmed, 2014; Choi & Pae, 2011; Dechow; Ge & Schrand, 2010).

It is in this context that this research is inserted, seeking to understand whether companies that acted in an unethical way present lower quality accounting reports, in this case, containing higher discretionary accruals (earnings management).

2.3 Previous Research

The relationship between business ethics and financial reporting was evidenced in previous studies that, in general, found that corporate ethics is able to affect and reflect on higher quality financial information, while companies with a lower level of ethical commitment present distorted or lower quality results, with the objective of favoring them. Research such as Moon (2007), Choi and Pae (2011), Mahdavikhou and Khotanlou (2012), Im and Nam (2019) and Kiradoo (2020) provide some evidence of this relationship.

The study by Moon (2007) used as a measure for business ethics the adoption of a code of ethics by companies, that is, companies that adopted a code of ethics versus companies that did not, and as a measure for the quality of statements, discretionary provisions were used. The author concluded that business ethics affects the transparency of financial reports, given that their results suggested that companies that established a code of business ethics conveyed a higher quality of accounting reporting than those that did not, similar to the results of Bonfim and Silva (2019) about the code of ethics of the accounting professional.

Choi and Pae (2011) found that companies with a higher level of ethical commitment are engaged in less earnings management, report earnings more conservatively, and forecast cash flows more accurately than those with a lower level of ethical commitment. In addition, they conclude that the corporate commitment to business ethics has perpetuating effects on the future quality of financial reporting.

With convergent findings, Mahdavikhou and Khotanlou (2012) showed that professional ethics has a relevant effect on promoting the quality of the qualitative characteristics of financial reports. On the other hand, Im and Nam (2019) identified that the measured values of accounting conservatism do not show any significant difference between unethical and ethical companies, however, companies named with lower managerial ethics have higher absolute discretionary provisions than their counterparts, suggesting that those are more likely to manipulate their results.

More recently, Kiradoo (2020) identified that the financial crisis in the last decade was the result of various financial distortions and fraud. The study concludes that compliance with ethical principles and standards is necessary to ensure the quality, impartiality and reliability of financial statements. Therefore, analyzing the role of accountants in financial fraud and scandals becomes imperative.

In view of the above, it is possible to verify that corporate ethics is capable of affecting and reflecting on higher quality financial information, since there is evidence that companies with a lower level of ethical commitment present distorted or lower quality results with the objective of favoring some.

3 Method

In this section, the information inherent to the data

collection and research sample is presented and, in sequence, the models used to answer the question of this study are presented. Subsequently, the measurements of the dependent variables of the referred models are reported and, finally, the measurements of their independent variables are presented.

3.1 Data and Sample

To achieve the proposed objective, non-financial companies listed on B3 were selected from a universe of 392 companies; 76 companies were excluded because they belong to the financial sector and 44 companies were excluded because they did not have available information, totaling 272 companies. The necessary information was obtained from Economática®, from the website of the Monetary Securities Commission (CVM) and from the website of the Federal Police (PF), for the period between 2010 and 2019.

3.2 Research Models

To verify if managerial ethical behavior is associated with higher quality of accounting information, two econometric models were used, adapted from Im and Nam (2019), in the form of a panel, provided for in equations 1 and 2.

$$ACCD(z) = \beta_0 + \beta_1 ETICA_{it} + \beta_2 CFO_{it} + \beta_3 TAM_{it} + \beta_4 LEV_{it} \beta_5 MB_{it} + \beta_6 RET_{it} + \beta_7 GRW_{it} + \beta_8 BIG4_{it} + \varepsilon it \quad (1)$$

$$ACCD(z) = \beta_0 + \beta_1 ETICA_{it} + \beta_2 CFO_{it} + \beta_3 TAM_{it} + \beta_4 LEV_{it} \beta_5 RET_{it} + \beta_6 GRW_{it} + \beta_7 BIG4_{it} + \varepsilon it \quad (2)$$

Where:

ACCD: variable that represents the quality of accounting information, measured through discretionary accruals, of company i, at time t;
ETICA: dummy variable that takes the value of 1 for unethical companies and 0 for ethical companies, of company i, at time t;
CFO: variable that represents the operating cash flow of the company i, at time t;
TAM: variable that represents the size of the company, measured by the natural logarithm of total assets, of company i, at time t;
LEV: variable that represents the indebtedness of company i, at time t;
MB: variable that represents the relationship between the market value and the book value of company i, at time t;
RET: dummy variable that assumes the value of 1 when the return per share is less than 0, and 0 otherwise, of company i, at time t;
GRW: variable that represents the growth in the rate of total assets of company i, at time t;
BIG4: dummy variable that assumes the value of 1 when the company responsible for the audit is a Big Four and 0 when it is not, of company i, at time t;
ε_{it}: is the random error of the regression, where $\varepsilon_{it} \sim N(0,^2)$.

