

# The Importance of the Code of Ethics in Preventing Fraud for the Professional Accountant

Andri Goklas \*<sup>1</sup>, Arifin Hasudungan Manurung <sup>2</sup>

\*<sup>1,2</sup> Management Studies Program, Faculty of Economics and Business, Universitas Mercu Buana, Jakarta, 10340, Indonesia

---

## ARTICLE INFO



**Jurnal Economic Resources**

### Article history:

Received – December 08, 2021

Revised – January 22, 2022

Accepted – January 24, 2022

### Correspondence Email:

[55120120165@student.mercubuana.ac.id](mailto:55120120165@student.mercubuana.ac.id)

### Keywords:

Code of Ethics.

Preventing Fraud.

Professional Accountant.

---

## ABSTRACT

The development of accounting science which aims to present company financial information can turn out to be fraudulent. Cases of corporate financial scandals, such as KAP Andersen and Enron and KPMG-Siddharta & Harsono, manipulated by accountants can cause losses to much parties. Research with literature study is research that uses sources and data collection methods by taking data in the library, then reading, taking notes, and processing research materials. For this reason, the code of ethics in the accounting profession is important. This study discusses the importance of a code of ethics in preventing fraud in the accounting profession with a literature study approach. The results show that the code of ethics is important because it can embed professional values and ideals and increase public trust.

## INTRODUCTION

The development of an economy that be complex requires a science accommodating the quantitative field. This is a general demand to fulfill these requirements. One of the important sciences related to quantitative economics is accounting. According to the American Institute of Certificate Public Accountants (AICPA), in Harahap (2003), accounting is defined as the art of recording, classifying, summarizing, and interpreting the results by a certain way in terms of monetary measures, transactions, and events that are generally financial in nature.

Accounting is a methodology and a collection of knowledge related to information systems of economic units. Accounting is divided into two understandings. First, knowledge which related to the process of carrying out bookkeeping in a broad sense. Second, knowledge related to the examination and assessment of the results of the bookkeeping process (Hariyanti, 2016). In other words, the understanding of accounting is broader in the field of theory, application, or practice bookkeeping processes, or also examination and assessment. In practice, accounting has general uses, as follows (Hariyanti, 2016):

- Knowing useful information for management.
- Calculate the profit or loss achieved by the company.
- Controlling or supervising the activities of the company.
- Shows what the company does in achieving the targets set by the company.

As a financial information system, accounting is expected to be able to provide precise and accurate information in providing the right decisions for its users so that users can make decisions for the progress of the companies they manage. Ideally, accounting provides benefits in the company's financial performance. However, in practice, there is also a lot of fraud or fraud in accounting activities carried out by accountants, someone who carries out the activities of the accounting profession. Fraud is a fake that

is intentionally done for gaining profit for the party who commits it and loss for the party who cheated on. In general, fraud occurs because there is pressure to commit fraud or there is courage to take advantage of opportunities for these actions. Fraud is an act against the law for personal gain. There are several factors that cause someone to commit fraud. According to accountant Steve Albrecht, the causative factors include pressure, opportunity, and rationality. For example, from pressure factor, a finance employee manipulates financial statements by marking up earnings that are higher than they are. The actions taken by these employees were carried out because of pressure from the management. The profit mark-up can be used to improve the company's image in investors perspectives.

Fraud can also be classified into three types, namely (1) management fraud; (2) employee fraud; (3) computer fraud (Princess). In management fraud, fraud is carried out by high-class people through position fraud or corporate fraud. They are commonly referred to as white collar crimes. In employee fraud, fraud involves lower-class employees. They commit theft or manipulation by taking advantage of opportunities at certain moments. While in computer fraud, fraud is carried out through computer records in the form of operational records or bookkeeping of a company. In general practice, fraud committed by public accountants is closely related to upper class people. In this case, there are several cases that occur in the financial scandals of large companies. There are two examples that can be presented, namely the case of KAP Andersen and Enron and the case of KPMG-Siddharta & Harsono.

In the first example, the case of KAP Andersen and the natural gas company Enron was revealed when in 2001, the financial condition reported by the Enron Company was supported by systematic and planned accounting fraud. Enron Company manipulated to beautify the company's financial statements. The disclosure of this case resulted in leaving of investors until Enron's stocks drop drastically to a level of US\$ 0.26. After investigation, this case also dragged KAP Andersen as accountants who provided audit and consulting services to Enron. Some of the violations that Enron committed included:

1. Inflated the revenue value of Mariner Energy, a subsidiary of Enron, from US\$ 185 million to US\$ 366 million. There is a fictitious revenue of US\$181 million.
2. loaning operational funds that are not recorded as debt. Some of these loans are classified as trades of energy futures, others are entitled "cash flow from trading activities".
3. Hiding large losses in subsidiaries owned by Enron by creating certain agreements to cover losses in subsidiaries.

