

The Role of Professional Ethics in the Implementation of Financial Management in Companies

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Abstract

This study aims to analyze ethical violations in corporate financial management by analyzing several cases that have occurred in Indonesia. The role of professional ethics in the application of financial management is a field of finance which is a broad and dynamic field. This field directly influences the life of every person and organization concerned. Business ethics is the basis of ethics in the economy or in business and for all stakeholders to avoid deviating from the economy and achieving goals or seeking profit, so we must master economic, legal, ethical and moral perspectives to achieve the desired goals. The conclusion in this article is that efforts to overcome problems that exist in the organizational or corporate environment related to violations or fraud committed by employees and company leaders involved in them have not been properly organized and the examples of cases of violations stated above have not been followed up by authorities. The perpetrators are now rampant so that efforts to overcome the problem of ethical violations must be directed at increasing the sense of corporate responsibility towards society as a whole.

Keywords: Violation of Ethics, Financial Management, Organization

INTRODUCTION

In general, humans in their lives cannot be separated from moral responsibility. All holders of the profession, including the accounting profession, are required to carry out their profession responsibly and not violate the rights of other parties. The accounting profession must be responsible for the work and results. In carrying out their profession, expertises, which clients do not have, are certainly needed, so that in professional services an unequal dependency relationship can occur. From the fact that the profession contains the possibility of misuse of the profession, it becomes important that the profession cannot be separated from ethics.

As it is known that Professional Ethics are principles that apply to certain fields, so that Professional Ethics have moral principles that apply to all professions, namely: first is responsibility. All professional bearers are required to show moral responsibility in their work. According to Martin Fischeer and Mark Ravizza (2020) explain that responsibility concerns about two things, namely the implementation of tasks and their consequences. Integrity, this is shown by being honest and committed to carrying out professional ethics in every task of executor. Objectivity, all assessments of actions or decisions must be based on data and facts. Competence, this is shown by the ability and skills in carrying out the work. Confidentiality is reflected in the determination to keep professional secrets.

The second is justice, this principle emphasizes guaranteeing the rights of all parties that must be given by a professional. So, there is a principle of a win-win solution, in the sense that fellow professionals must continue to be active in their respective fields and may not take other professional jobs. Third is autonomy, here meant that a professional must have freedom in terms of action, especially in terms of moral autonomy. Indeed, on the one hand, he must act according to the code of ethics of the profession and the institution where he is assigned, but on the other hand, he is also a free person. Fourth is trust.

According to Francis Fukuyama (2009) explained that trust is a very important social capital in a profession, where in relationships with other people, trust is an important social value. Furthermore, from the results of the above study, the authors can conclude that if professionals and public officials in their daily activities really understand, live up to, and implement the four ethical qualities and moral principles in every mandate they carry out in serving the public interest, it is hoped that there will be less abuse of power, which has the effect of reducing the number of people exposed to legal cases. Education from the start both from home and educational institutions will greatly assist the formation of a culture

of integrity, new employees must also be accustomed to and are required to get to know a culture of integrity from an early age on a small scale, medium to large scale. So that this culture will continue to be carried on until one day the employee will occupy an important position in an agency or company and can become a role model for the company or agency in general, and for their subordinates in particular. In the end this culture of integrity will make the work environment conducive, transparent and competitive so that good governance as expected can be realized.

This culture of integrity will certainly not be perfect if it is not accompanied by the improvement of the other three ethical qualities, namely a culture of objectivity, a culture of competence and a culture of confidentiality. These four quality ethical cultures support and complement each other, a culture of objectivity will work perfectly if a culture of integrity has been implemented perfectly, likewise a culture of confidentiality will be created if a culture of integrity and objectivity has been implemented, a culture of competence will be very influential if there is a true culture of integrity, a culture of objectivity and a culture of confidentiality is also well implemented. The main key is a culture of integrity, why? Because this culture of integrity places great emphasis on moral issues related to one's conscience, even though the other three cultures can be carried out properly and perfectly, thus making a competent employee beyond the competence of other colleagues, and generating added value for agencies or companies in where the employee works, this will be destroyed instantly when the employee is weak in maintaining a culture of integrity, such as the incidents and incidents that we have witnessed so far.

