

REVEALING CREATIVE ACCOUNTING PRACTICES: A PROFESSIONAL ETHICS PERSPECTIVE

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Abstract, *From the perspective of professional ethics, this study tries to look at the efforts made by auditors or accountants to find innovative accounting procedures. It is descriptive qualitative research that is being employed. This study examines the effectiveness of the auditor's professional code of ethics in identifying dishonest business practices. As the primary method for gathering data for this study, semi-structured interviews were used along with observation, documentation, and triangulation. The corporation constantly encounters different dangers known as business risk when doing its commercial activities. Fraud risk, which is categorized as an integrity risk, is included in this. The disclosure of innovative accounting techniques is governed by the accountant's code of ethics. It will be simpler for auditors to spot fraud if they possess integrity, objectivity, professional competence and accuracy, confidentiality, and professional demeanor. because they are truly aware of their responsibilities. also the dangers that would result from the auditor not disclosing the fraud.*

Keywords: *Creative Accounting, Professional Ethics*

Abstract, Penelitian ini bertujuan untuk menguji upaya auditor atau akuntan dalam mengungkap praktik *creative accounting* di pandang dalam prespektive etika profesi. Jenis penelitian yang digunakan adalah penelitian deskriptif kualitatif. Penelitian ini menganalisis konsistensi auditor terhadap kode etik keprofesian dalam mengungkap praktik kecurangan yang dilakukan pihak manajemen perusahaan. Penelitian ini menggunakan teknik wawancara semi struktur sebagai sumber utama dalam pengumpulan data dengan observasi, dokumentasi dan triangulasi. Dalam menjalankan kegiatan usahanya, perusahaan senantiasa menghadapi berbagai resiko yang dinamakan resiko bisnis (*bussiness risk*). Termasuk diantaranya adalah resiko terjadinya kecurangan (*fraud*) yang tergolong dalam resiko integritas (*Integrity Risk*). Kode etik akuntan memiliki kaitan dengan pengungkapan praktik akuntansi kreatif. Auditor yang memiliki integritas, objektivitas, kompetensi profesional dan kecermatan, kerahasiaan dan berperilaku profesional akan semakin mudah untuk mendeteksi terjadinya kecurangan. Karena mereka memahami betul tugas dan tanggung jawabnya. Serta resiko yang akan mucul jika auditor tidak mengungkapkan kecurangan tersebut.

Keywords: *Creative Accounting, Etika Profesi*

INTRODUCTION

There are frequently conflicting interests between shareholders (principals) and management in a corporation (agent). Individually, managers have a tendency to act in ways that are more advantageous to their interests and more financially rewarding. The management considers that its priorities do not include the interests of the shareholders. As a result, materialism can occasionally manifest, which gives management a strong incentive to act dysfunctionally with regard to financial accounts.

A company's management may engage in a number of dysfunctional behaviors, such as Creative Accounting. Although creative accounting is a tool to assist managers in

upholding the existence and reputation of the organization, managers' primary motivation is to advance their own interests (Victoria, 2014). Creative Accounting is perceived as unethical by some outside the accounting industry, even as a form of information manipulation intended to deceive interested parties.

Numerous banking sectors in Indonesia still frequently use creative accounting techniques. According to the websites www.infobanknews.com and finance.detik.com, the OJK examination results from the end of 2016 showed a comparatively high proportion of banking crime. The Financial Services Authority said that there were 26 occurrences of banking crimes, the most of which involved credit (55%), record-keeping fraud (21%), embezzlement (15%), money transfers (5%) and asset acquisition (4%). In order to prevent financial crimes from becoming more prevalent, the OJK mandates that the banking industry undertake competency tests on its workers. This is because there is a chance that parties who work for the bank itself could commit crimes. Bank Duta, Bank Lippo, PT Gas Negara, PT Kimia Farma, Indofarma, PT Citra Marga Nusapala Persada, PT Indosat Tbk, and PT Ades Alfindo are just a few of the companies that have engaged in creative accounting in Indonesia. The aforementioned businesses employ inventive accounting techniques to fool creditors, investors, tax authorities, and business owners (Risela, 2016).

The Statement of Financial Accounting Standards contains guidelines that the auditor must adhere to when creating financial statements (PSAK). Following the corporate financial disaster in America (Enron and other large businesses), which was accompanied by stronger laws, there has been an increase in the disclosure of financial statement manipulation by accountants (the Sarbanes-Oxley Act). Disclosure of disgrace is defined by Near & Miceli (1985) as the admission by members of an organization (past or present) of unlawful, immoral, or unlawful acts controlled by employees or people or organizations impacted by such actions. Corruption, the theft of assets, and false financial reporting are all types of fraud (Tuanakotta, 2011). According to the fraud triangle theory, the first causes of fraud are pressure (resulting from financial stability), external pressure, and individual financial needs; the second causes of fraud are opportunity (resulting from the nature of the industry, ineffective monitoring, organizational structure, and internal control); and the third causes of fraud are justification (resulting from management's knowledge of fraudulent acts) (Reskino & Anshori, 2016). The prospective researchers handle the research theme "Revealing Creative Accounting Practices; A Professional Ethical Perspective" in response to that issue.