In the second case, KPMG-Siddharta & Harsono also committed an accountant violation. The public accounting firm was proven to have bribed the tax authorities in Indonesia in the amount of US\$75 thousand to reduce the taxes of PT Easman Christensen, a subsidiary of Baker Hughes Inc. KPMG-Siddharta & Harsono issued a fake invoice for KPMG's professional service fees that had to be paid by its client, PT Easman. As a result, PT Easman's tax liability has been drastically reduced. However, the adviser of company Baker Hughes' anti-bribery is concerned about the actions of its subsidiary. The company reported its subsidiary's actions to law and fired its executives. The US capital market supervisory agency, the Securities & Exchange Commission, ensnared the case as the Foreign Corrupt Practices Act. This resulted in a larger case, Baker and KPMG being sued in a Texas district court. But with out-of-court lobbying, the case was settled out of court.

According to these two cases, it can be said that the application of accounting also requires values. If the values in the application of accounting are prioritized, then various cases like what happened before can be minimized. So, discussing about values in the application of accounting means also discussing about a code of ethics for accountants because the code of ethics establishes the values that are the principles of accounting profession holders in doing accounting activities. This study tries to provide an important urgency about the importance of an accountant's code of ethics to prevent fraud committed by the profession. By dissecting the importance of the accountant's code of ethics, it is hoped that this can

minimize cases of fraud committed by professional accountants. Therefore, the researcher seeks to discuss the importance of the accountant's code of ethics.

## **RESEARCH METHOD**

Research methods use literature study. Literature study is another term for literature review, literature review, theoretical study, theoretical basis, literature review, and theoretical review. Research with literature study is research that uses sources and data collection methods by taking data in the library, then reading, taking notes, and processing research materials. The data needed in the research can be obtained from library sources or documents. In library research, library research is not only the first step in preparing a research framework, but at the same time utilizing library resources to obtain research data. Researchers use literature sources in the form of books, journals, and studies sourced from personal libraries and the internet to produce this scientific work. These literature sources are very useful for researchers to know and explore more about the code of ethics, especially regarding accounting. The difficulty obtained by the researcher is that the time limit is too narrow so that extra energy is needed to make this research.

## **RESULT AND DISCUSSION**

### *About the Code of Ethics*

Based on the explanation above, the application of values in accounting really needs a code of ethics to reduce fraud that has occurred in previous cases. The concept of ethics is based on Greek word "ethos" (Singh, 2017). It means about individual's character and a community's culture. Ethics are about principles and values. A code of ethics is a set of principles that guide individual or organization in its program, policies, and decisions. It prioritizes moral and values that is high priority in human life. In business matters, code of ethics can border both good and evil in applying actions. Code of ethics can implement the set of duties and ethical responsibilities in conducting business and business activity in general of the company. Code of ethics in business can include corporate executives, external collaborators, partners, and any case. In general, the code of ethics consists of three elements (Singh, 2017):

- General principles. It regards relations among the company and the recipients and in relations with external interlocutors.
- Policies. It set the guidelines and rules with the others side among all specifically. Every company and recipient must respect one another and prevent the risk non-ethical conduct.
- Mechanism that needed to monitor, disseminate, and implement compliance with code of ethics. It is indispensable to every side to ensure improvement one another.

### *Profession in code of ethics*

Accountant is a part of profession. As a part of profession, there are many perspectives that discussing profession. In functionalist perspective, profession have emerged because they provide an important social function. It linked to society significantly. In interactionist perspective, profession vying with each other for political status and economic gains. In critical perspective, profession relate with the function of political and structural expediencies (McPhail,2009). The idea of professionalism is not just doing a good job, but also must be associated with the people who use the equipment rather than the equipment itself. Profession has values. It characterized by a knowledge base, commitment to public service, independence, and education as opposed training. Profession develops social and moral ties among their members who enter a community of common purpose. Professions have various characteristics that accepted such as (McPhail,2009):

- Skill based on theoretical knowledge. They are assumed have more theoretical knowledge and skills based on that knowledge.
- An extensive period of education and training. They have a period of formal education, training, or apprenticeship.
- Testing ability. To join a profession, we must join examination based on theoretical knowledge
- License to practice. Profession must be registered or licensed as a member of profession
- Work independence and autonomy. They can control over their own work.
- Professional associations. Professions have professional societies
- Code of professional conduct. They have code of conducts or ethics for their members and disciplinary procedures.
- Self-regulation. As a professional, they should be self-regulating and independent form government
- Public service and altruism. They provide the public interest so that they are protected
- High status and rewards. The most successful profession is achieving high status and public prestige

The profession also requires principles in the code of ethics. There are three ethical principles built into the profession (Nurfuqan):

1. Responsibility. Responsible for the implementation of the work and its results, as well as being responsible for the impact of the profession on people's lives.
2. Justice. The principle that prioritizes justice and demands to give rights to anyone.
3. Autonomy. The principle that requires professionals to have and be given the freedom to carry out their profession

Through these principles, values in professional ethics are built. Ethics also has a role in the profession. Ethical values do not only belong to one or two people, or a group of people, but belong to every community group. These ethical values are expected to have values to regulate life. One group that has value as a basis is the professional group. This group is often the center of attention because of their written values. The public spotlight becomes sharper when the behavior of some members of the profession is not based on mutually agreed social values, so that becoming decline in ethics in the professional community.