The control variables (CFO, TAM, LEV, MB, RET, GRW and BIG4) are inserted in the model to provide greater robustness to the estimated results, because although they are not of interest to the study, the dependent variable (ACCD) can be influenced For them. Descriptions, measurements, fundamentals and expected signals for each of the variables specified in models 1 and 2 are summarized in Figure 1.

Figure 1 – Variables foundation

Variable	Measurement	Foundation	Expected Signal
ACCD	Residual value generated by the regression	Unethical companies will produce lower quality information (greater amount of discretionary accruals) (Im & Nam, 2019).	(+)
CFO	Operating cash flow	Cash flow from operations is the main determinant of earnings management behavior (Dechow & Dichev, 2002)	(+)
TAM	Natural logarithm of total assets	Larger companies would have fewer reasons to distort information, since they have greater control and supervision (Bodolado, Donelson, & Ege, 2014)	(-)
LEV	Return on equity / Return on total assets	Company indebtedness can be an incentive for information distortion (Im & Nam, 2019).	(+)
GRW	(Total Assets t – Total Assets t-1) / Total Assets t	The high growth rate of companies can be an incentive for management gains (Im & Nam, 2019).	(+)
RET	Net Income / Number of shares outstanding	Companies can use earnings management to sustain performance through earnings per share (Martinez, 2001). One of the main incentives to manage is to maintain the company's recent performance (Rodrigues, Paulo, & Melo, 2017).	(+)
MB	Market value / Book value	Companies with higher market-to-book have more incentives to manage, consequently, a higher degree of discretionary accruals than other companies (Almeida, Lopes, & Corrar, 2010).	(+)
BIG	Four largest audit firms: Deloitte, Ernst & Young, KPMG and PWC	Organizations audited by large audit firms would be less likely to distort information when compared to others (Apostolou & Hassell, 1993; Dichev, Graham, Harvey, & Rajgopal, 2016; Lim, Lim Xiu Yun, Liu, & Jiang, 2012; Moyes, 2007).	(-)

To assess the quality of accounting information (ACCD) two models were used that measure discretionary accruals in different ways, both of which are derived from the model by Dechow et al. (1995), but which present adjustments and adaptations to this model, which are the models by Kothari et al. (2005) and Collins et al. (2017).

3.2.1 Discretionary Accruals Model proposed by Kothari et al. (2005)

The model proposed by Kothari et al. (2005) is usually used to distinguish between discretionary and non-discretionary accruals, as shown in model 3:

$$ACCT_{i,t} = \alpha + \alpha_1 \left(\frac{1}{At_{i-1}}\right) + \alpha_2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{At_{i-1}}\right) + \alpha_3 \left(\frac{PPE_{i,t}}{At_{i-1}}\right) + \alpha_4 \, laggedROA_{i,t-1} + \varepsilon_{i,t}$$

(3)

Where:
$ACCT_{i,t}$: total accruals, measured by net income before extraordinary items less operating cash flow, for company i in year t;
$At_{i,t-1}$: total assets of company i in the year t–1;
$\Delta REV_{i,t}$: revenue change in company i in year t and in t-1;
$\Delta REC_{i,t}$: variation of receivables of company i in year t and in t-1;
$PPE_{i,t}$: fixed assets of company i in year t;
$ROA_{i,t-1}$: lagged return on assets of company i in year t;
$\varepsilon_{i,t}$: residual value estimated from regression.

The residuals estimated by the regression of the Kothari et al. (2005) (model 3) correspond to discretionary accruals (ACCD), in which they are used as a first proxy for the quality of accounting information (dependent variable) provided for in model 1, presented in section 3.2.

3.2.2 Discretionary Accruals Model proposed by Collins et al. (2017)

Unlike Kothari et al. (2005), Collins et al. (2017) propose a refinement in the Jones-type models (Dechow et al., 1995) to better control effects related to non-linear growth and financial performance in the model for calculating discretionary accruals. For Collins et al. (2017), by expanding the original model through dummy variables of profitability on operating assets (ROA), sales growth (SG) and market-to-book (MB), it is possible to control the effects of non-linearity between accruals and company characteristics, as well as not increasing the cross-sectional standard deviation of discretionary accruals.