LITERATURE REVIEW

Etymologically, ethics comes from the Greek "Ethos" which means character, character, decency, and customs (Lina & Nani, 2020). According to the Big Indonesian

Dictionary, ethics is the science of what is good and bad, regarding moral rights and obligations, a set of principles or values related to morality, and the right or wrong values adopted in society (Nani et al., 2021). So, ethics is the basic foundation or consideration of every human behavior including the scientific field (Ahluwalia et al, 2021). Ethics is a branch of science that studies values and norms (Larasati Ahluwalia, 2020). Ethics includes the habits of courtesy and morals in everyday life. Quoting from the book *Business Ethics, Principles and Relevance*, the objectives are as follows: Ethics is a means to orientate human life (Ahluwalia, 2020). Have a deep attitude, can train independence, and responsibility for life. Telling others how they can become better people (Nani & Ali, 2020). Leading community development towards a peaceful, prosperous, orderly and harmonious life (Suwarni & Handayani, 2021).

According to Cressey in a quote from Christian & Julyanti, (2022) explains that a process creates a theory that the three conditions are always present when fraudulent financial statements occur. The three conditions are pressure, opportunity, and rationalization. These three conditions support each other and form a pillar of fraud which can be referred to as the fraud triangle as follows:

a. Pressure

It is at this stage that pressure is a person's motivation to commit fraud, and usually because of the financial burden. Pressure can also be said to be someone's desire or intuition that is forced to commit a crime. According to SAS No. 99 quote Christian & Julyanti, (2022) that there are several conditions related to pressure that cause someone to commit fraud, namely, financial stability, external pressure, personal financial need and financial targets.

b. Chance

This stage is a condition that allows for the commission of a crime. Shelton argues that opportunity is a method of crime that can be committed, for example, as a financial burden.

According to SAS No. 99 in quotations from Christian & Julyanti, (2022) there are several

conditions related to opportunities that can lead someone to commit fraud, namely, the nature of industry, ineffective monitoring, and organizational structure.

c. Rationalization

This stage is the third element of the fraud triangle and is the most difficult to measure. Rationalization is an attitude that allows someone to commit fraud, and assumes that his actions are not wrong. Those who engage in fraud consistently adhere to their code of conduct. There are several opportunities in conditions that lead someone to commit fraud, namely, auditor change and audit opinion.

According to the Association of Certified Fraud Examiners, also known as ACFE (2020), fraud can be detected in several ways, such as whistleblowing or reporting carried out secretly, internal or external audits, document inspection, internal control, account reconciliation, acknowledgment of perpetrators, and collectively not deliberate. The method of detecting fraud in companies is more common for reports made by employees secretly, namely by 43%.

The concept for measuring the professionalism of public accountants developed by Hall in 1968 has various indicators, namely, as follows: 1) dedication to the profession, 2) social obligations, 3) independence, 4) belief in the profession, and 5) relationships with fellow professionals. The survival of the public accounting profession is highly dependent on public trust; therefore, the public will highly appreciate professional organizations that set high quality standards in providing services to the public. Public trust in the quality of professional services will increase if the organization is able to realize high professionalism. For the public accounting profession, it is important to convince service users of the quality of audits or other attestation services provided (Yuliani, 2005).

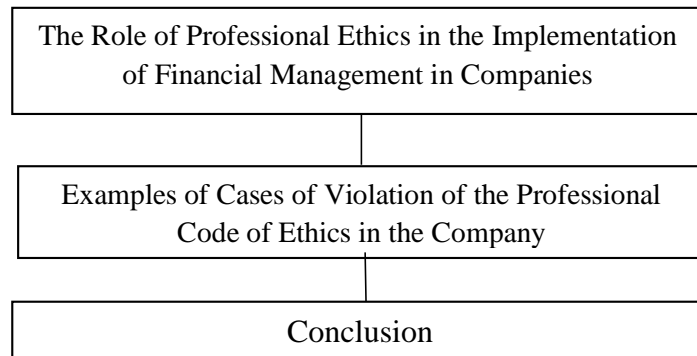
The professional code of ethics is a series of written norms that regulate the behavior of members of the profession and establish the basic principles that must be obeyed so that the implementation of professional performance can achieve the objectives of the assignment (Beauchamp and Bowie 2002).

Financial Management is an activity of planning, budgeting, checking, managing, controlling, seeking and depositing funds owned by an organization or company as well as the activities of owners and management of the company to obtain the cheapest source of capital and use it as effectively, efficiently, and productively possible to generate profits (Riski, 2018).

