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CITATION:

Siregar, M., (2025). Analysis of Ethical Violations in the Accounting Profession Referring to International Standards. *Journal of Asian Auditing and Finance*, 1 (1), 40-48.

ARTICLE PROCESS

Received: Feb 16, 2024

Revised: Aug 12, 2024

Accepted: Mar 01, 2025



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Article Type: Literature Review

Analysis of Ethical Violations in the Accounting Profession Referring to International Standards

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Abstract:

This article discusses ethical violations in the accounting profession despite the existence of international standards such as IFRS and the IFAC code of ethics. Common violations include manipulation of financial statements, conflict of interest, and non-compliance with established standards. This study identifies factors that influence ethical breaches, including external pressure, law enforcement weaknesses, and lack of auditor independence. In addition, cultural and regulatory differences in different countries also affect the application of ethical standards, where conservative countries tend to apply stricter rules than more liberal countries. To address these issues, this article recommends improving ethics education, strengthening regulatory enforcement, and encouraging accountants to maintain independence and objectivity in their work. These efforts are important to maintain public trust in the accounting profession and ensure consistency in the application of ethical standards around the world.

Keywords: Ethics Violations, Professional Accountants, Cultural Differences, Ethics Education

Introduction

The accounting profession is one of the vital elements in the global business and financial world. The existence of ethical accountants is needed to maintain the integrity of financial reports used by various parties, ranging from investors and governments to the general public. As a profession that is closely related to finance, accountants are required to comply with applicable standards and ethics to be able to carry out their responsibilities properly. Ethics in the accounting profession serves not only as a moral guide but also as an operational guideline in daily accounting activities, including the preparation of financial statements, auditing, and consulting. At the international level, these standards are governed by the International Financial Reporting Standards (IFRS) formulated by the International Accounting Standards Board (IASB).

However, even though various rules have been implemented, there are still frequent ethical violations in this profession. Some common violations include manipulation of financial statements, presentation of inaccurate information, conflicts of interest, and failure to maintain audit independence. These violations not only damage the reputation of individual accountants but also weaken public trust in the profession as a whole. Differences in culture, economic systems, and regulations in various countries also affect how these ethical standards are applied. In some countries, different levels of conservatism and political structures have the potential to create misalignment in the application of international accounting ethical standards. This poses challenges, such as how to ensure that the ethical standards set can be applied consistently around the world, as well as how to overcome the various obstacles that hinder the implementation of these standards. The accounting profession has an important role in ensuring the accuracy and transparency of financial statements, which form the basis for stakeholders in making economic decisions. As a profession that touches the financial and strategic aspects of various organizations, accountants are expected to perform their duties with integrity and adherence to strict ethical standards. However, in recent decades, the phenomenon of ethical violations in this profession has become increasingly prominent. Major cases such as Enron, WorldCom, and Lehman Brothers show how manipulation of financial statements can bring huge losses to investors and undermine public confidence in the integrity of the accounting profession.

Ethical violations in the accounting profession often occur due to pressure from management to show positive financial results, even though the company's condition is unfavorable. Dellaportas et al. (2014) stated that conflicts of interest, weak supervision, and lack of practical ethics training are the leading causes of ethical violations in the accounting profession. This study underlines that although ethics training is included in the curriculum, it is often insufficient to equip accountants to face complex ethical dilemmas in the field. In addition to internal factors, differences in culture and legal systems in different countries are also an obstacle to the implementation of international ethical standards. According to Gray (1988), countries with conservative cultures tend to apply stricter ethical standards, while countries with more liberal cultures may apply a more flexible approach. For example, research shows that auditors in Germany tend to use a very conservative rule-based approach, whereas in the UK, auditors rely more on professional judgment in conducting audits. This suggests that the application of ethical standards such as International Financial Reporting Standards (IFRS) and codes of ethics from the International Federation of Accountants (IFAC) may vary across countries, which complicates harmonization efforts.

Data from the Association of Certified Fraud Examiners (ACFE) also shows that ethical violations in the accounting profession are one of the leading causes of financial fraud that causes enormous losses. In the 2020 ACFE Report, it was found that global losses due to fraud in financial reports reached more than 3.6 billion US dollars per year. This fact emphasizes that ethical violations have a profound impact not only on companies but also on global economic stability.

McPhail and Walters (2009) highlight the importance of harmonizing accounting standards to reduce ethical violations in the accounting profession. They argue that uniform standards can minimize differences in interpretation and help improve the transparency of financial reporting. However, in their research, they found that cultural factors, local regulations, and weak supervision in some countries still hamper the implementation of these standards. The mismatch between international standards and local systems makes ethical violations more difficult to detect and sanction, which points to the importance of research to identify the causes and appropriate solutions to this issue.

This research aims to identify and analyze ethical violations in the accounting profession under existing international standards. By exploring the factors that cause ethical violations and barriers to implementing standards such as IFRS and the IFAC code of ethics, this research is expected to provide greater insight into the steps that need to be taken to improve ethics in the accounting profession globally.