The results presented by Collins et al. (2017) reveal that their empirical modeling results in a better fit and explanatory power for estimating discretionary accruals, compared to other models for this purpose. Thus, as a second proxy for the quality of accounting information, the discretionary accruals (ACCD) used in model 2 (section 3.2) were estimated using the empirical modeling proposed by Collins et al. (2017), in which the regression residuals of model 4 correspond to the ACCD variable.

$$ACCD_{i,t} = \beta_0 + \beta_1 Q_{1,i,t} + \beta_2 Q_{2,i,t} + \beta_3 Q_{3,i,t} + \beta_4 Q_{4,i,t} + \beta_5(\Delta SALES_{i,t} + \Delta ARI_{i,t}) + \beta_6 ACCT_{i,t-4} + \sum_k \beta_{7,k} ROA\_Dum_{k,i,t} + \sum_k \beta_{8,k} SG\_Dum_{k,i,t-4} + \sum_k \beta_{9,k} MB\_Dum_{k,i,t-1} + \varepsilon_{it}$$

(4)

Where:
$ACCT_{i,t}$: total accruals, measured by the sum of increases/ decreases in cash flow in accounts receivable, inventories, accounts payable, taxes payable and other accounts that affect provisions, for company i in quarter t;
$Q_{i,t}$: fiscal quarter dummies that allow for possible fiscal quarter effects on accumulation;
$\Delta SALES_{i,t}$: variation in sales of company i in quarter t and in t-1;
$\Delta AR_{i,t}$: variation in accounts receivable of company i in quarter t and in t-1;
$ROA\_Dum_{k,i,t}$: dummy variable that takes the value 1, if the ROA (return on assets) of the quarter t of company i belongs to the kth quintile and 0 otherwise;
$SG\_Dum_{k,i,t-4}$: dummy variable that takes the value 1, if SG $\left(\frac{Sales_t - Sales_{t-4}}{Sales_{t-4}}\right)$ of quarter t-4 of company i belongs to the kth quintile and 0 otherwise;
$MB\_Dum_{k,i,t-1}$: dummy variable that assumes the value 1, if the MB (Market-to-book) of the t-4 quarter of the company i belongs to the kth quintile and 0 otherwise;
$\varepsilon_{i,t}$: residual value estimated from the regression.

The purpose of using the models by Kothari et al. (2005) and Collins et al. (2017) to test models 1 and 2, respectively, is to compare the consistency of the results and, thus, validate the evidence presented in the study, and the model by Kothari et al. (2005) addresses annual data from financial statements, while the model by Collins et al. (2017), addresses quarterly data.

3.3 Definition of the variable of interest – Management Ethics

The most usual route for measuring corporate ethics would be to directly verify the perception of managers. However, the answers offered by them may not be true since criminals would probably not present evidence of conduct against themselves. Therefore, Im and Nam (2019) propose using cases of corporate fraud as a measure of managerial ethics, in an attempt to minimize possible measurement errors. This close relationship is already well established in the literature (Choi & Pae, 2011; Cummings, 2000; Fernandhytia & Muslichah, 2020; Im & Nam; 2019; Kiradoo, 2020; Suh, Shim, & Button, 2018).

Thus, this work chose to use such an approach, so that the variable that is a proxy for managerial ethics (ETICA) was constructed from the occurrence of cases of Brazilian companies convicted of corporate fraud from processes conducted by the CVM and/or by the federal police (PF).

On the CVM website, the Sanctioning Processes (PAS) were used, which arise from an investigation carried

out through an administrative process of an investigative nature. The selection of processes was carried out on the CVM website, in the "Processes" and "Advanced Search" tabs. Sequentially, in the "Term" field, no information was filled in, in "Period" a time window was used from 01/01/2010 to 12/31/2019, and in the "Type" field, "Sanction proceedings judged" was selected, whose results obtained in the search were 557 processes. It should be noted that a process can deal with more than one company or the same company can appear in more than one process. In addition, only cases that effectively dealt with some type of corporate fraud were selected.

In relation to the processes carried out by the PF, companies that were judicially condemned were selected, through a search on the PF website, in the "Press" field, and then "Big Operations", obtaining the following results: Operação Lava Jato (Car Wash Operation) 2014), Operação Zelotes (2015), Operação Xepa (2016) and Operação Carne Fraca (2017). The selection was limited to these two bodies as they cover the main cases of corporate fraud occurring in the country.

Based on this methodology, companies were separated into two groups: (i) non-ethical companies, corresponding to 32 entities, and (ii) ethical companies, corresponding to 240 entities. In this work, an unethical company is one that has been involved in at least one case of fraud during the study period. The justification for this criterion is that in longitudinal research in the area of fraud, it is hardly possible to accurately identify the start and end date of the criminal practice, and when this practice occurs, it occurs for more than one period. (Dechow, Sloan, & Sweeney, 1996; Beneish, 1997; Lee et al., 1999).

