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Analysis of Ethical Violations in Financial Accounting Practices (Case Study of PT Hanson International Tbk)

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A B S T R A C T

This study analyzes ethical violations in accounting practices at PT Hanson International Tbk, which were revealed in 2016. The case began when the Financial Services Authority (OJK) imposed a fine of IDR 5 billion on the President Director, Benny Tjokrosaputro, due to improper revenue recognition and lack of transparency in financial reports. This study uses a case study method with data collection through literature reviews and analysis of official documents and OJK reports. The results of the study show that unethical accounting practices not only harm the company but also have a negative impact on the trust of investors and other stakeholders. The involvement of external auditors from the Public Accounting Firm (KAP) Purwanto, Sungkono & Surja (PSS) in this case reflects a violation of the professional code of ethics. This study emphasizes the importance of integrity and compliance with ethical standards in preventing similar violations from occurring in the future. Recommendations for strengthening the internal control system and ethics education in the accounting environment are also presented as preventive measures.

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INTRODUCTION

Organizations are required to provide financial reports that are as accurate and complete as possible while adhering to qualitative criteria such as comparability, understandability, relevance and reliability. By doing this, the possibility of inaccurate financial reports can be reduced, and the parties are not harmed and the information can be relied upon. The information presented in the financial reports and the data provided must be reliable, so as not to interfere with the ability of interested parties to make a choice (Yanti & Munari, 2021).

Ethical breaches in accounting can have broad and profound impacts, not only for the companies involved, but also for the entire market ecosystem. In today's information age, public trust in financial reports is critical to maintaining market stability and integrity. Failure to comply with ethical principles can result in significant financial losses, as well as damage the reputation of the company and the accounting profession as a whole. Therefore, this study aims to explore the case of PT Hanson International Tbk as a real illustration of ethical violations in accounting practices, as well as to provide recommendations on the importance of integrity and adherence to ethical standards in preventing similar problems from recurring in the future.

The case of PT Hanson International Tbk that emerged in 2016 became the public spotlight after the Financial Services Authority (OJK) imposed a sanction on the President Director, Benny Tjokrosaputro, with a fine of Rp5 billion. The sanction was given due to improper revenue recognition and lack of transparency in the 2016 financial report. The company failed to disclose important sale and purchase agreements, resulting in misleading stakeholders, including investors and auditors.

The involvement of external auditors from the Public Accounting Firm (KAP) Purwanto, Sungkono & Surja (PSS) in this scandal indicates a violation of the professional code of ethics. This case illustrates that ethical violations in accounting practices can cause significant material losses and damage a company's reputation. Therefore, it is important for every auditor to understand and comply with the professional code of ethics to avoid wider negative impacts.

LITERATURE REVIEW

The Concept of Ethics

Ethics generally relates to the moral principles and values that determine human behavior, and identifies what is considered good or bad. Ethics serve as a guide for individuals and organizations in making decisions that take into account their impact on others and society (Schwartz & Kay, 2023).

Ethical behavior is an action that is in line with moral norms and principles recognized by an individual, group, or society. It includes elements such as honesty, integrity, fairness, responsibility, and respect for others (De Cremer & Moore, 2020). In the context of organizations and businesses, ethical behavior involves applying moral principles in decisions and actions that affect various stakeholders, such as staff, consumers, investors, and the wider community. The Basic Concept of Ethical Behavior includes:

1. Honesty and Transparency: Be honest in business communications and transactions and provide clear and correct information to all parties involved.
2. Justice: Treating every individual fairly without discrimination, and providing equal opportunities to all.
3. Responsibility: Acknowledge and be accountable for every decision and action taken, and understand its impact on society and the environment.
4. Respect: Respect the rights, privacy, and dignity of others.
5. Integrity: Maintaining consistent moral principles and acting in accordance with ethical values.

