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Analysis of the Role of Accounting and the Code of Ethics For the Public Accountant Profession

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A B S T R A C T

This study aims to explore accounting and its role, as well as to analyze the ethical code that accountants must uphold. It employs a case study of ethical violations by public accountants that occurred at PT. Sunprima Archipelago Financing (SNP Finance). The analysis revealed that PT. Sunprima Nusantara Financing allegedly engaged in criminal activities, including embezzlement and money laundering. Additionally, the public accountant who conducted the audit violated theand principlessof the public accountant code of ethics, specifically integrity, objectivity, competence and professional prudence, and confidentiality. As a result of these violations, both the public accountant and PT. Sunprima Nusantara Pembiayaan faced sanctions from the Financial Services Authority (OJK), which included a freeze on business operations and administrative penalties and fines imposed by the Minister of Finance.

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INTRODUCTION

In the context of rapid economic development, the role of accounting is increasingly becoming central to the survival and growth of companies. Accounting not only acts as a financial information system, but also as a strategic tool that supports decision making. Effective accounting is able to provide relevant, timely, accurate and essential information for management in planning, controlling and evaluating company performance. Transparent financial information contributes to the confidence of investors and other stakeholders, which in turn can influence a company's competitiveness in the market. (Horngren et al, 2013)

One of the crucial elements in accounting is the financial report, which functions as an official representation of financial conditions and performance over a certain period of time. Financial reports consist of a balance sheet, profit and loss statement, and cash flow report, as well as a report on changes in equity. When prepared according to general accounting principles, this financial report can present a clear picture of the company's performance and financial position, making it easier for stakeholders to make appropriate investment and financing decisions. (Kieso et al, 2016)

An accountant is required to keep up with the ever-changing times. In the midst of tight competition in the Industrial Revolution 4.0 that is approaching the Era of Competitive Advantage 5.0, accountants in Indonesia must be able to face various challenges by improving their skills, expanding their knowledge both personally and collectively, as well as instilling the principles and ethics needed to contribute and survive in the midst of pressure and competition. In addition, as a vital profession in the economic world, an accountant is also expected to be able to understand the applicable code of ethics. (Adriyana & Trisnaningsih, 2022)

Code Public Accountant Ethics (KEPAP) are the principles followed by public accountants, both individuals and groups, in carrying out their professional services, including assurance services and other services regulated in professional standards and codes of ethics. (Juhara, 2017) Consistent application of a code of ethics not only prevents accountants from fraudulent practices, but also increases the reputation and credibility of financial reports in the eyes of the public. Thus, the existence of a code of ethics is a crucial basis for maintaining public trust in the accounting profession.

Increasing demands from various parties along with the development of the accounting profession make implementing a code of ethics, therefore accounting becomes increasingly challenging. This can be seen from a number of cases of ethical violations that occurred among public accountants in Indonesia. One example discussed in this research is a violation of the code of ethics committed by a public accountant when conducting an audit at PT. Sunprima Nusantara Financing (SNP Finance).

THEORETICAL REVIEW

Nature of Accounting

According to the American Accounting Association (AAA), accounting is a process that involves identifying, measuring, and reporting economic information to facilitate assessment and decision making for users of that information.

Accounting is an information system whose job is to identify, record and convey economic information from an organization to interested parties. (Winwin et al, 2020) from this definition, there are three main activities in accounting, namely:

1. Identify
   This activity involves recognizing appropriate economic events. with certain organizational activities. Examples include debt repayment, cash purchases, and credit sales.
2. Taking notes
   This activity is related to recording the organization's historical financial activities. Recording is carried out regularly and sequentially based on the chronology of events, and must be measurable in monetary units. At this stage, economic events are categorized and summarized.
3. Communicate
   This activity includes conveying information regarding the organization's economic events to interested parties, which can be conveyed through financial reports which contain the organization's financial information as a basis for decision making.