4. Analysis of data and results

During the statistical modeling process to perform the exploratory analysis, it is possible that outliers are detected. To reduce possible inconsistencies, winsorization was performed at the level of 1% and 99%.

Tables 1 and 2 present the descriptive statistics of the continuous variables used in this work for model 1 – adapted from Im and Nam (2019), whose discretionary accruals are calculated from the model by Kothari et al. (2005) – before and after winsorization, respectively.

Table 1 – Descriptive Statistics for Continuous Variables before Treatment - Model 1

Variables	Obs.	Average	Median	Standard Deviation (DP)	Minimum	Maximum
ACCD	2.408	0,011	0,009	0,605	-1,448	14,484
CFO	2.419	1,096	9.444,500	69,908	-832,166	3.335,779
TAM	2.474	14,566	14,703	1,967	4,532	20,646
LEV	2.469	1,631	1,540	11,159	-51,670	66,05
MB	2.135	1,866	1,228	8,051	-224,153	149,627
GRW	2.420	3,819	0,066	155,911	-1,000	7.555,287

Notes: ACCD: discretionary accruals, calculated from the model by Kothari et al. (2005); CFO: operating cash flow; TAM: company size, LEV: financial leverage; MB: Market-to-book; GRW: asset growth.

The ACCD variable presents low data dispersion (SD=0.605). The CFO variable, on the other hand, showed high dispersion, with a DP=69.908. Regarding the variable MB, although it did not have such an expressive standard deviation (SD=8.051), it presented extreme minimum and maximum values. It is noteworthy that for this work, the negative values of this indicator were maintained in view of the research objective, since companies with financial difficulties can produce more distortions in the financial statements, which would impact the quality of this information.

The variable GRW presented a high dispersion, revealed by the DP=155.911. In an attempt to allow a bias-free analysis, some variables were winsorized at 1% and 99% (FCO, MB and GRW), the results of which are shown in Table 2.

Table 2 – Descriptive Statistics for Continuous Variables after Treatment - Model 1

Variables	Obs.	Average	Median	Standard Deviation (DP)	Minimum	Maximum
ACCD	2.408	0,011	0,009	0,605	-1,448	14,484
CFO	2.419	0,065	0,063	0,097	-0,288	0,353
TAM	2.474	14,566	14,703	1,967	4,532	20,646
LEV	2.469	0,518	1,540	7,576	-51,670	10,550
MB	2.135	1,862	1,228	2,465	-4,573	13,336
GRW	2.420	0,094	0,669	0,213	-1,000	0,650

Notes: ACCD: discretionary accruals, calculated from the model by Kothari et al. (2005); CFO: operating cash flow; TAM: company size, LEV: financial leverage; MB: Market-to-book; GRW: asset growth.

From the data in Table 2, it is possible to notice that the high dispersion shown in Table 1 was corrected. Regarding the categorical variables, we have the following data: a) ETHICS = 2,720 observations, of which 88.86% correspond to ethical companies and 11.14% to non-ethical entities; b) BIG4 = 2,140 observations, of which 64.49% are audited by the Big Four and 35.51% by other auditing firms; c) RET = 2,469 observations, of which 27.68% had stock returns below 0, while 72.32% had stocks greater than or equal to 0. As can be seen, the number of observations differs between the variables, as some companies did not present all the data available in the database.

For model 2, adapted from Im and Nam (2019), a base with quarterly data was used, as reported in the previous section, in which discretionary accruals are calculated from the model by Collins et al. (2017) – model 4. Thus, descriptive statistics are presented in Tables 3 and 4, reporting data before and after treatment for outliers, respectively.

Table 3 – Descriptive Statistics for Continuous Variables before Treatment - Model 2

Variables	Obs.	Average	Median	Standard Deviation (DP)	Minimum	Maximum
ACCD	7.479	-39.912,630	-33.936,670	20.8634,700	-3.746.244,000	5.959.366,000
CFO	7.801	0,028	0,015	0,546	-12,047	29,092
TAM	7.907	14,632	14,731	1,961	5,488	20,692
LEV	7.803	6,877	1,510	773,675	-19.101,400	64.915,200
GRW	7.739	0,111	0,059	0,507	-1,000	19,680
GRW	2.420	0,094	0,669	0,213	-1,000	0,650

Note: ACCD: discretionary accruals, calculated from the model by Collins et al. (2017); CFO: operating cash flow; TAM: company size, LEV: financial leverage; GRW: asset growth.

The ACCD variable presents high data dispersion, in which this fact is probably due to the fact that the model by Collins et al. (2017) did not carry out weightings of the variables. Thus, we chose to work with the value in logarithm, shown in Table 4.

