

## **Impact of Professional Ethics and Law no. 5 of 2011 on Public Accountants on the Quality of Public Accountants' Work at Public Accountants' Offices in Indonesia**



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**ABSTRACT:** The purpose of this research is to study and analyze the Impact of Professional Ethics, UU no. 5 of 2011 about Public Accountants on the Quality of Public Accountants' Work at Public Accountants' Offices in Indonesia. The research method uses a qualitative research method by interviewing actors of 10 students of the Stie Yai Master of Accounting study program, library studies, phenomena in society, previous research, the level of triangulation to eliminate subjectivity with Forum Group Discussion (FGD). Research, discussion, analysis and new conclusions and recommendations are drawn. The result of research that Professional Ethics and Law no. 5 of 2011 regarding Public Accountants has an impact on the quality of work of public accountants at Public Accountant Offices in Indonesia.

**KEYWORDS:** Professional Ethics, Law no. 5 of 2011 on Public Accountants, Quality of Public Accountants' Work.

### **I. BACKGROUND**

According to UU no. 40 of 2007 on Limited Companies, that all Companies must prepare Financial Statements in accordance with the Financial Accounting Standards (SAK) prepared by the Indonesian Accountant Association (IAI) and audited by the Public Accountant Office (KAP) as the basis of management's responsibility to the Holder Shares in the General Meeting of Shareholders. According to Law no. 8 of 1995 on the Capital Market, all companies listed on the capital market exchange must make Financial Reports prepared in accordance with the Financial Accounting Standards (SAK) made by the Indonesian Accountant Association, audited by the Office of Public Accountants and Law no. 19 of 2003 on State-Owned Enterprises (BUMN), also mandates that all SOEs must make Financial Reports as management accountability to shareholders must make Financial Reports prepared in accordance with the Financial Accounting Standards prepared by the Indonesian Accountants Association. Number of PTs Reported from Tirto.id, there are 26.71 million companies recorded through the BPS Economic Census throughout Indonesia in 2017. According to data reported by the Financial Professional Development Center (PPPK) from the Indonesian Ministry of Finance in February 2023, the number of public accountants who registered in Indonesia as active members as many as 1,464 people. Meanwhile, the total number of public accounting offices (KAP) in Indonesia is 472 companies. Thus the market share of Kanor Public Accountants is quite large. At the end of 2023, the total number of companies listed on the Indonesia Stock Exchange is 901 companies. PT Bursa Efek Indonesia (BEI) reported the capitalization value of the Indonesian capital market (market cap) reaching Rp11,692 trillion as of March 15, 2024 (google). By paying attention to the conditions above that the number of Public Accountants and the number of Public Accountant Offices is still low. The phenomenon that exists in the society of Directors of Private Enterprises, closed and open SOEs is pressured by Holder Shareholders Shares should continue to improve the Company's performance, increase profits. In order to get profits that continue to increase, the Board of Directors requests, pressures Management Accountants to engineer financial reports and pressures requests lobbying Public Accountants who work in Public Accountants' Offices to obtain Unqualified or Unqualified Opinions from rogue Public Accountants' Offices such as the case of PT. Garuda Indonesia Tbk, which is sanctioned by OJK and K P2PK of the Ministry of Finance, rogue external auditors from the Financial Inspection Agency (BPK). It is no longer a public secret that there are auditors and BPK members arrested by the Corruption Eradication Commission in a case at the Ministry of Communications and Informatics. There is a violation of Professional Ethics, there is a violation of Law no. 5 of 2011 regarding Public Accountants that affects the Quality of Public Accountants' Work. We are interested in researching, studying, analyzing about: The Impact of Professional Ethics, UU no.5 of 2011 on Public Accountants on the Quality of Public Accountants' Work at Public Accountants' Offices in Indonesia.

