

# Analysis of Sanctions on the Violation of the Professional Code of Public Accountants Ethics (Study of literature)

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The public accountant has a strategic position in improving the transparency and quality of information in the field of finance. Compliance with the code of ethics of the profession will increase public confidence over the accountability of the public accountant. This research uses a descriptive method, which aims to describe the procedure of application of sanctions for infringement of the code of ethics of the profession performed by the public accountant. The data has been obtained through the study of literature journals and electronic media. The results showed the procedure of sanctions for infringement of the code of conduct carried out by public accounting has been carried out in accordance with Act No. 5 of year 2011, but this does not fully provide a deterrent effect against a public accountant.

**Key words:** *Sanctions, the code of ethics of the profession, the public accountant.*

## Introduction

National sustainable development requires a healthy national economy and efficient management principle is accompanied by transparency and accountability. To achieve this requires the services of a public accountant who can give confidence to the users of the financial statements in order engage in accurate economic decision-making. The development of the profession of the Public Accountant (AP) in Indonesia is inseparable from the development of the global economy. The demands of society and accountability transparency will be greater over the presentation of the financial statements presented by the company,

pushing the public accountant to always increase their competencies and to keep a professional attitude. Accounting practitioners often have a dilemma when faced with ethical issues at the time of professional activity (Jakubowski et al., 2002). The failure of accounting practitioners in maintaining public confidence leads to the loss of their credibility, it is therefore important to provide moral education on accounting practitioners (McPhail, 2001).

Indonesia Institute of Public Accountants (IAPI) as a public accountant association has a duty to coach and supervise all members in order to realize a public accountant who has the integrity, quality, the competence of an international standard, and encourage the growth of a healthy professional indecency and always keep the dignity as well as conducive to the profession of public accounting and to protect the public interest (Hussain, Ali, Thaker & Ali, 2019). On the basis of this, the Professional Standards Council provokes a public accountant IAPI code of conduct, applicable to public accounting, effective from 1 January 2010. This code of conduct sets out fundamental principles and rules of ethics of the profession that must be applied by every individual who is a member of either IAPI or who is not a member of IAPI, in providing professional services, namely provide the services as set out in the code of ethics and professional standard of the profession of public accounting. (IAPI, 2008).

The application of the basic principles of ethics will impact trust from the community that the financial statements presented have been reasonable and in accordance with Financial Accounting Standards (SAK) that apply so that financial statements are not misleading and unreliable in decision-making, and not detrimental to the stakeholders (Fatula, 2018). A public accountant must always be professional and independent i.e. should avoid personal interest and public interest of prefer (Olkiewicz, 2018).

In order to provide protection and legal certainty to the public (public accountant service users) and the professional nature of public accounting, the Government issued Act No. 5 of year 2011 about public accountant, which is a continuation of the regulations The Minister of Finance No. 17/FMD/2008 about public accountant, set in administrative sanctions violations committed by public accountants, ranging from warnings, freezing up, to revocation of the permission for public accountants. Act No. 5 of the year 2015, in addition to administrative sanctions also set provision criminal sanctions, i.e a public accountant who deliberately and or helps or eliminates/manipulates data, documents and records on the appropriate audit working paper with article 55, can now face prison if convicted (5 years and a maximum fine of Rp 300,000,000) (three hundred million Rupiah).

Act No. 5 of year 2011 that showed the Government's firmness in order to reduce violations committed by Public Accountants with more severe sanctions. But in fact since the onset of the Enron cases carried out by KAP Arthur Anderson in 2001 up to now cheating conducted

by public accountants is still occurring, starting from mild offences all the way up to serious breaches. Some of the cases that occurred in the year 2009, the Minister of Finance has given sanction to 8 AP and KAP that does not yet fully comply with the standards of the auditing (AU)-defined by SPAP IAPI, i.e sanctions in the form of permission to freeze 3 public accountants and 3 public accountant offices as well as the sanctions warning to 1 AP and 1 KAP (Antara new.com, 2009). Freezing sanctions were also given in the year 2017 to 9 AP due to a failure to not keep or complete paper work and complete an examination of financial statements; and revocation of 1 practise license because the accountant did not keep complete paper work of as many as 720 financial reports and did not report as many as 225 clients (www.iapi.or.id).