AAlso in Table 3, the results of the variable LEV also revealed a high dispersion, which indicates the presence of outliers. Thus, as a way of processing the data, winsorization was performed in 1% and 99%. The other variables did not present problems that require treatment.

Table 4 – Descriptive Statistics for Continuous Variables after Treatment - Model 2

Variables	Obs.	Average	Median	Standard Deviation (DP)	Minimum	Maximum
ACCD	1.925	10,021	9,977	1,602	3,425	15,605
CFO	7.801	0,028	0,015	0,546	-12,047	29,092
TAM	7.907	14,632	14,731	1,961	5,488	20,692
LEV	7.803	1,277	1,510	3,834	-8,800	10,550
GRW	7.739	0,111	0,059	0,507	-1,000	19,680
GRW	2.420	0,094	0,669	0,213	-1,000	0,650

Note: ACCD: discretionary accruals, calculated from the model by Collins et al. (2017); CFO: operating cash flow; TAM: company size, LEV: financial leverage; GRW: asset growth.

The descriptive statistics in Table 4 demonstrate that the high dispersion problems predicted in Table 3 have been corrected. Regarding the categorical variables, the following data are available: a) ETHICS = 8,703 observations, 88.93% corresponding to ethical companies and 11.07% to non-ethical entities; b) BIG4 = 6,799 observations, of which 62.35% are audited by the Big Four and 37.65% by other auditing firms; c) RET = 8,703 observations, of which 30.29% had stock returns below 0, while 69.7% had stocks greater than or equal to 0.

To test whether managerial ethical behavior is associated with higher quality of information, two regressions of models 1 and 2 were estimated, in a panel with fixed effects (Hausmann test = p-value<0.05) in the period 2010 and 2019, whose variables are stationary (Fisher-Type Test = p-value<0.05). According to Im and Nam (2019), the fixed effect model assumes that the parameters of the explanatory variables are fixed in all periods and companies, and the quality level of individual companies' reports (interception) may differ. Table 5 presents the results of the regressions of models 1 and 2.

Table 5 – Results of Regressions with Fixed Effects - Dependent Variable: Discretionary Accruals

Model 1: $ACCD(z)= \beta_0+\beta_1 ETICA_{it}+\beta_2 CFO_{it}+ \beta_3 TAM_{it}+\beta_4 LEV_{it}+\beta_5 MB_{it}+\beta_6 RET_{it}+\beta_7 GRW_{it}+\beta_8 BIG4_{it}+\varepsilon_{it}$

Model 2: $ACCD(z)= \beta_0+\beta_1 ETICA_{it}+\beta_2 CFO_{it}+\beta_3 TAM_{it}+\beta_4 LEV_{it}+\beta_5 RET_{it}+\beta_6 GRW_{it}+\beta_7 BIG4_{it}+ \varepsilon_{it}$

	Model 1			Model 2		
Variables	Coefficient	Standard error	t	Coefficient	Standard error	t
ETICA	0,750***	0,309	2,420	0,803*	0,473	1,700
CFO	-0,259	0,197	-1,310	-0,005	0.396	-0,010
TAM	-0,103***	0,033	-3,110	0,354***	0,096	3,670
LEV	-0,001	0,002	-0,540	-0,011	0,002	-1,210
MB	-0,020**	0,008	-2,310			
GRW	0,283***	0,074	3,790	-0,122**	0,057	-2,140
BIG4	-0,019	0,046	-0,410	-0,171	0,123	-1,390
RET	0,113***	0,043	2,630	-0,018	0,092	-0,200
Cons.	1,394***	0,491	2,840	4,744***	1,417	3,350
Prob > F	0,000			0,000		
Obs	1.822			1.507		
r^2_w	0,026			0,022		
r^2_b	0,009			0,282		
r^2_o	0,000			0,194		
VIF	1,180			1,100		
WO	0,010			0,027		

Note 1: The table reports the results for the two models: model 1 (ACCD variable calculated from Kothari et al., 2005) and model 2 (ACCD variable calculated from Collins et al., 2017). Statistical significance level: *** to 1%; ** at 5%; and * at 10% (two-tailed).
Note 2: ACCD: discretionary accruals; ETHICS: dummy variable that takes the value of 1 for unethical companies and 0 for ethical companies; CFO: operating cash flow; TAM: : company size, LEV: financial leverage; MB: Market-to-book; GRW: asset growth; RET: dummy variable that takes the value of 1 when the return per share is less than 0, and 0 otherwise. VIF: Variance Inflation Factor; WO: Wooldridge test.
Note 3: Models 1 and 2 were re-estimated, excluding control variables that did not obtain statistical significance or that obtained significance, but contradict the expected signs (in model 1: CFO, LEV, MB and BIG4; in model 2: CFO , SIZE, LEV, GRW, BIG4 and RET). The results found do not change the findings presented in this table.