The negative cases in professional accountant, such as Enron and KMPG-Sidharta & Harsono, give big effect to code of ethics of accountant. It reemerges a significance of code of ethics on accountant within society and economic system. Although code of ethics looked like outmoded, but it's important to rethinking a significance to emerge the idealism of profession in society. In 21st century. According to accountant Agoes (2004), every profession that serves services to the community must have a code of ethics that is part of the moral principles governing professional behavior. If the public accounting profession applies high quality standards to the implementation of audit work, then public trust in audit quality will be higher.

#### *Code of Ethics for Accountants in Indonesia*

In Indonesia, accounting science has been also developing along with the increasingly complex economic development. These developments also eventually required the accounting profession unit, the Indonesian Institute of Accountants (IAI), to have a code of ethics for the IAI accounting professional organization. In 2020, IAI published the Indonesian Accountant Code of Ethics book which was effective on July 1, 2020. The code of ethics was adopted from the Handbook of International Code of Ethics for Professional Accountants 2018 edition published by the International Ethics Standard Board for Accountants (IESBA) of the International Federation of Accountants (IFAC). IAI, including the accountants who are its members, are obliged to devote the code of ethics as part of its compliance.

In substance, the accountant's code of ethics still includes five basic ethical principles for accountants, namely integrity, objectivity, professional competence and prudence, confidentiality, and professional behavior (Ikatan Akuntansi Indonesia, 2020). Integrity means being straightforward and honest in professional and business relationships; objectivity means not compromising professional judgment because of bias, conflict of interest, or undue influence from other parties. Meanwhile, professional competence and caution are aimed at achieving and maintaining professional knowledge at the level required to ensure that clients where they work receive competent professional services. In addition, professional competence and caution are also required to act seriously and in accordance with applicable professional standards. The principle of confidentiality means maintaining the confidentiality of information obtained because of professional and business relationships. In the principle of professional behavior, accountants are required to comply with applicable laws and regulations, then avoid behavior that may discredit the accounting profession.

Every accounting profession must devote to these five basic ethical principles. The accountant's code of ethics is expected to increase public trust in accountants and increase the accountant's contribution to the interests of society and the state as well as driving economic growth in Indonesia.

#### *Implementation and Socialization of the Accountant Code of Ethics in Indonesia*

The implementation of the code of ethics for accountants in Indonesia has so far been running and showing some results. The study in Bandung examined the application of a code of ethics for accountants in several public accounting firms in the city of Bandung. The study used a descriptive method targeting 48 respondents. Based on the research results obtained, it turns out that the application of the professional code of ethics at the public accounting firm has fulfilled the ethical principles, namely professional responsibility, public interest, integrity, objectivity, professional competence and caution, secrecy, professional behavior, and technical standards. (Novatiani, 2017).

Data which gained from the distribution of questionnaires to 48 respondents from public accounting firms in the city of Bandung showed a score of 84% with a mean score of 4.19 from a range of points 5. This shows that the study is in the good category whose value interval is in the range of 3.40-4.19 (Novatiani, 2017). Through the implementation of the accountant's code of ethics in the implementation of his profession, the public's trust in accountants is increasing. Therefore, the accountant's code of ethics must be socialized to accountants and the public so that accountants understand and then internalize the code of ethics in accounting practice. Meanwhile, with the socialization of the accountant's code of ethics, the public can also supervise accountants through understanding the code of ethics. Through the accountant's code of ethics and reciprocal interaction, this can help prevent fraud committed by accountants.

#### **CONCLUSION**

Accounting knowledge is very important in presenting financial information of a company or organization. This knowledge can be a benchmark for companies to see their financial performance is making a profit or loss. That way, the company can further develop itself in a more measurable way. But in its development, it turns out that accounting has been misused by irresponsible parties. Many frauds are committed by accountants for personal gain. As in the examples shown, KAP Andersen and Enron and the KPMG-Siddharta & Harsono case, this can harm many parties. In fixing this, a code of ethics for accountants is needed as an effort to raise the idealism of an accounting profession in the public sphere.