Literature Review

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The accounting profession has an important role in ensuring the accuracy and transparency of financial statements, which form the basis for stakeholders in making economic decisions. As a profession that touches the financial and strategic aspects of various organizations, accountants are expected to perform their duties with integrity and adherence to strict ethical standards. However, in recent decades, the phenomenon of ethical violations in this profession has become increasingly prominent. Major cases such as Enron, WorldCom, and Lehman Brothers show how manipulation of financial statements can bring huge losses to investors and undermine public confidence in the integrity of the accounting profession.

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RESEARCH METHODS

Research methods are all methods or techniques used to produce research (Ikhsan, 2021). This research uses a systematic literature study method with the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) approach, which aims to identify, analyze, and evaluate ethical violations in the accounting profession based on international standards. The PRISMA method was chosen because it can help filter relevant articles systematically and provide step-by-step guidance in assessing the quality and relevance of previous research (Azmi & Puspita, 2024).

Data Sources and Article Selection Criteria

The articles used in this study were obtained from several leading academic databases, such as Scopus, Emerald Insight, Google Scholar, as well as reputable national journals with Sinta 2 and Sinta 3 indexes to obtain global and national perspectives related to ethical violations in the accounting profession. The articles selected were those with a publication period between 2000-2023, because in this period there was an increase in regulation and attention to the ethical standards of the accounting profession after major cases such as Enron and WorldCom.

The inclusion criteria for the selected articles were: (1) Articles that discuss the ethics of the accounting profession, international standards such as IFRS and IFAC, and ethical violations in accounting. (2) Reputable English and Indonesian articles indexed by Scopus or Sinta (Sinta 2 and Sinta 3) for higher validity of results. (3) Empirical studies, literature reviews, or theoretical articles that present data on ethical violations or factors that affect the ethics of the accounting profession.

Exclusion criteria include: (1) Articles that are not relevant to the accounting profession or ethical violations. (2) Articles that are not indexed or have no peer review. (3) Articles with data that are too limited and do not support a broad understanding of international standards and ethical practices.

Data Selection and Analysis Process Using PRISMA Method

This research follows the four stages of the PRISMA method to select articles: (1) Identification: The initial search yielded 450 related articles from various databases. Articles were obtained using keywords such as "ethics in accounting profession," "IFRS and ethics," "accounting ethical violations," and "IFAC code of ethics." (2) Screening: After checking the titles and abstracts, irrelevant or duplicate articles (150 articles) were excluded. From this stage, 300 articles remained. (3) Eligibility: Articles were further screened based on inclusion and exclusion criteria. At this stage, articles that did not meet the exclusion criteria were removed, leaving 85 articles. (4) Inclusion for Analysis: A total of 30 articles were finally selected for in-depth analysis, which were considered to provide comprehensive information on ethical violations in the accounting profession and the relevance of international standards.

Stages of Data Analysis and Categories of Articles Reviewed

From the selected articles, the analysis was conducted by categorizing the articles based on the main topics, namely: (a) Ethical Violations in the Accounting Profession: This article includes case studies and empirical research documenting various forms of ethical violations in the accounting profession in various countries. Some articles discuss the influence of external pressure, conflict of interest, and individual factors on ethical violations (Dellaportas et al., 2014). (b) Influence of Local Culture and Regulation: This category includes articles that explore how cultural and regulatory differences in different countries affect the application of ethical standards (Gray, 1988). (c) The Role of International Standards (IFRS and IFAC): Articles in this category highlight the importance of international standards in maintaining consistency in reporting and ethics of

accountants as well as the challenges in their implementation (McPhail & Walters, 2009).

Data Processing and Presentation

The data obtained from the selected articles were then analyzed qualitatively using content analysis techniques to identify the main themes and patterns of ethical violations in the accounting profession. This analysis technique involves parsing the relevant data from each article and presenting it in tables and graphs to illustrate the frequency, types, and causal factors of ethical violations reviewed in previous studies.

Inference

After the data from each article was analyzed, conclusions were drawn based on the findings which showed that cultural factors, external pressures, and weak enforcement of ethical standards were the main causes of ethical violations in the accounting profession. This research also shows the urgency of implementing more effective international standards as well as the need for increased ethics education and awareness in the profession (IFAC, 2006; IASB, 2006). The PRISMA method helps to optimize the rigor of article selection and ensures that the results of this study reflect a comprehensive view and are based on quality sources.

RESULTS AND DISCUSSION

This research produces several main themes related to ethical violations in the accounting profession that are examined based on international standards. Each theme describes the causal factors, types of violations, and challenges in implementing ethical standards, as regulated by the International Financial Reporting Standards (IFRS) and the International Federation of Accountants (IFAC) code of ethics.

Ethical Violations in Financial Statement Presentation

Ethical violations in the presentation of financial statements are a very relevant theme in the accounting profession. In a study conducted by Chang et al. (1983), it was found that manipulation of financial statements is one of the most common ethical violations in various countries. Inaccurate financial reports are often caused by pressure from management who want the financial statements to look positive to attract investor interest and maintain the company's share price. This manipulation causes the financial statements to not reflect the true state of the company and mislead stakeholders (Chang et al., 1983).