The result of the F test for the two estimations allows us to reject the null hypothesis of no problems in the regression estimation (p-value <0.01), of multicollinearity between the variables (VIF = 1.18 and 1.10) and autocorrelation of residues (WO = 0.010 and 0.027).

As for the relationship between discretionary accruals (ACCD) and ethics (ETICA), both models showed that unethical companies have a lower level of quality of accounting information, due to the existence of a greater amount of discretionary accruals. The result is expected, since this type of company generally has a lower level of information transparency (Moon, 2007), making use of higher levels of earnings management (Choi & Pae, 2011).

Regarding the control variables, there was a negative association between discretionary accruals (ACCD) and company size (TAM) in model 1, as expected, suggesting that larger companies have less incentives to distort accounting information, given their higher levels of control and inspection (Bodolado, Donelson, & Ege, 2014), thus having a higher level of information quality.

Unlike model 1, the reported association between ACCD and TAM in model 2 was positive, indicating that larger companies have higher levels of discretionary accruals. According to Dechow, Ge and Schrand (2010), this relationship between discretionary accruals and company size is mixed, as it depends on the nature of the choice of accounting method examined, in addition to the sample investigated.

Regarding the variable GRW, which positive associations were expected, it presented different behavior for each of the models. In model 1 the relationship corroborates the expected, that is, companies that have accelerated growth of assets, have worse information quality and, therefore, greater information asymmetry (>asymmetry<quality of information) (LaFond & Watts, 2011). However, model 2 contradicts this assumption, establishing a negative association.

The MB variable, tested only in model 1, showed a significance level of 10%. However, it showed a negative relationship, contrary to the expectations used in this study, based on the findings of Almeida, Lopes and Corrar (2011). Thus, the results of this research indicate that companies with greater market-to-book have less discretionary accruals and, consequently, have higher quality of accounting information.

The RET variable, on the other hand, showed a significant and positive association (as expected) in the first model, which suggests that companies manage their results (ACCD) to be able to maintain their performance in the market, as pointed out by Martinez (2001), thus having lower quality in the your accounting information.

In order to corroborate the previous findings and as a form of robustness, additional tests were performed. Thus, estimations were performed transforming the dependent variable (ACCD) into an absolute value (|ACCD|), that is, disregarding the effect of the signs of discretionary accruals. The new estimations were performed using quantile regression. This choice was made so that it was possible to analyze the data segregated by quartiles and thus deepen the findings. Therefore, the Wald test was performed (p-value<0.05), in which the null hypothesis was rejected, and therefore the estimation through quartiles is robust.

As the quantile regression is estimated through the median, whose measurement is not affected by the presence of outliers, unlike the average, we chose not to log the variable |ACCD| of models 1 and 2, which

contributed to the increase in the number of observations. The other variables were kept. The results are shown in Table 6.

Table 6 – Quantile Regression Results - Dependent Variable: Discretionary Accruals

Model 1: $|ACCD|(z)= \beta_0+\beta_1 ETICA_{it}+\beta_2 CFO_{it}+ \beta_3 TAM_{it}+\beta_4 LEV_{it}+\beta_5 MB_{it}+\beta_6 RET_{it}+\beta_7 GRW_{it}+\beta_8 BIG4_{it}+\varepsilon_{it}$

Model 2: $|ACCD|(z)= \beta_0+\beta_1 ETICA_{it}+\beta_2 CFO_{it}+\beta_3 TAM_{it}+\beta_4 LEV_{it}+\beta_5 RET_{it}+\beta_6 GRW_{it}+\beta_7 BIG4_{it}+ \varepsilon_{it}$