## Impact of Professional Ethics and Law no. 5 of 2011 on Public Accountants on the Quality of Public Accountants' Work at Public Accountants' Offices in Indonesia

### I. THEORETICAL STUDY

#### 1. Grand Theory.

- 1) Agency Theory. Agency theory as presented by Jensen and Meckling (1976) is a theory that states that the separation between the owner (principal) and the manager (agent) of a company can cause an agency problem (agency problem). Agency theory is a relationship between two parties, the first party occupies a position as the owner (principal) and the second party as management (agent).
- 2) Stewardship Theory. Stewardship theory has psychological and sociological roots designed to explain the situation where managers act as stewards and act according to the interests of the owners. (Donaldson, L, and Davis 1991),
- 3) Earning Management, Belkaoui (2007). Earning Management, profit management is the potential use of accrual management with the aim of obtaining personal profit.

#### 2. Variable Theory.

##### 2.1. Professional Ethics.

Professional Code of Ethics is an ethical order that has been agreed upon by a certain community group. The code of ethics is generally included in social norms, but if there is a code of ethics that has serious sanctions, then it falls under the category of legal norms. According to the head of Professional Ethics at the Institute of Management Accountants Indonesia (IAMI) since 2021, the Code of Ethics for Indonesian Accountants has been in effect which converges with the Code of Ethics for World Accountants. In carrying out his responsibilities as a professional, Professional Accountants are obliged to comply with the basic principles of ethics as follows: A. **Integrity**, Be straightforward and honest in all professional and business relationships. B. **Objectivity**. Not allowing bias, conflict of interest, or undue influence from other parties. C. **Competence of Professional Prudence**. Professional caution, maintaining knowledge and professional expertise at the required level. D. **Confidentiality**. Respect the confidentiality of information obtained, do not disclose information to third parties. E. **Professional Conduct**. Comply with applicable laws and regulations and avoid any behavior that reduces trust. Primaraharjo & Handoko explained that public accountants must adhere to the five principles in the Indonesian Accountant Code of Ethics, namely the principles of integrity, competence, confidentiality, objectivity, and professionalism. Although there is already an Indonesian Accountant Professional Code of Ethics that regulates the attitudes and actions of public accountants, there are still many violations and deviations made by public accountants, so that this can cause a scandal that tarnishes the public accountant profession itself and lowers public trust in public accountants. Examples of cases of violations that occurred in Indonesia, among others, the scandal of KAP Purwanto, Sungkoro, and Surja (Members of Ernst and Young Global Limited/ EY) who were proven to have violated capital market laws and the code of ethics of the public accounting profession in 2019, by way of inflated (over statement) income worth Rp 613 billion for the annual financial report (LKT) period 2016 at PT Hanson Internation Tbk (MYRX) (Ayuningtyas, 2019). This caused the freezing of Sherly's Registered Sign Letter (STTD) for one year. Another case is the scandal of KAP Satrio, Bing, Eny & Rekan (Partner Deloitte Indonesia) who issued a reasonable opinion without exception after auditing PT SNP Finance's annual financial report even though the actual financial conditions were not in accordance with the financial report presented, resulting in many parties harmed. This led to the sanction of cancellation of registration imposed by OJK on KAP because SNP used LKT that had been audited to issue MTN and obtain credit from banking which had an impact on non-payment or credit becoming problematic (Ayuningtyas, 2019). From the cases of violations that occur in Indonesia, it can be known that it is not easy to uphold the Code of Ethics of the Public Accountant Profession because often public accountants are faced with ethical dilemma situations and conditions, where public accountants make audit opinions with considerations in terms of morality. A phenomenon in society. Shareholders, Stakeholders always demand the management of the Company's Board of Directors to always improve the performance and increase the Company's profit.