In the book written by Duska et al, it is explained that ethics in accounting goes beyond mere compliance with rules and regulations. Ethics also includes fair and morally responsible decision making. In the accounting profession, important aspects such as integrity, objectivity, professional competence, confidentiality, and professional behavior are highly emphasized. Ethics serve as a guide for accountants to act correctly with moral values, not only following applicable regulations, ethics also includes a commitment to maintaining high professional standards, including maintaining the confidentiality of client information, providing services with adequate competence, and maintaining objectivity without being influenced by external pressure. The main concepts of ethical behavior in accounting include:

1. Integrity: Accountants must be honest and transparent in reporting financial information. They must avoid misleading statements or omissions in the presentation of financial statements.
2. Objectivity: Accountants should be neutral and impartial. They should avoid conflicts of interest and ensure that their professional judgment is not influenced by external pressures or personal interests.
3. Confidentiality: Accountants must maintain the confidentiality of the financial and business information they access. This data must not be used for personal gain or disclosed without proper authorization, except as required by law.
4. Professional Competence: Accountants must maintain a high level of professional competence, continually update their knowledge and skills, and only perform tasks that are within their capabilities and expertise.
5. Compliance with Rules and Regulations: Accountants are required to comply with applicable laws, regulations, and professional standards in accounting practices. They must ensure that financial statements follow the prescribed guidelines.
6. Professional Responsibility: Accountants have an obligation to act in the public interest, not just that of their clients or employers. A commitment to the integrity of the profession is essential to maintaining public confidence in the accounting field.

The application of ethical behavior is crucial to maintaining the integrity of the accounting profession and ensuring that financial information presented to the public and other interested parties is reliable. Failure to comply with these ethical principles can result in serious financial loss, damage reputation, and reduce confidence in the accounting profession as a whole.

The Basis of Ethical Theory

In accounting, ethics are very important because accountants are expected to make fair and honest decisions that affect various stakeholders. Understanding ethical theory enables accountants to analyze ethical dilemmas more effectively and make more responsible decisions. This theory provides guidance regarding the actions that should be taken in certain situations, as well as the reasons behind evaluating those actions as right or wrong. In professions that deal with financial information that can influence economic and social decisions, understanding this theory helps ensure ethical and fair practice.

Duska et al. outline several major ethical theories that are often used to assess ethical decisions in accounting:

1. Deontological Ethical Theory

Deontological theory emphasizes duties and obligations. According to this approach, an action is considered ethical if it conforms to a moral rule or obligation, regardless of the resulting consequences. Immanuel Kant is one of the main figures in deontological theory, with the concept of the "categorical imperative" which emphasizes that an action should be carried out only if it can be made into a general rule that applies to everyone.

2. Utilitarianism Ethical Theory

Utilitarianism is an ethical theory that focuses on the outcomes or consequences of actions. An action is considered ethical if it produces "the greatest good for the greatest number of people." Jeremy Bentham and John Stuart Mill were key figures in the development of utilitarianism theory. Bentham introduced the concept of hedonic calculus, while Mill emphasized the quality of happiness as an important factor.

3. Virtue Ethics Theory

Virtue ethics focuses on the moral character and personal qualities of the individual performing the action. This theory emphasizes the importance of good habits and moral character in making ethical decisions. Aristotle was a major figure in the development of virtue ethics, focusing on the development of "virtues" such as courage, justice, and wisdom as part of the good life.

Financial Accounting

According to Sugiarto (2002), financial accounting focuses on the preparation of periodic company financial reports, with the aim of providing relevant information to stakeholders.

Meanwhile, according to Kieso (2013), financial accounting involves a series of processes in preparing financial reports in accordance with applicable accounting standards, with the aim of providing useful information for third parties in the decision-making process.

Financial statements

According to PSAK No. 1 Rev 2009 (par 9), the main purpose of financial statements is to present information about the financial position, performance, and cash flow of an entity. This information is very important for users of financial statements in the economic decision-making process (Putri & Triandi, 2021).

The preparation of financial reports must follow applicable Financial Accounting Standards and must ensure that there are no significant errors. Accurate and transparent information is essential to help users understand the true condition of the company. The use of public accounting services to evaluate the reliability of published financial reports is expected to strengthen supervision of potential deviations in the preparation of these reports. The goal is to minimize significant reporting errors, and improve financial reporting standards. A quality audit is generally carried out by a Public Accounting Firm (KAP) that has professionalism, competence and a good reputation in the eyes of the public. Thus, the results of this audit will be more easily trusted by users of financial reports (Awalianti & Nasution, 2020).