This is important to increase public trust. The accountant's code of ethics is important to instill ethical values in the professionalism of accountants' work. Experience in Indonesia shows that an Indonesian accountant code has been issued in 2020 which adopts an international accountant code of ethics. Studies in Bandung also show that some accountants have implemented a code of ethics for

accountants that can increase public trust. From all of that, the accountant's code of ethics has benefits and therefore must be disseminated massively.

## REFERENCE

- Agoes, sukrisno. 2004. Auditing (Pemeriksaan Akuntan) Oleh Kantor Akuntan Publik. Penerbit Fakultas Ekonomi Universitas Trisakti: Jakarta.
- Badjuri, A. (2010). Peranan etika akuntan terhadap Pelaksanaan fraud audit. *Fokus Ekonomi*, 9(3), 24393.
- Bastina, A. D., Sawarjuwono, T., & Subekti, G. A. (2020). KODE ETIK AKUNTAN PUBLIK DALAM KAJIAN FIKIH MUAMALAH. *Jurnal Akuntansi*, 10(2), 183-196.
- Harahap, Sofyan Safri, 2003, Teori Akuntansi, Edisi Kelima, PT. Rasmindo, Jakarta
- Hariyani, Diyah Santi. 2016. Pengantar Akuntansi I (Teori & Praktik). Aditya Media Publishing: Malang
- Ikatan Akuntan Indonesia. 2020. Kode Etik Akuntan Indonesia. Jakarta
- Iswahyudi, M., Hurrotul'Aini, W., & Hakim, A. R. (2019, June). PEMAHAMAN AKUNTANSI FORENSI BAGI INTERNAL AUDIT GUNA MENDETEKSI DAN MENCEGAH FRAUD. In *Prosiding Seminar Nasional & Call for Paper* (pp. 272-277).
- Larasati, E. A. (2018). *PENGARUH SKEPTISME PROFESIONAL, INDEPENDENSI DAN ETIKA PROFESI TERHADAP KEMAMPUAN AUDITOR DALAM MENDETEKSI FRAUD (KECURANGAN) (Studi Kasus Badan Pengawasan Keuangan dan Pembangunan Provinsi Jawa Tengah)* (Doctoral dissertation, Universitas Muhammadiyah Semarang).
- Mauludy, Mohammad Iqbal As'ad dkk. 2017. "Analisis Kasus Pelanggaran Standar Profesional Akuntan Publik oleh KAP Winata", *Prosiding Seminar Nasional dan Call for Paper Ekonomi dan Bisnis*
- McPhail, Ken & Diane Walters. 2009. *Accounting & Business Ethics*. Routledge: London
- Novatiani, R. Ait & R. Wedi Rusmawan Kusumah. 2017. "Analisis Penerapan Kode Etik Profesi pada Kantor Akuntan Publik (KAP) di Kota Bandung, *Proceedings Universitas Widyatama*
- Muria, R. M., & Alim, M. N. (2021). PERILAKU ETIS DAN KODE ETIK AKUNTAN PROFESIONAL DALAM AKUNTAN PUBLIK. *Wacana Equilibrium (Jurnal Pemikiran Penelitian Ekonomi)*, 9(01), 41-52.
- Nurfuqan & Ella Evrita, "Penerapan Etika Profesi"
- Putri, Anisa. "Fraud (Kecurangan) Laporan Keuangan" (Kajian)
- Ramadhaniyati, Y., & Hayati, N. (2014). Pengaruh Profesionalisme, Motivasi, Integritas, dan Independensi Satuan Pengawasan Internal dalam Mencegah Kecurangan (Fraud) di Lingkungan Perguruan Tinggi Negeri. *Journal of Auditing, Finance, and Forensic Accounting*, 2(2), 101-114.
- Ramadhani, N. (2020). Analisis pengaruh kualitas auditor, penerapan kode etik, budaya organisasi dan pengendalian internal terhadap pencegahan kecurangan di Astra International. *SKRIPSI-2020*.
- Rini, W. A. S. PERAN KODE ETIK DALAM PENCEGAHAN FRAUD PADA AUDITOR DI LINGKUNGAN BADAN PEMERIKSA KEUANGAN (STUDI PADA BPK RI PERWAKILAN JAWA TIMUR). *Accounting and Business Information Systems Journal*, 9(2).
- Singh, Chandrashekhar & Mahavir Prasad. 2017. "Code of Ethic inan Organisation," *International Journal of Application or Innovation in Engineering & Management (IJAIEEM)*: Vol. 6 (4)
- Sulistiyo, H. (2014). Relevansi nilai religius dalam mencegah perilaku disfungsi audit. *Jurnal Ekonomi Manajemen Akuntansi*, 21(36).
- Wulandari, D. N. (2018). Pengaruh pengendalian internal, kesadaran anti-fraud, integritas, independensi, dan profesionalisme terhadap pencegahan kecurangan. *SKRIPSI-2018*.