##### 2.2. Law number 5 of 2011 on Public Accountants.

The law governing Public Accountants has been set out in Law of the Republic of Indonesia No. 5 of 2011 About Public Accountants which was decided by the DPR RI on April 5, 2011 and confirmed by President Susilo Bambang Yudhono on May 3, 2011. This law consists of 62 articles divided into 16 chapters which regulate the regulation of professions, professional associations, licensing, rights and obligations, responsibilities, sanctions and rules - other rules. In this Law, the sanctions imposed are more strict and clear. The purpose of the Public Accountant Law is to protect the public interest, support a healthy, efficient, and transparent economy, preserve the integrity of the AP profession, improve the competence and quality of the AP profession, protect the interests AP professions are in accordance with professional standards and codes of ethics. With the existence of Law No. 5 of 2011, there are benefits that arise, among others:

- 1) Legal certainty as well as protection for the profession of public accountant in Indonesia is guaranteed

## **Impact of Professional Ethics and Law no. 5 of 2011 on Public Accountants on the Quality of Public Accountants' Work at Public Accountants' Offices in Indonesia**

- 2) Both the entities that use the services of public accountants and the public accountants themselves will get more information about the rights and obligations of public accountants
- 3) There is cooperative cooperation between accountants and entities that use public accountant services that will result in mutually satisfactory cooperation from both parties because the rights and obligations of public accountants have been explained but still maintain independence and freedom from conflicts of interest
- 4) With the existence of this law it is hoped that it will help its creation healthy and transparent national economy. But there are some articles that are feared to have an effect on the development of the Public Accountant profession in Indonesia. These are:
  - 1) Criminal sanctions for Public Accountants
  - 2) Foreign Public Accountant License
  - 3) Public Accountant Requirements.

First, criminal sanctions are feared to further reduce the interest of the young generation to become public accountants which is currently very low, sanctions administrative should be sufficient.

Second, the Foreign Public Accountant license which is considered so easy, will displace the local Public Accountant. This is possible because the number of Public Accountants in some ASEAN countries is very large, so they will expand to Indonesia, in addition to that there is a potential threat to the interests of national security when the Foreign Public Accountants inspect the country's strategic industries.

Thirdly, the requirements to become a Public Accountant are so easy, because it does not require that you have to be from the accounting major, this is a bad precedent for the development of the accounting major in Indonesia.

Criminal Sanctions against Public Accountants In Law No. 5 of 2011 regarding Public Accountants, the Criminal Provisions against the activities of public accountants have been regulated in article 55, 56 and 57. However, there are certain things that tend to cause discomfort in practicing the public accountant profession. In article 55 letter b which states

"deliberately manipulating, falsifying, and/or removing data or notes on paperwork or not making paperwork related to the services provided as referred to in Article 3 paragraph (1) so that it cannot be used as it should be in the framework of an inspection by the authorities...." The actions related to the above are regulated in the Criminal Code, so that it will have an impact on the emergence of duplication of rules, overlap, and potentially cause differences in interpretation of an issue, thus causing uncertainty.

### **3. Quality of Public Accountant's Work.**

**Audit Quality** The need for adequate financial reports that can be held accountable to the public, leads many companies to depend on the audit services offered by independent auditors. Driven by the number of financial scandals happening in the world, independent auditors must work harder in carrying out their duties. In order to maintain public trust, independent auditors should provide the best quality services. Audit quality is defined as the probability of an auditor in determining and reporting irregularities that occur in the client's accounting system (Deangelo, 2004; in Nataline, 2007). Nataline (2007) concluded that audit quality is a combination of the probability of an auditor being able to find and report irregularities that occur in the accounting system.

There are several audit quality attributes according to Behn (2002), namely:

- 1) **Audit experience (client experience)** Experience is an important attribute that auditors must have. This is proven by the level of errors  $E_n$  made by inexperienced auditors more than experienced auditors.
- 2) **Understanding the client's industry (industry expertise)** Auditors must also consider matters that affect the industry where a business operates such as economic conditions, government regulations and technological changes that affect the audit.
- 3) **Adhere to general standards (technical competence)** The auditor's credibility depends on the possibility of the auditor detecting material errors and presentation errors and the possibility that the auditor will report what he finds. The two things mentioned reflect the implementation of unum standards.
- 4) **Independence (independence)** Independence is the attitude expected from a public accountant not to have personal interests in performing his duties, which is against the principles of integrity and objectivity. Being independent means not being easily influenced.
- 5) **Attitude of caution (due care)** Auditors who work with an attitude of caution will work carefully and meticulously so as to produce a good audit, able to detect and report confusion and inconsistencies
- 6) **Strong commitment to audit quality (quality commitment)** IAI as the parent organization of public accountants in Indonesia obliges its members to follow continuing professional education programs and to become new members must follow the

## **Impact of Professional Ethics and Law no. 5 of 2011 on Public Accountants on the Quality of Public Accountants' Work at Public Accountants' Offices in Indonesia**

professional accountant program (PPA) so that the audit work is quality, this shows commitment strong from IAI and its members.