Financial reports are the main result of the accounting process and function as a means of providing information about the company's financial position and performance. Financial reports present the operating results and financial condition of an entity in a structured format, designed to meet users' information needs. The main components of financial reports, such as the balance sheet, income statement, and cash flow statement, provide information that contains in-depth insight into the company's financial health, helping stakeholders in decision making. (Kieso et al, 2016)

Ethics of Disclosure

Ethics of disclosure in financial reports includes moral principles that regulate how companies disclose financial information to stakeholders. Ethical disclosure is essential to maintain market integrity and ensure that all appropriate information is available for decision making. Transparent and accurate disclosure is key to building trust in financial reports. (O'Leary & O'Leary, 2017)

In the context here, there are several basic principles that companies and accountants need to pay attention to, which function to maintain the integrity of the information presented to stakeholders.

1. Transparency
   Transparency requires companies to disclose information clearly and openly, so that all stakeholders have equal access to important information.

Transparency enabling stakeholders to better evaluate a company's performance and risks. (Beattie et al, 2018)

2. Accuracy
   Disclosures must reflect accurate and reliable information. Inaccuracies in financial reports can damage stakeholder trust and have the potential to have legal consequences for the company. (Kieso et al. 2016). Therefore, accountants must ensure that all information presented is correct and not misleading.
3. Fairness
   Fairness in disclosure refers to a company's responsibility to disclose relevant and material information that may influence stakeholders' economic decisions. Fair disclosure includes presenting all information necessary to understand the risks and opportunities faced by the company (Cahan et al. 2016).
4. Compliance with Standards
   Companies must comply with applicable accounting standards, such as IFRS or GAAP, in disclosing financial information. This is important to ensure that financial reports are prepared consistently and in accordance with existing regulations (IAI, 2017). This compliance not only fulfills legal obligations, but also supports good disclosure ethics.

In accounting practice, disclosure principles and professional ethical standards play an important role in maintaining the integrity of financial information. Openness in disclosure not only ensures transparency, but also contributes to stakeholder trust. In addition, the professional code of ethics provides moral guidelines for accountants to act honestly and objectively, so that every report and analysis presented reflects the actual condition of the company. The combination of strict disclosure norms and a strong code of ethics is the foundation for accountable and professional accounting practices.

The Public Accountant Code of Ethics (KEPAP) is a guideline that establishes the ethical principles that must be followed by a public accountant in carrying out their profession. KEPAP aims to ensure that public accountants carry out their duties with integrity, objectivity and professionalism. According to Agoes (2015), there are five basic principles that form the foundation of KEPAP, namely:

1. Integrity
   Public accountants are required to be honest and transparent, and responsible for their actions. High integrity helps build public trust in the accounting profession.
2. Objectivity
   Accountants must be able to act with objectivity, uninfluenced by pressures or personal interests that could interfere with their professional judgment.
3. Professional Competence and Due Care
   Public accountants are required to have adequate knowledge and skills to provide quality professional services. They must also act with care in every aspect of their work.

4. Confidentiality
   An accountant must respect and protect the confidentiality of client information. They are not allowed to give such information without consent, unless required by law.
5. Professional Conduct
   Public accountants must behave professionally and not engage in actions that could damage the reputation of their profession.

The application of these principles is very important to maintain audit quality and prevent unethical practices in the world of accounting. Non-compliance with KEPAP can have serious consequences, both for accountants and for their clients.

Roles an Accountant

Accountants have a variety of roles within organizations, covering various important aspects of financial management and compliance. Although their primary goal is to present a picture of an organization's financial condition, accountants also fulfill many other roles. (Michael et al, 2011) In this context, some of the main roles of accountants include:

1. Auditing
   Auditing is one of the main functions of accountants whose aim is to verify the accuracy of financial reports. Audits provide assurance to stakeholders that financial reports are prepared in accordance with applicable accounting principles. Independent auditors carry out thorough examinations to identify potential errors or fraud, thereby increasing public confidence in financial reports. (Arens et al, 2016)
2. Managerial Accounting
   Managerial accounting focuses on providing management with the information needed to make decisions. Explain that managerial accounting information is used to plan, control and evaluate organizational performance. With cost analysis and financial projections, accountants assist management in formulating effective business strategies. (Horngren et al, 2013)
3. Tax Accounting
   Tax accountants are responsible for helping companies comply with applicable tax regulations. Tax accountants not only prepare tax reports, but also provide advice on managing tax obligations efficiently. They ensure that companies take advantage of available tax incentives while remaining compliant with existing laws. (Kieso et al, 2016),
4. Financial Planning
   Financial planning is a strategic process that involves setting financial goals and developing plans to achieve them. Accountants play a key role in helping individuals and companies create budgets, cash flow projections, and investment strategies. With a systematic approach, accountants can help clients achieve financial stability and growth. (Garrison et al, 2015)