Controlling company finances means preparing a budget and then comparing its realization with that budget (Fadly et al., 2020). If there are irregularities or discrepancies, the reasons will be sought for further legal action (Azwari, A, 2021), (Febria Lina & Setiyanto, 2021). Person in charge of financial management activities or functions, is highly dependent on the organizational structure of the company (Febrian Eko Saputra, 2018).

Conceptual Framework

This conceptual framework is based on information data in this study obtained from news sources, journals and articles posted on the internet. The data collection technique used was in the form of documentation, where the researcher did not collect data directly from the main research parties. Data was collected from secondary documents in the form of writing and numbers from articles and news on trusted sites to be the object of discussion in this report (Christian & Julyanti, 2022). Below is a conceptual of the research:



Picture 1

Conceptual framework

Based on the conceptual framework above, it can be explained that this writing will discuss the role of professional ethics in the application of financial management in companies so that a discussion begins about the important role of professional ethics and then the application of management in accordance with professional ethics, then provides examples of several examples of cases of violations of the professional code of ethics in a company. So, the writer can give a conclusion.

RESEARCH METHOD

In this article, the method used is the literature method. The literature or library study method is carried out by searching for data or research information through reading scientific journals, reference books and publication materials available in libraries and the internet (Lina & Permatasari, 2020), (Lia Febria Lina, 2019), (Permatasari, n.d.). The nature of this research is descriptive analysis, namely regular breakdown of the data that has been obtained, then understanding and explanation are given so that readers can understand it well (Putri, 2021), (Anggraeni & Permatasari, 2020). The author uses a variety of library sources and internet census data which discloses responsibility in management (Putri & Ghazali, 2021). To obtain data or information, the authors process data from various sources of internet information (Permatasari & Anggarini, 2020). Various variations and available reference sources make

writing scientific articles work well (Ribhan & Yusuf, 2016), (Defia Riski Anggarini, Putri, et al., 2021).

DISCUSSION

A good company must have good ethics and social responsibility. The definition of business ethics is knowledge about the ideal procedure for managing and managing a business that takes into account the norms and morals that apply economically or socially, but the application of these norms and morals is the goal of business activities and supports that goal. In addition, recently there has been an increasing debate about the need for business action, especially in the preparation stage of the free market mechanism. The free-market mechanism gives all economic actors various freedoms to operate and be involved in economic development. This happens because of deviations from ethical standards. In fact, violations of corporate ethics and unfair competition to control the market are increasingly burdening middle and low-income entrepreneurs who are not competitive. Therefore, to reduce the occurrence of violations of business ethics in the business world, strict sanctions are needed to prohibit monopolistic and unhealthy business practices. Ethics in financial management is a field of finance which is a broad and dynamic field. This field directly influences the life of every person and organization concerned. There are many fields that can be studied, but a large number of career opportunities are available in finance applying financial principles within an organization or company to create and maintain value through decision making and proper management of resources states that financial management is a planning activity, budgeting, checking, managing, controlling, seeking and depositing funds owned by an organization or company.

Cases of Professional Ethics that occurred in Financial Management

The case of PT Asuransi Jiwa Adisarana Wanaartha

In November 2021, the OJK imposed a sanction on limiting business activities to the Life Insurance company Adisarana Wanaartha (WanaArtha Life). The imposition of this sanction is related to the violation committed by the company, which is not fulfilling a number of provisions in the field of insurance. Some of these provisions include: not meeting a minimum solvency ratio of 120 percent (%). Minimum equity requirement of IDR 100 billion, minimum asset requirement of IDR 150 billion. Until December 5, 2022, OJK revoked WanaArtha Life's business license (CIU), because WanaArtha Life was unable to meet the solvency ratio (risk-based capital) that had been stipulated according to Financial Services Authority Regulation Number 71/POJK.05/2016 concerning Health Finance of Insurance Companies and Reinsurance Companies.

Starting from the principle of objectivity, in the case of WanaArtha Life the Public Accountant did things that were biased and there was the possibility of undue influence or dependence on individuals or companies. Furthermore, the competency principle, in the case of WanaArtha Life, the Public Accountant did not act seriously in accordance with the applicable professional and technical standards. Providing services to WanaArtha Life is not with professional competence which requires a Public Accountant to use good judgment. Then the principle of professional behavior, the Public Accountant in the WanaArtha Life case did not comply with the relevant regulations, then behaved not with his responsibility as a Public Accountant to WanaArtha Life and was very unprofessional by issuing an Unqualified Opinion which meant that there was nothing significant and wrong misstatement in WanaArtha Life's financial statements, this also shows that acting unprofessionally against the public interest.