In 2018 the existence of cases of burglary of funds amounting to Rp2,4 trillion by PT Sunprima Nusantara Pembiayaan (SNP Finance). The case came to light after the report of Bank Panin on loans working capital credit facility and overdraft facility, from the May 2016 period up to 2017, with a ceiling to the debtor amounted to Rp425 billion. In May 2018 the credit status crashed to Rp141 billion. To overcome bad credit the SNP Finance published Financial Reports based on MTN in audits by KAP Bing Satrio Eny & Colleagues affiliated with KAP DeLoitte, SNP Finance filing delays payment debt obligations (PKPU) against its obligations which amounting to Rp4,07 trillion, consisting of banking credit amounting to Rp2,22 trillion and Rp1,85 trillion of MTS. The results of the investigation showed the company had committed the crime of falsification of documents, embezzlement, fraud and money laundering, using a list of fictitious receivables. This also happens on a credit facility to the company filed by 14 other banks, and had been anticipated by the banking industry by forming reserves to absorb the risk against the 14 banks that provide credit to the SNP Finance amounted to Rp2.4 trillion.

Violations committed by KAP Bing Satrio Eny & Partner over audits the financial statements of the period 2012-2016 PT Sunprima Nusantara Pembiayaan (SNP Finance). Based on the results of the examination of the Financial Services Authority (OJK) Public Accountant Marlinna and Syamsul Merliyana had been engaged in heavy offense, breaking POJK Number 13/POJK. 03/2017 on the use of the services of the public accountant. The public accountant had given opinions that did not comply with the conditions of an actual company. This is caused due to the proximity between the parties, which had an impact on the depletion of professional scepticism of the public accountant. The auditor also had not fully implemented the system of control of customer data-related information and the accuracy of the accounts receivable financing as well as journals have not implemented sufficient audit evidence acquisitions and or perform the procedures for adequate detection of fraud risk and response to the risk of fraud. Both are basic principles in the AP code of ethics of the profession of public accountants, so the Minister of Finance delivers the administrative

sanctions to public accounting Marlinna and Syamsul Merliyana. They were banned from auditing financial services entities for 12 month which took effect on 16 September 2018 until 15 September 2019. Meanwhile, KAP Bing Satrio Eny & Partner were penalized in the form of a sanction recommendation to establish the policies and procedures in the system of quality control related KAP of the existence of the threat of the closeness of his team members. In addition to the sanctions KAP, OJK also sanctioned PT Sunprima Nusantara Pembiayaan in the form of a freeze on their business license. OJK perform a business license revocation if the company conducts business activities before the end of the freeze. (CNN Indonesia.com, 2018).

The above phenomena indicates that there is still recurrent violations conducted by public accountants where public accounting has not been performing the procedure in accordance with the standards of the profession of public accounting and has not met some of the basic principles and ethics of the profession, namely the principle of integrity and objectivity in carrying out his profession as well as the principle of competence as well as the attitude of the confident and professional caution. This research will explain how the procedure of applications of sanctions for infringements of the code of conduct is performed.

## **Literature Review**

### ***Public Accountant***

The Public Accountant is a person who has obtained the permission of the Minister of finance to provide services and other insurance services as set forth in Act No. 5 of year 2011 about Public Accounting. The public accountant, hereinafter abbreviated KAP, is a business entity that is established under the provisions of the legislation and gets a business license by virtue of Act No. 5 of year 2011 about Public Accounting. Insurance services is a public accountant services which aims to provide confidence for users over the results of the evaluation or measurement of financial and non-financial information based on a criterion. Insurance services, namely: the audit over the historical financial information, and financial information upon review of services historically; this should only be done by a public accountant, in addition to an audit or review of historical financial information. That includes the other insurance services namely, the insurance alliance to conduct the evaluation of adherence to the rules above, the evaluation and effectiveness of internal controls, taxation, services and services for the compilation of financial statements.

