

**AUDITING IN THE PUBLIC INTEREST: AN ANALYSIS OF RESEARCH
ON THE CODE OF ETHICS OF THE PUBLIC ACCOUNTING
PROFESSION**

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ABSTRACT

The public interest should be one of the main priorities in the process and determination of the results of an audit conducted by a Public Accountant. This research investigated public interest as a determining factor during the audit process. This is important due to many cases of audit failures existed were caused by breaches of the code of ethics by Public Accountants, which eventually caused harm to the public interest. The phenomenon of audit failure was not only experienced by the Office of Public Accountants (KAP) at small and medium scales but also by those included in the Big Four category with similar indications, breaches of the code of ethics by public accountants.

Keywords: *Public Interest, Professionalism, Independence, Code of Ethics*

A. Introduction

In this era of globalization, the public accounting profession has an increasing role due to the rapid development of the business world. The public accounting profession is one of the professions trusted by the public. Society believes that public accountants can provide an objective view or opinion of the information provided in the financial statements published by the company's management. Public accountants or often referred to as independent auditors have a significant role to ensure the relevancy and reliability of the financial statements provided by the company's management to increase the confidence of all parties

that have an interest in the company (Singgih & Bawono,2010).

Public accountants conduct their duties based on the audit standards set by the Indonesian Institute of Certified Public Accountants (IAPI). Furthermore, the professional code of ethics is an obligation to be obeyed by the auditor as it regulates the behaviour of public accountants in carrying out their professional practice both with fellow members and with the general public. Although there are standards and codes of ethics for public accountants, some cases of irregularities and ethical breaches committed by public accountants in carrying out their profession have still existed.

There have been many cases of fraud scandals and audit failures accompanied by the deteriorating global financial crisis, which has damaged the image of the public accounting profession in the public (Espinosa - Pike, M., Barrainuka, I.2017). It resulted in doubts about the professional attitude and dedication of the auditor profession (Clikeman, Schward, & Lathan, 2001; Wyatt, 2004). Thus, to meet the public's demands for quality financial information with good credibility, professionalism and commitment from the public accounting profession is compulsory.

The following table presents the data obtained from various electronic media sources regarding a list of scandals involving the Office of Public Accountant and public accountants criticized by the general public:

- Ernest & Young's (EY) partner Office of Public Accountant in Indonesia, Public Accountant Firm Purwantono, Suherman & Surja (2011) case there was a failure to audit the client's financial statements. EY Indonesia announced the results of an audit of a telecommunications company in 2011 and provided an opinion based

on evidences that were considered inadequate.

- Price Waterhouse Coopers (PWC) (2017) case PWC as a public accountant of British Telecom failed in detecting accounting fraud within British Telecom.
- Office of Public Accountant Firm Satrio Bing, Eny (SBE) which is affiliated with Deloitte Indonesia (2018) case this Office of Public Accountant was unable to detect the financial condition of SNP Finance harming creditors who provided loans to SNP Finance. It was also indicated that the Office of Public Accountant quality control system had weaknesses since it failed to prevent the threat of proximity between senior personnel so that there is a link between senior personnel and clients in an audit engagement.
- BDO Indonesia Public Accountant Firm which is a member of BDO International Limited (2019) case Regarding the issue of Garuda Indonesia's financial statements for the 2018 financial year, some records were not following accounting standards and the

auditors did not implement a quality control system in examining the report.

This research aimed at analyzing the forms of breaches committed by the Office of Public Accountants and the effect of the breaches of the code of ethics on the public interest.

B. Literature Review

Public Interest

IFAC (2012) defined public interest as the net benefits derived from, and procedural rigour employed on behalf of, all society concerning any action, decision, or policy. Meanwhile, Parker (1994) stated that the public interest is a form of professional protection of the client's economic interests consisting of third parties, namely creditors, regulators, social interest groups, the government, and company shareholders that rely on professional opinions.