5. Consulting
   In a consulting role, accountants serve as advisors providing advice on various aspects of a business, from restructuring to risk management. Experienced accountants can provide valuable insights and recommendations to improve efficiency. and company operational effectiveness. (Cangemi, 2015)

Thus, the role of accountants is not only limited to financial recording and reporting, but also includes strategic functions that support managerial decisions and organizational sustainability.

The Sarbanes-Oxley (SOX)

The Sarbanes-Oxley Act (SOX) is a law passed in the United States in 2002 in response to a series of major financial scandals, such as Enron and WorldCom. The main goal of SOX is to increase transparency and responsibility in the financial reports of public companies, as well as protect investors from unethical business practices. According to U.S. Government Accountability Office (GAO, 2008), SOX introduced stricter regulations on public companies and their auditors, creating a safer environment for investors.

One important element of SOX was the establishment of the Public Company Accounting Oversight Board (PCAOB), responsible for overseeing independent auditors and ensuring that audit practices are carried out with integrity and objectivity (PCAOB, 2003). The formation of the PCAOB is a crucial step in improving audit quality and reducing the risk of fraud in financial statements. With stricter supervision, it is hoped that companies can produce more accurate and reliable reports (Zhang, 2007).

SOX also establishes an obligation for company management to confirm the accuracy of their financial reports. Management must sign financial reports, acknowledging their responsibility for the accuracy and completeness of the information (U.S. Congress, 2002). Additionally, these laws provide protection to whistleblowers, that is, individuals who report illegal or unethical practices within companies, thereby encouraging employees to speak out without fear of retaliation (Dezoort et al., 2006). Thus, the Sarbanes-Oxley Act played an important role in strengthening accounting and auditing regulations in the United States, increasing public confidence in financial reports and business practices.

METHODOLOGY

This research adopts the case study method, which involves identification and evaluation of a case, as well as interpretations supported by secondary data and relevant theories. A case study is a collection of research activities carried out in depth, in detail and in depth regarding an event, with the aim of gaining a deeper understanding of the event (Rusandi, 2021).

RESULTS AND DISCUSSION

SNP Finance is a subsidiary of the Columbia Group which offers services for purchasing household goods using a credit system. This company functions to support Columbia's purchase of goods by utilizing funding sources from banking debt securities. Every year, SNP Finance has total financing of IDR 5 trillion and is classified in the lower middle segment, because the goods financed include household furniture such as mattresses, cupboards, sofas and the like. SNP Finance also received credit facilities for working capital from 14 banks, with PT Bank Mandiri (Persero) Tbk. as the largest provider of funds. (May et al, 2022)

Disclosure of this case began with a report made by Panin Bank to the police in early August 2018. It is known that in May 2018, SNP Finance faced bad credit amounting to Rp141 billion even though the company has applied for a loan for a current account and working capital credit facility with Bank Panin amounting to Rp425 billion in the period May 2016 to 2017. The results of the investigation show that SNP Finance is suspected of being involved in various criminal acts, including embezzlement, fraud, document falsification and money laundering in its operational activities. (May, et al, 2022)

This case continues with SNP Finance which is facing problems in paying off debts to its creditors. The total loans owned by SNP Finance from 14 banks reached IDR 6 trillion. Several large banks also provide credit to SNP Finance, including PT Bank Mandiri Tbk. which provided a loan of IDR 1.4 trillion, and PT Bank Central Asia Tbk (BCA) which provided around IDR 200 billion. (Putri et al, 2024)

The Financial Services Authority (OJK) imposed a freeze on SNP Finance's business activities as a result of a complaint from Bank Panin police. It was found that several parties, including Auditors Merliyana Syamsul and Marlinna, and the Public Accounting Firm (KAP) Satrio, Eny, Bing, and their colleagues, had violated the code of ethics in this case, it was found that their failure to identify fraud, errors, and control Insufficient internal performance in SNP Finance's financial statements is a violation of professional audit standards.

