

## **Professional Ethics Violation Analysis Report Financial Report Manipulation Case**

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### **Abstract**

*Professional ethics in accounting plays a fundamental role in maintaining the quality of financial information and public trust in the accounting profession. However, in practice, business pressure, performance demands, and weaknesses in internal control systems often trigger ethical violations, particularly in the form of financial statement manipulation. This study aims to analyze in depth violations of accounting professional ethics through a hypothetical case study entitled "The Phantom Expense" at PT Prima Karya, which involves the recording of fictitious expenses prior to an Initial Public Offering (IPO). This research employs a qualitative descriptive approach using a case study method. The analysis focuses on examining the chronology of the case, identifying the parties involved, and assessing the economic, social, and legal impacts arising from the ethical violation. Furthermore, the case is evaluated based on the principles of accounting professional ethics, the Indonesian Code of Ethics for Accountants, and three major normative ethical theories: utilitarianism, deontology, and virtue ethics. The findings indicate that the manipulation of financial statements constitutes a clear violation of the principles of integrity, objectivity, and professional behavior, as well as non-compliance with applicable accounting standards and capital market regulations. From a utilitarian perspective, the practice is unethical because the overall harm suffered by investors and the public outweighs the short-term benefits gained by the company. From a deontological perspective, the action represents a breach of the accountant's moral duty to uphold honesty and compliance with professional standards. Meanwhile, virtue ethics highlights the failure of the perpetrators to demonstrate professional character traits such as integrity, responsibility, and moral courage. This study recommends strengthening ethical culture, internal control systems, and whistleblower protection mechanisms as strategic measures to prevent similar ethical violations in the future.*

**Keywords: Professional Ethics, Financial Report Manipulation, Accounting, Ethical Theory, Fraud**

## **INTRODUCTION**

The field of social sciences, encompassing disciplines such as accounting, management, development economics, and law, plays a crucial role as a key pillar in maintaining the stability and credibility of a country's economic system and governance. Professionals in this field, such as accountants, financial managers, economic consultants, and legal advisors, are trusted by the public to carry out their duties with the highest integrity, objectivity, and competence. Their decisions and reports often form the basis for strategic decision-making by investors, regulators, and the wider public.

In the context of modern business and government, demands for transparency and accountability are increasing. This positions professional ethics not merely as a moral guideline, but as a fundamental defense against practices that harm the public interest.

However, the reality on the ground shows that business pressures, conflicts of interest, and weaknesses in internal control systems often trigger violations of professional ethics. Cases of

violations, such as financial statement manipulation, abuse of authority, or other fraudulent practices, not only result in significant financial losses but also undermine public trust in the system and the profession in question.

Through in-depth analysis, this report aims to dissect the chronology of the violation, identify the root cause, review its relevance to the Code of Professional Ethics and applicable regulations, and analyze it from the perspective of various Ethical Theories. It is hoped that the results of this analysis can provide concrete recommendations for strengthening internal control systems and increasing ethical awareness, especially for practitioners and students as future professionals with integrity.

## RESEARCH METHODS

This study employs a qualitative descriptive research design with a case study approach to examine violations of professional ethics in accounting practices. The case analyzed is a hypothetical scenario entitled “The Phantom Expense” at PT Prima Karya, which illustrates financial statement manipulation prior to an Initial Public Offering (IPO).

### Research Approach and Design

A qualitative approach was selected because this study aims to obtain an in-depth understanding of ethical behavior, moral reasoning, and professional responsibility rather than to measure variables quantitatively. The case study method allows for a comprehensive exploration of the context, actors, motives, and consequences of ethical violations within a realistic business setting.

### Data Sources

The data used in this study are secondary data, consisting of:

- Professional ethical standards, including the Indonesian Code of Ethics for Accountants issued by the Indonesian Institute of Accountants (IAI).
- Relevant financial accounting standards (PSAK) and capital market regulations.
- Academic literature on professional ethics, fraud, and ethical theories (utilitarianism, deontology, and virtue ethics).
- The structured narrative of the Phantom Expense case, which serves as the main analytical unit.

### Data Collection Technique

Data were collected through document analysis and literature review. Relevant ethical codes, regulations, and scholarly references were systematically reviewed to identify ethical principles, professional obligations, and normative frameworks applicable to the case.

### Data Analysis Technique

The analysis was conducted using a descriptive-analytical method, consisting of the following stages:

- Case Reconstruction – Analyzing the chronology of events, identifying key actors involved, and describing the mechanism of financial statement manipulation.
- Ethical and Regulatory Analysis – Assessing the case against the principles of professional ethics, the Indonesian Code of Ethics for Accountants, and applicable accounting and capital market regulations.

Normative Ethical Evaluation – Evaluating the ethical violation using three major ethical theories:

Utilitarianism to assess overall benefits and harms, Deontology to examine compliance with moral duties and professional obligations, and Virtue Ethics to evaluate the moral character and professional virtues of the actors involved.

Impact Assessment and Preventive Analysis – Identifying the economic, social, and legal impacts of the violation and formulating recommendations related to internal control systems and ethical culture strengthening.