Professionalism

Arens, et.al (2017) stated that "Professionalism means a responsibility for conduct that extends beyond satisfying individual responsibility and beyond the requirement of our society law and regulation". In other words,

professionalism is a responsibility to act more than just complying with responsibilities for oneself or the provisions of the laws and regulations of society. Meanwhile, according to Siagian (2000:163), professionalism is reliability in carrying out tasks with consistently high quality, good time management and accuracy, and simple procedures to be understood and followed by the customers or the public.

Code of Ethics

The establishment and development of professional standards of quality and codes of ethics guided by international standards are one of the missions of the Indonesian Institute of Certified Public Accountants (IAPI). The determination of the code of ethics by IAPI should be fulfilled by all auditors who are part of an Office of Public Accountant. The followings are 5 (five) basic principles of professional ethics for professional accountants:

1. Integrity: the principle of integrity requires every practitioner to be firm, honest, and fair in their professional and business

relationships in carrying out their work.

2. Objectivity: the principle of objectivity requires the practitioners not to allow subjectivity, conflict of interest, or the improper influence of others to affect their professional or business judgments
3. Professional competence and due care and prudence: this principle requires every practitioner to maintain the professional knowledge and skills required to ensure the provision of competent professional services to clients or employers and to use their professional skills prudently following the professional standards and code of ethics in providing professional services.
4. Confidentiality Principle: each practitioner is obliged to keep the information obtained as a result of his professional and business relationships confidential and should not disclose such information to third parties without the consent of the client or employer unless there is an obligation to disclose under legal or other regulatory requirements.
5. The principle of professional conduct: every practitioner is obliged to comply with applicable

laws and regulations and should avoid all actions that can discredit the profession.

C. Previous Research

The result of some research investigating the accounting profession with various problems.

- Survey of Factors affecting the Ethical Attitudes and Behavior of Accountants (Maryani & Unti Ludigdo ,2001), the result there are nine factors that influence the attitudes and behavior of public accountants: religiosity, education, organizational, emotional quotient, family environment, life experience, rewards received, law, position or position.
- Analysis of the Effect Audit Quality Attributes on Client Satisfaction (Empirical Study Companies Listed on the Jakarta Stock Exchange), Widagdo, Lesmana, & Irwandi (2002) the result There are six attributes that affect the quality of audits: experience in conducting audits, understanding the client's industry, responsiveness to users of audit reports, adherence to auditing standards, commitment to audit quality, and the involvement of audit committees.

- Analysis of Independence, Audit Quality and Corporate Governance mechanisms towards the integrity of Financial Statements (Sekar Mayangsari, 2003). The result Factors that affect the integrity of financial statements, auditor specialization, independence and corporate governance mechanism.
- Sukrisno Agoes (2003), Application of Auditing Standards, Quality Control Standards and Quality Audit Services to the Level Trusted of Users of Public Accountant Reports (Survey on FAPM Member Public Accountants in Indonesia). The results are:
 1. The implementation of auditing is positively related to the implementation of quality control standards;
 2. The application of auditing standards and the implementation of quality control has an effect on the quality of audit services;
 3. The quality of audit services has a direct and insignificant effect on the level of trust of users public accountants' report;
 4. The application of quality control standards, and the quality of audit services as a whole affect the level of trust of users of public accountants' report.
- Ida Suraida (2005), Influence of Ethics, Competence, Audit Risk Experience and Auditor Professional Skepticism on the Accuracy of Giving Public Accountants Opinions (Survey of Public Accountants in Indonesia). The results are:
 1. Ethics, competence, audit experience and risk affect professional skepticism both partially and simultaneously;
 2. The influence of professional skepticism of auditors on the accuracy of providing public accountant opinions is still less than fifty percent.
- Yves Gendron, Roy Suddaby & Helen Lam (2006), an examination of the Ethical Commitment of Professional Accountants to Auditor Independence. The results indicate that, at the time of data collection around the end of 2002, respondents' independence commitment was, on average, relatively high, thereby suggesting that professional accountants were then considering independence as a key feature of public accounting and also quite

receptive to its regulation through control mechanisms.