METHODOLOGY

This study uses a case study method to analyze ethical violations in accounting practices at PT Hanson International Tbk. Data were collected through a literature review that includes official documents, OJK reports, journal articles, and other relevant sources. The analysis is conducted by identifying and evaluating ethical violations that occur, as well as their impact on the company and stakeholders. This analysis process also involves the application of ethical theory to understand the decisions taken by management and auditors. In addition, with accounting practitioners and auditors, it can be done to gain a deeper perspective on the ethical challenges faced in everyday practice, as well as solutions that can be applied to improve ethical compliance in the accounting environment.

RESEARCH RESULT AND DISCUSSION

The results of the analysis show that PT Hanson International Tbk committed a number of ethical violations in accounting practices. OJK imposes administrative sanctions on companies and individuals involved due to violations of capital market laws. Improper revenue recognition and lack of transparency in the 2016 financial statements resulted in sanctions from the OJK. The Rp5 billion fine imposed on Benny Tjokrosaputro reflects the serious impact of this violation.

The involvement of PSS auditors in this case shows a lack of application of professional ethical standards. Excessive use of the accrual method inflated revenue by Rp 613 billion, causing misleading information for users of financial statements. Violations of the code of ethics by management and auditors not only harm the company, but also reduce the trust of investors and other stakeholders.

This case highlights the importance of integrity and transparency in financial reporting. The application of strong ethical principles in every aspect of accounting practice is necessary to maintain public confidence and the overall health of the market. From an ethical theory perspective, the company's actions clearly violate the moral obligation to present accurate information. This demonstrates the need for integrity and adherence to ethical standards among accountants and auditors.

The discussion of the PT Hanson International Tbk case shows that ethical violations in accounting practices not only result in financial sanctions, but also have serious long-term impacts on the company's reputation. Improper revenue recognition, done using a misleading accrual method, creates a false picture of the company's financial performance. This not only harms investors, but also impacts public confidence in financial reporting and the integrity of the market as a whole.

The involvement of auditors from KAP Purwanto, Sungkono & Surja (PSS) in this scandal highlights the importance of the role of auditors in maintaining ethical standards. Auditors are supposed to act as independent and objective monitors, but in this case, they failed to detect and report the violations that occurred. This suggests that better training and understanding of professional ethics among auditors and accountants is essential to prevent the recurrence of similar incidents.

Furthermore, this case underlines the importance of strengthening internal control systems within companies. Without adequate oversight, ethical violations can occur undetected, creating greater risk to the company and its stakeholders. Implementing stronger internal controls and regular internal audits can be an effective preventive measure to ensure that financial statements are prepared correctly and in accordance with accepted accounting principles.

Overall, the case of PT Hanson International Tbk is a valuable lesson for the entire accounting profession. The application of strong ethical principles and a commitment to transparency and accountability must be a top priority in any accounting practice. Thus, it is hoped that public trust in financial reports can be maintained, and financial market stability can be maintained.

CONCLUSIONS AND RECOMMENDATIONS

The case of PT Hanson International Tbk shows that ethical violations in accounting practices can have significant and broad impacts, both for the company itself and for the entire market ecosystem. Improper revenue recognition and lack of transparency in financial reporting not only harm investors, but also undermine public confidence in the integrity of financial information. The sanctions imposed by OJK on related companies and individuals reflect the importance of compliance with regulations and ethical standards in maintaining market stability.

Furthermore, this case emphasizes the need to strengthen internal control systems and a commitment to ethical principles in every aspect of accounting practice. Auditors have a vital role in ensuring that financial statements are prepared accurately and transparently, and good training and understanding of professional ethics are essential. By implementing strong ethical principles, it is hoped that companies can minimize the risk of future violations, maintain public trust, and maintain their sustainability and reputation in the market.

ADVANCED RESEARCH

This study on PT Hanson International Tbk has several limitations, including the reliance on publicly available data, which may not fully capture the internal decision-making processes or the complexities of ethical violations in accounting practices. Additionally, the analysis focuses primarily on the financial and regulatory impacts, potentially overlooking broader sociocultural and organizational factors that contribute to such violations. Future research should consider conducting in-depth case studies with access to internal company data and interviews with key stakeholders to gain deeper insights into the root causes of ethical breaches. Comparative studies across industries and regions could also help identify systemic patterns and effective mitigation strategies. Furthermore, exploring the role of emerging technologies, such as AI and blockchain, in enhancing transparency and accountability in financial reporting could provide valuable contributions to the field.

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