	Modelo 1			Modelo 2		
Variables	0,25 Stat. coeff. t	0,50 Stat. coeff. t	0,75 Stat. coeff. t	0,25 Stat. coeff. t	0,50 Stat. coeff. t	0,75 Stat. coeff. t
ETICA	-0,002	0,029**	0,122***	832,600	-1100,000	9964,100***
	-0,140	1,710	3,700	0,510	-0,450	2,320
CFO	0,072	0,046	-0,081	1832,600	3537,640	3555,500
	1,220	0,710	-0,650	0,840	1,100	0,620
TAM	-0,006**	-0,015***	-0,031***	5011,300***	9948,400***	19773,600***
	0,250	-4,750	-4,950	16,180	21,830	24,450
LEV	0,000	0,001	0,001	-148,900	109,300	513,100
	1,240	1,570	0,890	-1,050	0,520	1,380
MB	0,000	0,004**	0,371**			
	0,120	1,670	0,090			
GRW	0,060**	0,171***	-0,026	-2094,100**	-3110,000**	-3960,600
	2,340	6,070	6,880	-1,740	-1,750	-1,260
BIG4	0,007	-0,007	-0,021	183,600	-22,600	-7580,600***
	0,590	-0,560	-1,030	0,150	-0,010	-2,400
RET	-0,014	-0,048***	-0,093***	-789,100	-2842,600*	-4592,500*
	-1,090	-3,360	-3,400	-0,650	-1,600	-1,460
Cons.	0,204***	0,469***	0,906***	-51084,400***	-51084,400***	-196288,400***
	4,980	10,320	10,440	-11,900	-15,200	-17,510
Obs	1.822	1.822	1.822	6.033	6.033	6.033
PseudoR²	0,005	0,019	0,044	0,0202	0,045	0,088

Note 1: Reports the results for two models, model 1 (variable |ACCD| calculated from Kothari et al., 2005) and model 2 (variable |ACCD| calculated from Collins et al., 2017), for three quintiles, resulting in six distinct models. Statistical significance level: *** to 1%; ** at 5%; and * at 10% (two-tailed).
Note 2: |ACCD| : discretionary accruals in absolute values; ETHICS: dummy variable that takes the value of 1 for unethical companies and 0 for ethical companies; CFO: operating cash flow; SIZE: company size; LEV: financial leverage; MB: Market-to-book; GRW: asset growth; RET: dummy variable that takes the value of 1 when the return per share is less than 0, and 0 otherwise.

The results of the 0.50 and 0.75 percentiles of model 1 and the 0.75 percentile of model 2 present statistical significance at the 5% and 1% levels, with a positive association, confirming that unethical companies have a level of quality of smaller information due to the existence of a higher absolute value of discretionary accruals. In addition, the results presented here are in line with the findings estimated by OLS, reported in Table 5, thus validating the conclusions based on empirical evidence.

The results show that the quality of accounting information is lower for companies classified as having lower managerial ethics (ETICA), that is, the usefulness of the information is directly related to those who produce it. If managers do not act with managerial ethics, the quality of information is lower and, consequently, the usefulness of the information to users, to whom it is reported, is impaired (Abid & Ahmed, 2014; Choi & Pae, 2011).

It is important to highlight, in relation to the results of the quantile regressions, that the lower quantile (25) does not present statistical significance, indicating that the use of discretionary accruals to some extent may reflect only the use of the manager's discretion in reporting accounting information and that this limit may still be statistically acceptable for the sample of companies analyzed.

However, it should be noted that, conceptually, for Healy and Wahlen (1999), the use of earnings management aims to "cheat", that is, even if there is a statistically significant interval according to the results presented in table 6, it can be inferred that the statistical results may be, to some extent, conservative when identifying unethical companies that end up using this expedient (GR).

It is in this sense that Kiradoo (2020) states the importance of the role played by the accounting professional in seeking the proper application of accounting standards in order to reliably present the information reported even in the face of a pressure environment, so that the use of discretion does not be used in order to serve unethical interests.

In this way, the evidence has practical repercussions in the corporate world, as it demonstrates that the process of recognition, measurement and accounting disclosure is not just about taking into account technical aspects, and, therefore, both the accounting professional and the gatekeepers (e.g. Board of Directors, Audit Committee, Fiscal Council and Independent Audit) must be aware of how the ethical issue is treated and disseminated in organizations, given that its deficiency can cause bias in the information disclosed to external users (Im & Nam, 2019), or the absence of a code of integrity/ethics can lead employees, including those in the accounting area, to behave less honestly (Bonfim & Silva, 2019).

Another direct repercussion of the evidence presented in this study concerns the different levels of quality of accounting information, as shown by the quantiles 0.50 and 0.75, since the practice of earnings management (measured by discretionary accruals) when performed at lower levels (quantile 0.25), it is not possible to establish a relationship between managerial ethics and lower quality of accounting information. However, both in the model by Kothari et al. (2005) and Collins et al. (2017) it is observed that the lowest level of information quality is associated with unethical practices (Choi & Pae, 2011), that is, less transparency of accounting information (Moon, 2007).

This scenario is especially challenging when contrasted with two relevant and mutually dependent aspects that affect the accounting process: the first concerns the discretion that managers have in decision making (Seeger & Ulmer, 2003), which, along with the subjectivity of accounting choices, above all, based on international standards, makes the role of gatekeepers more relevant in the analysis of the entire cycle of preparation of accounting information, given that these must be compared not only

from the perspective of the technique used, but also from the ethical commitment existing in the organizations in order to mitigate the effect of dishonest behavior (Bonfim & Silva, 2019).