- Laura Davenport & Steven Dellaportas (2009), *Interpreting the Public Interest: A Survey of Professional Accountant*. The results are:

1. The public interest is understood in terms of its broad third-party or community interests, but respondents choose option supporting the client, the employer or oneself when actually dealing with conflicts of interest and issues associated with confidentiality. Consequently, members are not serving the public's interest, but rather the interests of a select few.
2. The findings in this study indicate that the respondents appear to understand the meaning of the public interest, but apply it in way that is inconsistent with its formal meaning.

- Itsaso Barrainuka & Marcela Espnosa-Pike (2018), *The Influence of Auditors Commitment to Independence Enforcement and Firms Ethical Culture on Auditors Professional Values and Behaviour*. The results are:

1. The regulatory efforts to improve auditors' behaviours by enforcing independence rules have been internalised by auditors.
2. The results also reinforce the need to instil the societal responsibilities of professional auditors, since auditors' public interest commitment is related to their ethical decision making.

- H. Van Brenk et al (2020), *Auditing in the public interest: Reforming the profession by building on the strengths of the existing accounting firms*. The results are:

1. As the existing accounting firms are for-profit organizations with large consulting departments, these firms face conflicts between commercial success (i.e., commercialism) and professional requirements (i.e., professionalism).
2. Potential solutions such as audit-only firms, allocating audit engagements to accounting firms, or joint audits are not sufficient to remove commercial incentives.
3. Further, breaking-up the existing accounting firms into audit-only firms and consulting firms

provides serious limitations to compose multidisciplinary audit teams because audit teams cannot bring in their consulting counterparts (e.g., fair value expertise, IT auditors, tax specialists). Therefore, a more drastic and innovative solution may be needed to improve independence and repair public trust.

D. Method of Implementation

This research employed a literature review research method. Data were collected from several sources that raised the issues of the breaches of the code of ethics committed by Public Accountants and Auditors who joined the Office of Public Accountants, such as the official website of the Financial Professional Development Center and online news portal sites, and print media including newspapers, journals and other sources.

The data were analyzed using a critical analysis framework, examining the phenomena that occurred accompanied by theoretical arguments. Within that framework, this article also used an integration approach. The integrated approach emphasized the importance of associations with facts and phenomena as the basis of analysis. This integrated

approach also involved the author's perspective on the core issues discussed.

E. Discussion

Data obtained from the official website of the Financial Professional Development Center and news from online and print media portals showed that there were many audit failure scandals existed every year. The audit failure scandal occurred not only in the Office of Public Accountants at a small and medium scale but also in those included in the Big Four category with similar indications, a breach of the code of ethics. The code of ethics for public accountants regulates the professional attitude of the auditor and the attitude of independence is also a necessity for public accountants.

From 2004 to 2009, there were 52 cases of breaches committed by public accountants found. The following table presents the data reported by Agoes (2012) related to the breach.

Aspects Breached	Number of cases violated						Total
	2004	2005	2006	2007	2008	2009	
Personal characteristics of accountants	-	-	-	2	1	2	5
Audit Experience	1	-	2	2	1	1	6
Independence of public accountants	1	1	1	1	1	2	7
Application of public accountant ethics	2	1	-	1	5	3	12
Audit Quality	2	1	2	5	8	4	22
Total	6	3	3	11	17	12	52

Table 1. Cases of breaches committed by public accountants found

The following are some of the breaches of the code of ethics committed by Public Accountants and/or the Office of Public Accountants from 2011 to 2019, which have attracted national and international public attention:

1. (EY) Office of Public Accountant in Indonesia, Purwantono, Suherman & Surja (2011) **Findings:** There was a failure to audit the client's financial statements. EY Indonesia announced the results of an audit of a telecommunications company in 2011 and provided an opinion based on evidence that was considered inadequate. **Analysis:** Purwantono, Suherman & Surja, a partner of EY Office of Public Accountant, was not a new player in this field. Thus, when releasing an independent auditor's report, matters relating to evidence and supporting data should have been completed. Therefore, there should be a further investigation regarding the possibility of Office of Public Accountant working unprofessionally. This is contrary to Law No. 5/2011 on Public Accountants, which states that public accounting services are

services used in making economic decisions and are widely influential in the era of globalization particularly in supporting a healthy and efficient national economy and increasing transparency and the quality of the information in the financial sector.