LITERATURE REVIEW

Fraud

Stikeleather, Rose, Brink, Norman (2016), Xu & Ziegenfuss (2008), Kaplan, Pany, Samuels, & Zhang (2012), Wilde (2017), and others have found that organizational members' desires to disclose dishonor through identity channels were thwarted. by the lack of strong punishments against those who have previously been reported to have done acts of wrongdoing and the retaliatory actions that would be faced by past whistleblowers when contrasted to identity reporting routes. This is consistent with the fraud triangle theory: first, pressure (resulting from financial stability), external pressure, and individual financial needs; second, opportunity stems from the nature of the industry, inadequate monitoring, an unwieldy organizational structure, and internal control; and third, justification based on management's awareness of fraud. The establishment of such an organizational environment motivates accountants to have the goal of revealing dishonor to fraud (reward). The justification centers on the management's awareness of fraud. This can result from previous encounters or a strained relationship with the auditor.

Professional Ethics

Ethics is a set of rules for behavior, according to Marshall Saskhim and William C. Morris (1987), Beekun (1996), Agoes (2004), Murtanto and Marini (2003). What is proper and wrong behavior is defined by values. In other words, ethics is a set of behavioral principles that define what is right and wrong. Of fact, the moral standards established by religion are what define what is right and evil. Ethics can be summed up as a system of moral rules that distinguish between right and wrong. Because it helps determine whether actions are

appropriate or inappropriate, ethics is a normative branch of science. Public accountants should possess sufficient audit knowledge and be knowledgeable about the professional code of ethics in order to conduct financial statement audits more professionally. When doing an audit of financial accounts, an accountant works not only for the benefit of his clients but also for other parties who have an interest in the financial statements being reviewed. Public accountants must possess the necessary skills to continue earning their clients' and other users' respect.

Creative Accounting

Widarto et al. (2010), Sulistiawan (2006), and Aviyanti (2006) all discussed the interests of the larger community. The demand from the business owner (principal) to optimize and resolve any accounting issues that arise is what drives creative accounting to grow and flourish. demonstrates how the company's work culture has an impact on its accounting procedures and innovative accounting procedures. The board of directors' requests and interventions with the intention of decreasing accounting issues are mostly to blame for this innovative accounting practice. The use of accounting principles and practices by a company or organization to achieve specific goals is known as creative accounting. A practice known as "creative accounting" involves numerous people using their understanding of accounting concepts to falsify financial reporting. Regarding the acceptance of innovative accounting techniques itself, there are still conflicts of opinion. The employment of creative accounting techniques is regarded as unethical, and even as a type of information manipulation intended to deceive people. However, according to positive accounting theory, there is no issue that needs to be raised as long as creative accounting does not violate generally recognized accounting principles and as long as there is no information asymmetry between creative accounting actors and users of financial information. Because some forms of creative accounting are not accounting contradictions, they are difficult to show. From an ethical standpoint, self-interested economic principles have an impact on creative accounting. As long as it does not go against commonly recognized accounting rules, this might be lawful. However, the morality of creative accounting is still up for question. Giving students of accounting who will subsequently enter the business sector an early awareness of the academic world is one approach to do this.

RESEARCH METHODS

Descriptive qualitative research that is being employed. This study examines the effectiveness of the auditor's professional code of ethics in identifying dishonest business practices. As the primary method for gathering data for this study, semi-structured interviews were used along with observation, documentation, and triangulation.

Data gathering methods 1. Interviews that are semi-structured Semi-structured interviews allow for more freedom in problem-solving and greater transparency with the parties who have been invited to the interview and who are being questioned about their thoughts and perspectives. Because semi-structured interviews fall under the category of in-depth interviews, which allows for more flexibility in implementation than structured interviews, the author adopts this technique (Sugiyono 2012). Two. Observation Observation, in the words of Nazir (2013:154), is the process of gathering facts on the spot. Without the aid of other common tools for this aim, direct observation is a method of gathering data using only one's eyes.

The method of data analysis used in this study is a qualitative descriptive analysis technique with the goal of presenting information in written form, specifically by analyzing data by describing or describing the data that has been collected and presenting it in the form of written text so that conclusions about the problems studied can be drawn.