Based on stakeholder theory, PT Asuransi Jiwa Adisarana Wanaartha (WanaArtha Life) policyholders demand that the company has good and professional performance and is able to have business continuity (going concern) where companies are able to pay their

insurance on time and whenever they claim. Meanwhile, from the government side, WanaArtha

Life is expected to show optimal performance by generating positive profits and implementing good governance. So that the problem of default claims such as Jiwasraya insurance, Bumiputera, etc. has never happened, and ensures that all customers and the community are not adversely affected.

WanaArtha Life's solvency in 2020 reached minus 2,049.42%, far below the rules set by OJK, namely 100% minimum of MMBR. The triggers for fraud committed by the management of WanaArtha Life in terms of the fraud triangle theory include: 1) Pressure from Shareholders; 2) Opportunity or opportunity; 3) Capability is abused; and 4) Rationalization, "justification"

The Case of PT Enron

In 1997 Enron bought the power generation company "Portland General Electric Corp" for \$ 2 billion. Before 1997 ended, management changed the company to "Enron Capital and Trade Resources" which became the largest American company trading natural gas and electricity. Revenue increased dramatically from \$ 2 billion to \$ 7 billion with employees also growing from 200 people to 2,000 people.

Not enough with these achievements, Enron also formed "Enron Online" (EOL) in October 1999. EOL is an Enron business unit that online markets energy products electronically via the website. In a flash, EOL executed \$335 billion in transactions in 2000. In January 2000, Enron announced an ambitious plan to build a high-speed broadband electronics network with the capacity of a bandwidth sales network to carry out gas sales as well as electricity. Enron financed hundreds of millions of dollars to carry out this program, even though the profits were not yet visible, but Enron's share price on Wall Street soared to \$40,

and even increased to \$90.56, so that Enron was declared by Fortune magazine and other media as "one of the most admired and innovative companies in the world" for six consecutive years.

PT Enron came under widespread public scrutiny at the end of 2001, when it was revealed that the financial condition it reported was mainly supported by systematic, institutionalized and creatively planned accounting fraud. Its European operations filed for bankruptcy on November 30, 2001, and two days later, on December 2, in the US Enron filed for protection. At the time, it was the largest bankruptcy in US history and caused 4,000 employees to lose their jobs. The lawsuits against Enron's directors, after the scandal, were particularly notable because the directors settled the lawsuits by paying huge sums of money privately. In addition, the scandal led to the disbandment of Arthur Andersen's accounting firm, the repercussions of which were felt in the wider business world.

The Case of PT Toshiba

PT Toshiba is a large Japanese company engaged in electronics. However, since 2008, PT Toshiba has experienced difficulties in achieving its profit target. Until 2015 the company announced that it was carrying out an investigation into an accounting scandal at their company. It turned out that Toshiba committed an Accounting Fraud by recording a profit of 1.22 billion rupiah, which in fact did not match the actual profit. It is suspected that the cause is because management has set profit targets that are too high, so that when it fails to achieve these targets, parties within the company commit accounting fraud. This made the CEO of PT Toshiba Hisao Tanaka announce his resignation. From an ethical point of view, what was done by PT Toshiba by manipulating profits in financial reports (Fraud Accounting) means that they have violated the values of integrity as well as competence. Financial reports that are not in accordance with actual conditions can be detrimental to investors.

CONCLUSION AND SUGGESTION

Conclusion

Based on the discussion of the problems above regarding examples of ethical violations in financial management, it is concluded that efforts to overcome crises that exist within companies or organizations related to violations or abuses committed by employees or state officials involved in them have not been properly organized and examples of cases of violations stated above, there has been a follow-up by the authorities. The perpetrators are already rampant, this explains how bad the legal system is in this country. Efforts to overcome the crisis of ethical violations must be directed at increasing the sense of corporate social responsibility both towards society as a whole, employees and towards the government. If there is an action regarding misuse regarding all forms of corruption or misappropriation of funds, etc. to immediately report to the authorities so that these violations do not continue to develop in the environment of a company organization which is expected to decrease if indeed it is impossible to eradicate them altogether.

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