- 7) Involvement of KAP leadership A good leader needs to be a focal point capable of providing a broad perspective and vision on improvement activities as well as being capable of motivating, acknowledging and appreciating the efforts and performance of individuals and groups.
- 8) Perform field work accurately (field work conduct) In planning the audit, the auditor must consider the nature, scope, and time of the audit that must be carried out and create an audit program in writing, accurately and maturely will create satisfaction for the client.
- 9) High ethical standards (Ethical Standard) In an effort to increase accountability, an auditor must uphold high professional ethics in order to gain trust from the community.
- 10) Involvement of the audit committee The audit committee is necessary in a business organization because it oversees the audit process and enables the realization of honesty in financial reporting.

### **II. RESEARCH METHODS**

This research method uses a narrative descriptive method that studies and analyzes "The Impact of Professional Ethics, Law number 5 of 2011 on Public Accountants on the Quality of Public Accountants' Work at Public Accountants' Offices in Indonesia". This research uses secondary data based on literature, previous research, phenomena in society. Qualitative research method by interviewing 10 actors, students of the Yai Accounting Master's study program, triangulation level to eliminate subjectivity with a Group Discussion Forum (FGD). Discussion, analysis and drawn conclusions and recommendations.

### **III. DISCUSSION**

Demands of shareholder pressure for the Company's management Board to continue to improve performance and increase the Company's profit every year. If it is not successful then the Board of Directors is replaced. This pressure makes the Board of Directors do the concept of earnings management theory, Belkaoui (2007). By increasing income and reducing cost burdens and increasing profits. Making Fraudulent Financial Statements. The Board of Directors is pressured by the Shareholders and the Board Commissioner. The Board of Directors pressured the Management Accountant, Head of the Accounting Division to reengineer the financial report from loss to profit, from little profit to big profit. Management accountants commit a breach of professional ethics of the Business Accountant code of ethics. Business accountants, Management accountants who work to help management are assisted by the Board of Directors lobbying by means of pressure, intimidation, hard lobbying to the Public Accountant from the Public Accountant's Office requesting that the opinion of the Financial Report with good performance be given an Unqualified or Unqualified Opinion (WTP). This opinion is very much needed by Public Enterprises that sell their shares on the Stock Exchange. Companies need a WTP opinion when managing credit to the Bank, selling shares on the stock exchange. In fact, Ministries, Agencies, Central Governments, Regional Governments (Governorships, Districts, Mayors) need WTP opinions from external auditors of the Financial Inspection Agency (BPK). This phenomenon causes BPK's opinion to be traded. Many Regents, many Ministers bribe the BPK Auditor's Office. Many BPK auditors were arrested by the Corruption Eradication Commission (KPK), the last BPK member Dr. Achsanul Hak corruption case in the Ministry of Telecommunications corruption amounting to Rp 40 Billion. Member IV BPK, Rizal Djalil (2019) who received SGD 100 thousand in a case of bribery of the Drinking Water Supply System (SPAM) project at the Ministry of Public Works and People's Housing (PUPR). there is also a 2017 case involving BPK auditor, Ali Sadli and BPK Echelon 1 officer, Rochmadi Saptogiri in the bribery case of giving WTP opinions in the financial report of the Ministry of Rural Affairs for the 2016 Budget.