RESULT AND DISCUSSION

From the standpoint of professional ethics, there are a number of considerations when discussing innovative accounting techniques, including:

a. An early grasp of internalization and fraud.

Three questions pertaining to the company case the auditor was presented with help to understand internalization. First, ask the auditor how long they have been familiar with the internal workings of the business they are auditing, then ask them how they spot fraud.

It takes the auditor three months to comprehend and completely grasp the state of the company under audit. This period of time complies with the guidelines set forth by the Indonesian Institute of Certified Public Accountants, which controls the auditing deadline. According to these guidelines, the first respondent clarified.

"When I want to learn more about a client, I often conduct a routine audit for the first three months. Then, during the audit, I start asking questions about the client's company's history and financial performance. I have a thorough understanding of the internal circumstances of the business thanks to this evidence, including the issues that are present and any potential root causes that might contribute to fraud."

The company's leadership and suspected parties may be informed of fraud indications that surface during the auditing period. Sometimes, this verification is carried out throughout the auditing process. However, it can also be done when the audit results are presented to the management during a meeting before the audit report is released. An investigative audit is the kind that can be used to spot instances of fraud and identify the responsible person. The aforementioned claim is consistent with the first respondent's response.

"Normally, I only express doubt that a culprit exists when I'm engaged in an investigative audit. Because of this, the auditors truly concentrate on identifying the fraud's perpetrators and determining the extent of the fraud during that audit".

Auditors are required to abide by a professional code of ethics that has honesty, objectivity, professional competence and accuracy, confidentiality, and professional behavior in order to detect creative accounting techniques (IAPI, 2019).

b. Information about the testing process for fraud detection.

One of the American associations dedicated to the prevention and eradication of fraud, the Association of Certified Fraud Examinations (ACFE, 2000), divides fraud into the following three categories:

1. Financial Statement Fraud, Financial Statement Fraud is described as a type of management fraud that involves materially misrepresenting financial statements in a way that harms creditors and investors. This deception may be of a financial or non-financial character.
2. Asset misappropriation, also known as cash fraud, inventory fraud, and other asset fraud, as well as fraudulent distribution, are all types of asset misappropriation.
3. Conflict of interest, bribery, unlawful gratuities, and economic extortion are the different types of corruption, according to ACFE.

Internal auditors' primary responsibility is to prevent fraud by attempting to reduce or eliminate its causes. the initial respondent clarified;

"Fundamentally, fraud frequently happens in an organization when: a. Internal controls are absent, inadequate, or poorly implemented. a. Candidates for employment are chosen without consideration for their moral character. d. The management model itself is

fraudulent, inefficient and or ineffective and does not adhere to existing rules and regulations. c. Employees are regulated, severely exploited, abused, or placed under extreme pressure to meet financial goals and objectives. e. Employees that are seen to have unresolvable personal issues, including financial difficulties, needs for family medical care, and an extravagant lifestyle f. There is a history or tradition of deception in the sector of the economy the company operates in."

In order to achieve three (three) main objectives—reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations—management generally works to prevent fraud by establishing policies, systems, and procedures that help ensure that the board of commissioners, management, and other company personnel have taken the necessary actions (COSO: 1992).

It is impossible to apply one detection strategy to all frauds. To be able to detect fraud, one must have a thorough awareness of the different types of fraud that could occur in the organization. Each type of fraud has its own unique features. Respondent number three clarified;

The first step in detecting fraud is to: a. Review and evaluate the effectiveness, adequacy, and application of management control systems, internal control structures, and other operational controls; b. Ensuring compliance with management-determined policies, plans, and procedures; c. Determine the extent to which the company's assets are accounted for and safeguarded from the risk of fraud.

Respondent went on to say:

"The majority of fraud evidence is indirect evidence. Fraud indicators typically take the form of symptoms, such as shifts in a person's lifestyle or behavior, odd paperwork, client complaints, or coworker suspicions. This fraud will initially manifest as the appearance of specific traits, including behavioral traits as well as environmental traits. Red flags (Fraud indicators) are traits of certain circumstances or events, or the actions or conditions of an individual."