In the Code of Ethics for Public Accountants (KEPAP), there are five main ethical principles that must be adhered to by public accountants, namely integrity, objectivity, professional competence and prudence, confidentiality and professional behavior. Auditors who violate the principle of integrity risk being influenced by irresponsible clients, which can lead to erroneous audit reports. A similar situation occurred at SNP Finance, where it was discovered that Public Auditors Marlinna and Merliyana Syamsul, together with the Public Accounting Firm (KAP) Satrio, Eny, Bing, and Rekan (Deloitte Indonesia division), had violated the principle of integrity. This can be seen from unaccountable audit opinion reports, where they neglect to collect adequate and relevant audit data.

Public accountants and public accounting firms should maintain a high level of objectivity when auditing financial reports (Mayasari & Trisnaningsih, 2023). In the SNP Finance case, the auditors violated this principle because the

public accountants did not carry out the audit properly, so they failed to identify material misstatements in SNP Finance's financial statements. There are allegations that SNP Finance has manipulated its financial reports for certain interests and to simplify the borrowing process from banks. As a result, public trust in public accountants was disturbed, and they were subject to sanctions by the Ministry of Finance.

Public accountants are expected to have competence and a high level of professional prudence when carrying out audit duties (Mayasari & Trisnaningsih 2023). In the SNP Finance case, the auditor showed negligence because he did not apply the precautionary principle optimally. Bad credit problems should be an indication that the company is in a high-risk condition, which increases the possibility of fraudulent acts. As competent auditors, they should be careful and convey relevant information in the form of explanations when issuing opinions.

An accountant may collect information from various clients while carrying out their duties. The principle of confidentiality requires accountants not to divulge information to other parties and to maintain the confidentiality of information obtained while providing professional services (Nainggolan, 2016). In the SNP Finance case, the auditor indirectly violated the principle of confidentiality because the public accountant was not aware of any fraud committed by the company. This lack of understanding indicates that they failed to detect the unethical act that occurred, so that the principle of confidentiality that should protect client information does not function properly in this situation. The principles of professional conduct require public accountants to act professionally and not engage in actions that could damage the reputation of their profession. In the SNP Finance case, the auditor was considered unprofessional because of his negligence in detecting significant misstatements and acts of fraud. As a result, public trust in Public Accounting Firms (KAP) and Public Auditors (AP) has decreased. KAP and AP failed to maintain their good name and reputation in the context of this case.

CONCLUSIONS

The SNP Finance case shows a serious violation of the Public Accountant Code of Ethics (KEPAP), which should be the main guideline for all auditors in carrying out their duties. The public accountants involved in this case violated four of the five basic ethical principles, namely integrity, objectivity, competence and professional behavior. In terms of integrity, violations occur because the audit reports produced cannot be accounted for, which is detrimental to stakeholders. According to the principle of objectivity, the auditor failed to identify material misstatements in the financial statements, which benefited SNP Finance and harmed other parties. Regarding the competency principle, auditors do not demonstrate adequate care and lack the experience necessary to conduct an audit properly, which results in an erroneous audit opinion. Considering that SNP Finance experienced bad credit with a significant amount of receivables, the auditor should carry out an in-depth examination to identify the cause. Regarding the principle of confidentiality, no violations were identified because the auditors were not

aware of any fraud committed by SNP Finance. Finally, in the context of the principles of professional behavior, auditors are considered unprofessional due to negligence in carrying out the audit.

Based on the SNP Finance case, the auditors involved should apply the five basic ethical principles. Implementing these principles is important to prevent similar situations from occurring, and can improve audit quality and build public trust in audit services. These five principles are interrelated, where auditors need to be honest, objective, competent, maintain confidentiality and act professionally in carrying out audits. This will contribute to improving the quality of audits by public accountants and public accounting firms as a whole.

FURTHER STUDY

Further study can explore the impact of ethical violations on stakeholder trust and the reputation of public accounting firms. Researchers could investigate how implementing ethical training and strengthening the enforcement of the Public Accountant Code of Ethics (KEPAP) can enhance audit quality and reduce the risk of misconduct. Additionally, examining the role of regulatory bodies in monitoring and penalizing unethical practices could provide insights into improving accountability and transparency within the auditing profession.

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