There are several violations of the Accountant Profession Code and violations of the Public Accountant Law that occur in the community, among others:

- 1) Manipulation of PT KAI's Financial Report.
- 2) Transparency and honesty in the management of the institution which is one of the derivations of trust reform has not been fully implemented by one of the state-owned enterprises, namely PT. Kereta Api Indonesia. In the annual financial performance report he published in 2005, he announced that a profit of Rp. 6.90 billion has been achieved. In fact, when scrutinized, it should actually be stated that he suffered a loss of Rp. 63 billion.
- 3) KAP Andersen and Enron Manipulation Case. Since 1985 Enron Corporation has been using the services of Arthur Andersen.
- 4) KPMG-Siddharta Siddharta & Harsono case September 2001, KPMG-Siddharta Siddharta & Harsono had to bear the shame. This well-known public accountant firm was proven to have bribed the tax authorities in Indonesia amounting to US\$ 75 thousand. As an investigation, false invoices were issued for KPMG's professional service fees to be paid by its client PT Easman

## Impact of Professional Ethics and Law no. 5 of 2011 on Public Accountants on the Quality of Public Accountants' Work at Public Accountants' Offices in Indonesia

Chrisensen, a subsidiary of Baker Hughes Inc. listed on the New York Stock Exchange. Thanks to this bribery action, Easman's tax liability was reduced drastically. From the beginning, US\$ 3.2 million became only US\$ 270 thousand. However, Anti-Bribery Advisor Baker seems to be wary of his subsidiary's behavior. So, rather than bear a greater risk, Baker voluntarily reported this case and fired the executive. The US capital market watchdog, the Securities & Exchange Commission, caught him with the Foreign Corrupt Practices Act, an anti-corruption law for American companies abroad. The result, Baker and KPMG were almost dragged into a Texas district court. However, because Baker apologized, the case was finally settled out of court. KPMG was also saved.

- 5) The case of Mulyana W Kusuma This case occurred around 2004. Mulyana W Kusuma as a member of the KPU is suspected of bribing a member of the BPK who at that time was going to conduct a financial audit related to the procurement of election logistics, ink, and information technology. After the inspection, the body and BPK requested that the report be completed.
- 6) Bad Credit Case of Rp 52 Billion (JAMBI, KOMPAS.com) - A public accountant who made a financial report for the company RadenMotor to obtain a capital loan worth Rp 52 billion from BRI Jambi Branch in 2009, is suspected to be involved in a corruption case in bad credit.
- 7) Lippo case. Involves One of them is the double financial report of Ban Lippo in 2002. Several similar cases also happened in Indonesia, one of which was the double financial report of Bank Lippo in 2002. The Lippo case started from the existence of three versions of the financial report found by Bapepam for the period of September 30, 2002 .
- 8) PT Garuda Indonesia is one of the open companies that suffered auditing violations for the financial report of the 2018 financial year. The case of the Garuda company lasted for 3 months, with the chronology of the case running from April 1, 2019 to the granting of sanctions on 28 June , 2019. Sanctions were imposed by the Ministry Finance (Ministry of Finance) during a press conference held together with the Financial Services Authority (OJK). The case of PT Garuda Indonesia is based on the 2018 financial report published on the Indonesia Stock Exchange on April 1, 2019. In the published report, the distinguished company achieved a net profit of US\$809 thousand. This fact raises suspicions from the disclosure made because of the huge surge in losses in the 2017 financial report, amounting to US\$216.58 million. Suspicion is also supported by the state of the company which is still losing money in the third quarter of 2018 amounting to US\$114.08 million (Davis, 2016). The case began to grow when the General Meeting of Shareholders (GMS) was held and received opposition from representatives of PT Trans Airways and Finegold Resources Ltd due to the incompatibility of PSAK which is mandatory to be followed and the Mahata Agreement which is linked. This incident was conveyed through a letter given in a meeting dated April 2, 2019. The Mahata Agreement occurred on October 31, 2019 where PT Mahata Aeto Teknologi and PT Garuda Indonesia Tbk entered into a partnership. The cooperation concerns the entertainment provided during the operationalization of the facility and the management of content as a form of service that is used as a link between the parties. The 2018 financial report should not have been able to generate profit and remain in a loss position as in the previous year. According to the Ministry of Finance, PT Garuda Indonesia's three negligence led to the imposition of sanctions from the Financial Professional Development Center (PPPK) due to the violation of Public Accountant (AP) ethics. Kasner Sirumapea's Public Accountant license with registration number AP.0563 was frozen for 12 (twelve) months from July 27, 2019 to July 26, 2020. Along with the termination of the freeze, an administrative sanction in the form of a fine of RP100 million was also imposed. Based on the results of the analysis of the PT Garuda case, the public accountant who audited this company violated the principles of integrity, objectivity, professional behavior, and competence in the code of ethics of public accountants. The principle of integrity of Professional Accountants which reflects a straightforward and honest attitude in every professional and business relationship was violated by PT Garuda from the masterminded financial report. Integrity, which means to always convey the truth by being honest about the state of the company, is actually ignored. Then, the principle of objectivity where, this principle instructs Public Accountants not to distinguish professional conduct because of influence that can override the consideration that should be. Then, the principle of objectivity where, this principle instructs Public Accountants not to distinguish professional conduct because influence that can override the consideration that should be. Violation of this principle is demonstrated through opposition to audit standards on financial reports that are manipulated for the satisfaction of profit management activities, which also shows pressure from other parties.