According to the classification of fraud, the Association of Certified Fraud Examinations (ACFE, 2000) lists several methods for fraud detection, including:

1. **Fraudulent Financial Statements (Financial Statement Fraud).** Financial statement analysis may typically identify the following frauds in the presentation of financial statements: By expressing the relationship between items in the income statement, balance sheet, or cash flow statement as a percentage, the technique of vertical analysis can be utilized to examine it. For instance, a rise in the ratio of trade payables to total debt from an average of 28 to 52 percent, or, on the other hand, a fall in the ratio of sales costs to total sales from 20 to 17 percent, may serve as a starting point for an investigation into possible fraud. A method for assessing the percentage change in financial statement items over numerous reporting periods is called horizontal analysis. For instance, sales have increased 140%. This may raise questions about false purchases, embezzlement, or other illicit activities, assuming there haven't been any other adjustments to the aspects of sales and purchases. Ratio analysis is a tool used to evaluate how the values of various items in financial statements relate to one another. The current ratio is one example; theft or money embezzlement might result in a drop in the ratio's computation.
2. **Misappropriation of Assets (Misuse of assets).** The methods used to identify fraud in this category vary greatly. However, having a thorough grasp of these goods' effective internal controls will be crucial for carrying out fraud detection. Therefore, a variety of tools are available to identify every instance of asset misappropriation. A variety of methods can be used to identify each form of fraud. For instance, there are various approaches that can be used to detect fraud in purchases. 1. These techniques work very well together since they each reveal abnormalities or indications of deviation, which may then be further studied to ascertain whether

there is fraud. These techniques will also highlight internal control flaws and alert the auditor to the possibility of future fraud.

The control environment, accounting system, and control procedures are the three components of the internal control structure that need to be appropriately taken into account.

Control Environment	Accounting System	Control Procedures
<i>1. Management Philosophy and style</i>	<i>1. Validity</i>	<i>1. Separation of duties</i>
<i>2. Organization Structure</i>	<i>2. Authorization</i>	<i>2. Proper procedures for authorization</i>
<i>3. Audit Committee</i>	<i>3. Completeness</i>	<i>3. Adequate documents and records</i>
<i>4. Communication methods</i>	<i>4. Valuation</i>	<i>4. Physical control over assets and records</i>
<i>5. Internal audit function</i>	<i>5. Classification</i>	<i>5. Independent checks on performance</i>
<i>6. Personnel policies and procedures</i>	<i>6. Timing</i>	

The likelihood of undiscovered fraud will be significantly decreased if the internal control framework is established and functioning properly. To assess and seek for flaws, the fraud examiner needs to thoroughly grasp each component of the internal control framework.

3. Corruption, The majority of these frauds can be discovered by complaints made to the company by sincere coworkers, reports made by unhappy coworkers, or complaints made to suppliers. An analysis of the suspect or his transactions is then done if there is a suspicion of fraud. The traits (red flag) of the recipient and the provider can be used to identify this fraud.
- c. In accordance with the accountant's code of ethics, disclosure of innovative accounting techniques.

A professional code of ethics that upholds honesty, objectivity, competence, correctness, confidentiality, and professional conduct governs the conduct of auditors (IAPI, 2019). Respondent number three clarified;

"The ability of the auditor to identify innovative accounting techniques is tied to independence. The independence principle is upheld by auditors. Independence in program planning, independence in conducting investigations into situations that are deemed suspicious and frequently harm the state, and independence in communicating audit findings to businesses or the government."

"Integrity and the auditor's capacity to identify innovative accounting techniques are related. The auditor will be truthful with the rules, act in accordance with the reality, and refuse to accept anything that is not legal."

This study backs up the findings of Maburri and Winarna (2010), who discovered that in local government settings, auditor integrity had a beneficial impact on the caliber of audit outcomes. This study also backs previous research from Ayuningtyas (2012) that shows how important integrity is to the final audit's quality. The findings of this study corroborate Al Momani and Obeidat's (2013)

findings that auditors' capacity to spot innovative accounting techniques is significantly impacted by their level of integrity.

"Objectivity is related to the auditor's capacity to identify innovative accounting techniques, where the auditor works free from outside pressure or demands from specific interested parties, and where the auditor does not feel subject to other parties or under pressure from conflicts of interest.

The findings of this study are consistent with those of Momami and Obeidat's (2013) study, which establishes that objectivity significantly affects an auditor's capacity to recognize innovative accounting techniques.

CONCLUSION

The corporation constantly encounters different dangers known as business risk when doing its commercial activities. Fraud risk, which is categorized as an integrity risk, is included in this. Financial statement fraud, asset misappropriation, and corruption are the three forms of fraud that are recognized by the ACFE as occurring (Corruption). The first warning signals (symptoms) of cheating typically show up. Internal auditors should be aware of and use these symptoms, also referred to as "Red Flags," while conducting additional research and evaluation in order to spot potential fraud before an inquiry is launched.

The disclosure of innovative accounting techniques is governed by the accountant's code of ethics. It will be simpler for auditors to spot fraud if they possess integrity, objectivity, professional competence and accuracy, confidentiality, and professional demeanor. because they are truly aware of their responsibilities. also the dangers that would result from the auditor not disclosing the fraud.

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