2. Price Waterhouse Coopers (2017)

Findings: PWC as a public accountant of British Telecom failed in detecting accounting fraud within British Telecom. **Analysis:** PWC as the world's leading public accounting firm included in the big four failed to detect fraud at British Telecom, which tarnished the public accounting profession. The investigation results showed that the partnership between PWC and British Telecom had been established for 33 years. This information indicated that there should be improvement and evaluation of the internal staff of the Office of Public Accountants regarding the independence of the auditor team engaging with the client.

3. Office of Public Accountant Satrio Bing, Eny (SBE) affiliated with Deloitte Indonesia (2018). **Findings:** There was a failure in detecting the

SNP Finance's financial condition, which caused a bad impact on creditors providing loans to SNP Finance. It was also found that there were weaknesses in the Office of Public Accountant quality control system since it could not prevent the threat of proximity between senior personnel indicated by the relationship between senior personnel and clients in the audit engagement. **Analysis:** Public accountants can be considered to be innocent if they have examined the client's financial statements following the minimum standards required by the Indonesian Institute of Accountants through the professional standards of public accountants. The findings showed that the Office of Public Accountant Satrio Bing, Eny (SBE), which is affiliated with Deloitte Indonesia, made a mistake by not providing important information related to the condition of the company causing the creditors, as users of financial statements, failed in conducting credit analysis. Therefore, there was a need for improvement and evaluation of the internal KAP related to the independence of the

auditor team involved in the engagement with the client.

4. Office of Public BDO Indonesia which is a member of BDO International Limited (2019).

Findings: Regarding the issue of Garuda Indonesia's financial statements for the 2018 financial year, some records were not following accounting standards and the auditors did not implement a quality control system in examining the report. **Analysis:** The failure of Office of Public Accountant BDO Indonesia to detect the records that were not following the accounting standards applicable in Indonesia was one of the audit risks. Audit risk can be grouped into three, namely inherent risk, detection risk, and control risk. However, further investigation is required since Office of Public Accountant BDO Indonesia is not a new Office of Public Accountant. It is necessary to investigate more deeply the possibility of Office of Public Accountant working unprofessionally. In addition, there is also a need to review the KAP quality control system.

The above breaches, committed by the Public Accountants and the Office of Public Accountants, deserve attention considering that the field of professional work places a high priority on public trust and public interest. Moreover, some of the cases above showed that the professional attitude and independence of public accountants are still being questioned. Meanwhile, these two attitudes are one of the mandatory attitudes needed by auditors and are closely related to the code of ethics for public accountants and auditors in the Office of Public Accountants.

In Indonesia, there is a Financial Profession Development Center, which is then referred to as PPPK. It is a unit in the Ministry of Finance and one of its duties and functions is to guide accountants. Sanctions can be given to the Office of Public Accountants (KAP) in the form of administrative sanctions and criminal sanctions. First, administrative sanctions as referred to in Law No. 5/2011 paragraph one can be in the form of (a) recommendations to carry out certain obligations; (b) written warning; (c) restrictions on the provision of services to a particular type of entity; (d) restrictions on the

provision of certain services; (e) license suspension; (f) license revocation; and or (g) fine.

F. Conclusion

From the description above, several conclusions can be drawn regarding the implementation of the code of ethics for public accountants and breaches committed by public accountants or the Office of Public Accountants.

1. Forms of breaches committed by the Office of Public Accountants, among others, are related to the professionalism and independence of public accountants and auditors who join the Office of Public Accountants and are related to the quality control implemented in the Office of Public Accountants.
2. The impact of breaches of the code of ethics by public accountants includes losses for investors, who take advantage of the audit results of public accountants, and the loss or reduction of public trust in the public accounting profession, which will ultimately harm the accounting profession itself. This indicates that the Public Accountants and the Office of Public Accountants have not

considered the public interest factor in carrying out their duties.

3. The number of breaches committed by Office Public Accountants tends to increase due to the rapid development of the business world that involves the role of public accountants as an important profession as a liaison between management and various interested parties in the company so that the public accounting profession should increase its professionalism and independence for the sake of professional accountability to the public interest.

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