### ***Code of Ethic of the Profession of Public Accountants***

Ethics comes from the Greek ethos, meaning the character. While ethics is morality derived from the Latin mores which means custom, morality based on right and wrong in human behaviour (Boyton, 2002). According to Gusti and Ali (2008), ethic is morals and values in behaviour. Ethics is closely related to morals and values. The auditors are expected by the community to be honest, fair and impartial and disclosing financial statements in accordance with the actual conditions (Sanchez, 2018). Every practitioner is obligated to comply with and implement the basic principles and rules of ethics of professions regulated in this code, unless the basic principles and rules of ethics of the professions regulated by legislation, laws, or regulations of any other apply. The entire basic principle and rule of the ethics of the profession is regulated in the legislation, the provisions of the law, or other regulations that apply. In addition to complying with the basic principles and remaining ethical rules of other professions regulated in the code of ethics. (IAPI, 2008).

### ***Code of Ethic of Profession of Public Accountant***

The code of ethics of the profession of public accountants consists of two parts, namely part A and part B, as follows:

Section A sets out the basic principles of the ethics of the profession and provides a conceptual framework for the application of the principle, that consists of 5 principles:

1. The principle of integrity, in the exercise of his profession and business relationships every practitioner should be assertive and honest. Integrity is also a cornerstone of public confidence and the benchmark for members in testing the decisions taken. (Pratama, 2010)
2. The principle of Objectivity, every practitioner should be independent, avoid conflict of interest or improper influence from other parties to affect professional consideration or consideration of his business. According to Wurangian (2005) an accountant when carrying out audits should be able to put myself up as best and as freely as possible so that they are able to assess honestly and presents the results in accordance with fact.
3. The principle of Competence, as well as accuracy and prudence Professional (Professional competence due care), each practitioner is obligated to maintain professional knowledge and expertise on a level that is required on an ongoing basis, so the client can receive professional services provided which are competent based on recent developments in practice, legislation, and the method of implementation of the work. The practitioner must act professionally and in accordance with the standards of the profession and how the profession code of ethics applies in providing professional services.

4. Confidentiality, respecting the confidentiality of the information obtained from the results of professional and business relationships. The professional does not disclose such information to third parties without a clear and sufficient authority, unless there is a right or a legal or professional obligation to express them and does not use such information for personal benefit.
5. Professional behaviour, each practitioner must comply with the applicable laws and regulations and avoid any behaviour which undermines trust in the profession of professional accountants.

Part B rules of ethics of the profession, providing illustrations of the application of the conceptual framework in certain situations, namely: a) threat of closeness, b) the designation of the practitioners, KAP or KAP network c) conflict of interest d) second opinion, e) in Exchange for professional services and other forms of remuneration, f) marketing professional services, g) acceptance of gifts or other forms of hospitality, h) storage assets belonging to clients, i) objectivities – all professional services, j) circumvent the insurance in the Alliance.

### ***Threats***

The conceptual framework in this professional code of ethics provides guidance in applying the basic principles of the ethics of the profession. Each practitioner is obliged to apply the conceptual framework for identifying the existence of a threat to the basic principles of the ethics of the profession and evaluates the significance of the threat. There are 3 categories of threat, namely: self-interest threat, self-review threat, advocacy threat, familiarity threat, intimidation threat (Rich Hayers, 2014). An antidote to the threat of the safeguards referred to above means that an antidote, a protector, or safeguards laid down by statutory rules through accounting or other provisions (Tuanakotta, 2015).

### ***Sanctions Based on Legislation***

Sanctions is a legal step that is implemented by certain countries or organisations due to violations committed by a person or group. The existence of these sanctions is expected to be able to make a person or group to obey by the rules and/or to not repeat previous mistakes. The worse the error that is performed by the professional, the more weight the sanctions will carry (Printaria, 2017).

A public accountant who breaches the code of conduct of the profession and the Public Accountant Profession Standards will be subject to administrative sanctions in accordance with No. 17//2008 Chapter VII about sanctions article (63) which states that: the imposition

of sanctions is done based on severity of violations, namely: a) a sanction imposed on a mild violation warning, b) freezing of sanctions imposed on the permit a gross violation, c) revocation of sanctions imposed on the very serious offences. This does not specifically regulate the public accountant profession but can provide protection and legal certainty for the community for the services that a public accountant supply.