### **Research Output**

The expected outcome of this research is a structured ethical analysis that provides:

- A clear identification of ethical and professional violations,
- A theoretical evaluation based on established ethical frameworks, and  
Practical recommendations for preventing similar ethical violations in accounting and financial reporting practices.

## **RESULTS AND DISCUSSION**

The "Phantom Expense" case at PT Prima Karya involved financial statement manipulation in the lead-up to its IPO. The finance manager instructed the recording of fictitious expenses to lower current-year profits and create the impression of a profit surge in the following period, aiming to mislead potential investors and boost the company's valuation.

- a) Key Actors: Financial Manager (intellectual actor) and Senior Accounting Staff (implementer).
- b) Impact: Economic (investor losses, fines), Social (loss of public trust), and Legal (violation of the Capital Markets Law and document falsification).

### **Professional Ethics Analysis**

This violation is very serious because it violates the basic principles of the profession:

- a) Integrity & Objectivity: The perpetrator intentionally lied (Integrity) and allowed professional decisions to be dominated by business pressures and personal interests (Objectivity).
- b) Code of Ethics: There were threats to personal interests (motivated by bonuses/position) and threats of pressure (threats of dismissal of staff) that were not addressed.
- c) Regulation: Violated the Capital Market Law (misleading information) and PSAK (principle of expense recognition).

### **Review of Ethical Theory**

Ethical Theory	RESULTS AND CONCLUSION DISCUSSION
Utilitarianisme	Losses (investors, reputation, fines) are far outweigh the gains (high valuation) Unethical, because it does not produce the greatest good for the majority.
Deontology	Actions that violate the accountant's absolute obligation to be honest Absolutely Wrong, because it violates

<b>Virtue Ethics</b>	and comply with standards (PSAK). The perpetrator failed to display virtues such as integrity and moral courage under pressure.	<b>universal moral principles (honesty). Unethical, because it reflects bad character and is unprofessional.</b>
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## **Implications**

### **Practical Implications**

From a practical standpoint, the findings of this study underscore the urgent need for organizations, particularly those preparing for IPOs, to strengthen their internal control systems. Effective segregation of duties, independent internal audits, and strong oversight by audit committees are essential to reducing opportunities for financial manipulation. Furthermore, ethical leadership plays a pivotal role in shaping organizational behavior. Management must set a strong “tone at the top” that prioritizes ethical conduct over short-term financial performance. In addition, the establishment of robust whistleblower protection mechanisms is critical. Employees should be provided with secure and confidential channels to report unethical practices without fear of retaliation. Regulatory authorities and professional accounting bodies should also intensify ethical training and enforcement to ensure compliance with professional standards.

### **Academic Implications**

Academically, this study contributes to the accounting ethics literature by demonstrating the value of integrating normative ethical theories into the analysis of financial statement manipulation. Rather than viewing fraud solely as a technical or regulatory issue, this research highlights its moral dimensions. The study also provides a structured ethical framework that can be used by educators to enhance ethics education in accounting programs, particularly through case-based learning approaches.

### **Limitations And Future Research**

Despite its contributions, this study has several limitations. First, the analysis is based on a hypothetical case study, which limits the generalizability of the findings to real-world corporate environments. Although the scenario is designed to reflect realistic conditions, it may not capture the full complexity of actual financial fraud cases.

Future research is encouraged to incorporate empirical data, such as interviews with accounting professionals, analysis of real corporate scandals, or survey-based studies examining ethical decision-making in accounting practice. Comparative studies across different regulatory environments or cultural contexts may also provide deeper insights into how ethical violations in accounting are influenced by institutional and social factors. Such extensions would strengthen the external validity and practical relevance of future studies.

## CONCLUSION

Based on a comprehensive analysis of the "The Phantom Expense" case study and a review of the ethical theoretical foundations, several key conclusions can be drawn:

1. **Multidimensional Violation:** The financial statement manipulation case at PT Prima Karya constitutes a multidimensional ethical and legal violation. This violation was driven by management pressure to achieve an aggressive IPO valuation agresif
2. **Violated Ethical Principles:** The principal perpetrator explicitly violated the fundamental principles of professional ethics, namely Integrity, Objectivity, and Professional Conduct, and violated the IAI Code of Professional Ethics, particularly regarding Threats to Personal Interest and Threats of Pressure.
3. **Fails All Ethical Theories:** This act of manipulation is proven unethical from all normative theoretical perspectives:
  - a. **Utilitarianism:** The harm (especially to investors and public trust) far outweighs the benefits.
  - b. **Deontology:** The act violates the universal moral obligation to be honest and adhere to standards.
  - c. **Virtue Ethics:** The perpetrator failed to demonstrate professional virtue (integrity and moral courage).
4. **System Weaknesses:** This case highlights crucial weaknesses in the company's Internal Control System, particularly in the Tone at the Top aspect and the lack of protection for whistleblowers.
5. **Widespread Impact:** The impact is not only limited to economic losses for investors, but also significant damage to the credibility of the profession in the field of Social Sciences in general.

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