The second aspect that makes this scenario more complex is when the evidence of this study is compared with the results of the research by Suh, Shim and Button (2018), which pointed out that the ethical culture is more relevant in combating the occurrence of fraud than the very control and monitoring of organizational activities. Clearly, this aspect does not mean to say that companies should forgo adopting and continually improving their control and monitoring mechanisms, but to shed light on the importance of having programs for the dissemination of managerial ethics strongly supported by top management, since it has the ability to not only to avoid the occurrence of fraud, according to previous studies (Moon, 2007; Schwartz, 2013; Im & Nam, 2019), but also to improve the quality of accounting information, aspects that are not normally analyzed together.

No less important, and observing the phenomenon from another perspective, there is, finally, the relevance of the necessary mechanisms of protection to the professional in the accounting area so that he is able to denounce events that violate ethical principles, either by the use of of earnings management, or by committing fraud itself in the financial statements (Sallaberry; Martínez-Consesa &; Flach, 2022).

Regarding the control variables, it is noted that the TAM variable presented associations with different directions. While in model 1 the three estimates showed negative associations, in model 2 the estimates for any of the percentiles showed a positive association. The same occurred with the variable GRW, which also showed opposite results in each of the models.

The MB variable, on the other hand, showed a positive association at the 0.50 and 0.75 percentiles, contrary to the findings in Table 5, but consistent with the literature. Companies with higher market-to-book value have market incentives to manage earnings and keep the market value separate from the book value in addition to the companies' activities to generate future cash flow (Almeida et al., 2011). The relationship between |ACCD| and RET was significant at the 0.50 and 0.75 percentiles, in both models, but contrary to the findings in Table 5, since there was a negative association.

In general, despite some divergences in relation to the control variables, the variable of interest corroborated the association with the dependent variable, showing that managerial ethics can affect the quality of information.

5. Final Considerations

This study aimed to investigate the impact of managerial ethics on the quality of accounting information. The results for the two models tested demonstrate that the level of managerial ethics affects the quality of information, demonstrating that companies characterized as unethical use accounting mechanisms that reduce the transparency of financial information and, in the case of this study, higher levels of management of results.

It is worth noting that additional validation tests were carried out through quantile regressions, which corroborate the results that the quality of accounting information is lower for companies classified as having lower managerial ethics.

The results have practical repercussions in relation to the attention that organizations owe when dealing with ethical issues and the process of recognition, measurement and disclosure of accounting information, as there is an organizational environment that has flaws in the expected conduct of its employees (Bonfim & Silva, 2019; Kiradoo, 2020), including those involved in the accounting area, opens space for actions that reduce the transparency of accounting reports and increase earnings management.

In this sense, the dissemination of managerial ethics programs is essential, which should be part of a strategy by senior management in the search for improvements in the transparency and quality of accounting information. Not least, there is a need for those responsible for supervising management actions (Board of Directors, Audit Committee, Risk Committee, among others) to be aware of the topic of ethics and how it is disseminated in the organization in order to Assessing the risk of the low maturity of this important element can affect your internal processes, especially financial reports.

An advance in this research concerns the analysis of the maturity of the whistleblower channels and their treatment with regard to cases of management and accounting fraud, especially with regard to the mechanisms of protection for the whistleblower. Additionally, it is possible to explore different metrics, especially considering that the higher quality of accounting information would be related to a lower cost of capital, analyzing whether investments (financial and non-financial) in managerial

ethics programs would reduce the capital cost of resources mediated by the quality of accounting information.

Finally, it is worth highlighting the limitations of the research, especially the variables quality of information (ACCD) and managerial ethics (ETICA), given the lack of consensus on the best way to measure them. In the case of information quality, we chose to represent this phenomenon through earnings management models, as there is evidence in the literature that this is an adequate procedure, although it is not restricted to this procedure. The question of choosing the most suitable model still does not seem to have a definitive answer. Therefore, two widely used models were chosen, estimated according to their characteristics (quarterly or annually), in order to mitigate any bias, measurement error or researcher's choice.

Regarding managerial ethics, it was measured from cases of corporate fraud, as this would be a way of dealing with the subject, avoiding measurement errors, as explained by Im and Nam (2019). Still in relation to ethics, we chose to use a measure based on real cases of corporate fraud, as we understand that this measure is closer to reality. However, it cannot be said that a company that has not been convicted is a non-fraudulent entity, since such an act may not yet have been discovered. In addition, only companies convicted in CVM and Federal Police cases were used, as they concentrate the main cases in the country.

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