For that reason, the government issued law No. 2011 about public accountants. Such sanctions may be administrative sanctions up to criminal sanctions. The administrative sanctions provided for in chapter XII of article 53 paragraph (3), namely the administrative sanctions can be: a) the recommendation to undertake certain obligations, b) written warning, c) restrictions on granting of services to a specific entity type, d) restrictions the granting of specific services, e) freezing permission, e) revocation, or e) fines.

Meanwhile, the criminal sanctions provided for in chapter XIII (55) article about the criminal provisions, namely: public accounting will be subject to criminal sanctions of imprisonment not more than 5 (five) years and a maximum fine of Rp criminal 300,000,000 (three hundred million rupiah) if: a) the public accountant does manipulations, helped perform the manipulation, and/or falsified data related to services provided b) public accountant who deliberately does manipulation, falsifies, and/or eliminates data or records on a paper work or auditing work. Sanctions were also imposed on each person giving a statement or providing false or forged documents to obtain or extend a permit of accounting pursuant to article 57 (1), while a person who is not a public accountant but is performing the role of a public accountant under the public accountant, will be subject to criminal sanctions of jail for up to 6 (six) years and a maximum fine of Rp criminal 500.000.000 (five hundred million rupiah).

## **Research Methods**

### ***Research Methods***

This research uses descriptive methods, i.e., methods that are in use to describe or analyse a research results but is not used to make broader conclusions (Sugiono, 2012). Technical analysis is done through the study of literature journals and various electronic media.

## **Discussion**

Public accountant services are services used in economic decision-making which are widely influential in the era of globalization. This has an important role in ensuring that the national economy is healthy and efficient as well as improving the transparency and the quality of information in the field of finance. This is in accordance with the objectives of the Government in order to support a healthy and efficient economy.

The occurrence of cases of irregularities committed by the code of ethics for public accountants showed that enforcing the code of ethics for public accountants is not easy, the problem lies in the ethical dilemma that is the situation that is faced by public accounting which requires a decision about behaviour (Arens, Loebbecke, and 2008). In the exercise of his profession, a public accountant is faced with an ethical dilemma where the existence of the threats posed come from both oneself or from the outside. This situation can occur when a public accountant has to make a professional judgement considering the points of view of morality. Complexity of this ethical dilemma is a challenge for the profession of public accounting which that requires a high level of ethical awareness, which can support the attitude and behaviour of public accountants in the face of ethical citations of such complexity, by implementing the framework conceptually to identify threats to compliance with the basic principles of the ethics of the profession and evaluate the significance of the threat by considering the proper precautions to eliminate or reduce the threat to acceptable levels, so that adherence to the basic principle of the ethics of the profession remains. This can increase public confidence in the public accounting profession.

Sanctions given by the government are already firm, starting with the regulation of the Minister of finance No. 17 in 2008, which sets out the administrative sanctions ranging from a warning to the freezing of business licenses. The application of these sanctions has been conducted through government agencies designated as PPPK Government to undertake the construction and supervision of the practice of public accounting, by way of conducting the examination and identification of violations committed by public accounting offences ranging from minor offences to heavy violations. As a concrete step the Government is addressing the cases of violation of the code of ethics of the profession and providing a deterrent effect to the perpetrator.

## **Conclusions and Suggestions**

### ***Conclusions***

Procedure for the application of sanctions for the public accountant who breaches the code of ethic of the profession has been carried out in accordance with act No. 17//2008 and Act No. 5 year 2011. But the Sanctions provided by the Ministry of Finance has not been the greatest deterrent. The professional attitude of a public accountant arises not because of the threat of punitive administrative, civil and even criminal sanctions which can ensnare top public accounting acts of violation, but more because of the demands of the society/world of business; especially in Indonesia which requires a process of healthy and transparent administration, so that the financial statements which have been audited are able to provide



information that can be trusted. For this reason, the society needs a public accountant who has high integrity, competence, and who is independent, and always behaves professionally in carrying out the tasks in the profession.

### ***Suggestions***

Based on the research results and conclusions above, the results of this research can be used as reference for a public accountant and the public accountant office to always apply the basic principles of the code of ethics and adhere to Public Accountant Professional Standards. A public accountant must always maintain a professional attitude and the attitude of independency when engaged in a working relationship with a client.

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