Another article by Dellaportas et al. (2014) outlines how the failure of ethics education in the accounting curriculum can be a driving factor for data manipulation. According to this study, although accountants understand the importance of ethics, pressure from the work environment often leads them to make unethical decisions. Weaknesses in the enforcement of the code of ethics also allow financial statement manipulation to occur without strict sanctions (Dellaportas et al., 2014).

The Effect of Culture and Regulation on Ethics Violations

Local culture and regulatory systems also influence how ethical standards are applied in the accounting profession in different countries. Gray (1988) suggests that countries with conservative cultures, such as Germany and Japan, tend to apply stricter ethical standards and adhere to the principle of conservatism in financial reporting. On the other hand, countries such as the United States and the United Kingdom that are more liberal provide greater flexibility to accountants in preparing financial statements. This difference makes harmonization of ethical standards difficult to achieve globally, because each country has a different approach to financial reporting and professional ethics (Gray, 1988).

McPhail & Walters (2009) also highlight the challenges faced by international standards such as IFRS in overcoming these cultural differences and regulatory systems. They point out that the application of IFRS is not only influenced by technical aspects, but also influenced by the cultural values inherent in each country. For example, in more transparent cultures such as in Western European countries, financial reporting tends to be more open, while in some Asian countries, aspects of confidentiality and government control dominate. This suggests that international standards need to be more adaptive to the local context to be applied effectively (McPhail & Walters, 2009).

The Role of International Standards in Preventing Ethics Violations

The application of international standards such as IFRS and the IFAC code of ethics is an important effort to prevent ethical violations in the accounting profession. In research conducted by Bennett et al. (2006), it is stated that the application of principle-based standards in IFRS aims to maintain the consistency and quality of financial statements globally. By adopting IFRS, companies in various countries are expected to provide relevant and reliable financial information for users of financial statements. However, challenges remain, especially in terms of the adaptation of these standards in countries that have different legal systems and less stringent supervision (Bennett et al., 2006).

Another article by Henry & Wilson (2005) states that the ethical standards set by IFAC also aim to maintain the reputation of the accounting profession in the eyes of the public. This code of ethics is designed to assist accountants in dealing with ethical dilemmas, especially when facing pressure from outside parties or company management. By following the IFAC code of ethics, accountants are expected to maintain their independence and objectivity in preparing financial statements. However, the lack of regulatory enforcement in some countries makes this code of ethics difficult to apply consistently around the world (Henry & Wilson, 2005).

Obstacles to Harmonization of International Ethical Standards

Harmonization of international ethical standards is a challenge for the accounting profession. Kuran (2004) in his research suggests that the application of IFRS and IFAC code of ethics is not always easy to do in countries with sharia-based financial systems. For example, certain concepts in IFRS, such as interest recognition, contradict Islamic financial principles that prohibit usury. This suggests that international standards need to adapt to fit the cultural and religious

context in each country (Kuran, 2004). Research by Annisette (2004) also highlights the challenges in harmonizing international accounting standards from the perspective of developing countries. According to Annisette, developing countries are often faced with pressure to adopt international standards without having adequate infrastructure to support their implementation. This can lead to a mismatch between international standards and local conditions, which in turn increases the risk of ethical violations due to mismatches in financial reporting practices (Annisette, 2004).

Efforts to Improve Ethical Compliance in the Accounting Profession

Improving ethical compliance in the accounting profession requires various approaches, including ethics education, regulatory enforcement, and strict supervision. IFAC (2006) in its report proposes that ethics education should be an integral part of the accounting curriculum and implemented on an ongoing basis in the professional environment. This education aims to help accountants develop a strong understanding of the code of ethics, as well as improve their ability to deal with ethical dilemmas in the world of work. IFAC also suggests stricter supervision from regulatory agencies to ensure compliance with ethical standards in each country (IFAC, 2006).

CONCLUSION

Ethical violations in the accounting profession remain a significant issue despite international standards such as the International Financial Reporting Standards (IFRS) and the code of ethics established by the International Federation of Accountants (IFAC). This study found that ethical violations such as manipulation of financial statements, conflicts of interest, and non-compliance with accounting principles still occur frequently in various countries. The main factors influencing the occurrence of these violations include external pressure, weaknesses in law enforcement, and lack of auditor independence.

In addition, cultural and regulatory differences in different countries also affect the way ethical standards are applied. Countries with a high degree of conservatism tend to apply stricter rules, while more liberal countries tend to have greater flexibility in code interpretation and reporting. This suggests that while harmonized international standards exist, their application is often influenced by local context, which creates challenges in achieving global uniformity. To minimize ethical violations, more stringent measures are needed, such as improving ethics education among accountants, strengthening regulatory enforcement, and ensuring that sanctions for ethical violations are strictly applied. Thus, public trust in the accounting profession can be maintained, and ethical standards can be applied consistently throughout the world.

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