Ethical violations committed by accountants have damaged the image and reputation of the accounting profession. The increasing number of cases of accountants' ethical violations caused a crisis of professional accountants' ethics. This continues to result in reduced public trust in the accounting profession. The above scandals have caused the accounting profession to experience a crisis of confidence in the last few years. That emphasizes the need for the accounting profession to be sensitive to etka. Jones, et al. (2003) prefer an individual approach to the concern of the etka which is different from the regulatory approach such as that based on the Sarbanes Oxley Act. Mastracchio (2005) emphasized that concern for ethics should begin from the accounting curriculum,



## Impact of Professional Ethics and Law no. 5 of 2011 on Public Accountants on the Quality of Public Accountants' Work at Public Accountants' Offices in Indonesia

long before accounting students. In order to maintain public trust in the services provided by independent auditors, the code of ethics cannot be avoided because they will play a large role in the activities proposed by the client. Independent auditors are considered to be able to bridge the interests of shareholders with company management as clients. Therefore, audit functions as a process that can reduce the inconsistency of information between shareholders and company management through the assignment of independent auditors. The independent auditors need to provide quality service so that the audit function as a process that can reduce the inconsistency between shareholders and management can be minimized. From quality services, quality reports will be produced, so that users of financial reports, especially shareholders, will make decisions based on reports that have been made by auditors (Elfarini, 2007). The role of the Code of Ethics of the Public Accountant Profession, which includes the principles of integrity, objectivity, competence, and professional behavior, is believed to influence the quality of the independent auditor's audit. Therefore, this research was conducted to find out the influence of the Code of Ethics of the Public Accountant Profession on the audit quality of independent auditors in Surabaya. The formulation of the problem is: Do the principles of integrity, objectivity, competence, and professional behavior influence the quality of independent auditor audits in Surabaya? Research with this survey method was conducted in Surabaya with the consideration that Surabaya is a big city in Indonesia so it is suspected to have the services of a well-qualified public accountant. According to Elfarini (2007): "In order to reduce or minimize fraud committed by management and make financial reports made by management more reliable, testing is required and in that case the testing can only be done by an independent third party, which is an independent auditor."

### IV. CONCLUSIONS AND SUGGESTIONS

#### 1. Conclusion.

- 1) Professional Ethics have impact on the quality of work of Public Accountants in Public Accountants' Offices in Indonesia.
- 2) The law no. 5 of 2011 about Public Accountants have impact on the quality of work of Public Accountants in Public Accountants' Offices in Indonesia.

#### 2. Suggestions.

- 1) The role of the Audit Committee needs to be further enhanced to support independent commissioners.
- 2) Professional ethics are taught to students from an early age and violations are given strict sanctions.
- 3) Criminal sanctions for violations of Law No. 5 of 2011 need to be optimally implemented in order to further reduce violations by Public Accountants.

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