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The Performance Of Government Auditors In Perspectives Ethical Behavior And Tendency Of Accounting Fraud

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Abstract: *This article aims to analyze the existence of unethical behavior and the tendency of accounting fraud affect the performance of government auditors. The method of analysis used in the writing of this article is a literature study that is an analysis based on the results of previous studies relevant to the problems in this article.*

The results of the analysis of this article are many factors that affect the performance of auditors, among them are unethical behavior and the tendency of accounting fraud committed by clients and cooperate with auditors for certain purposes or interests. Both factors are related to the morality of individual auditors. If the moral level of the individual auditor is weak then the unethical behavior and the tendency of client accounting fraud affecting the auditor will be increase.

Keywords: *Performance auditors, unethical behavior and accounting fraud*

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I. Introduction

In the current era of transparency and openness, government auditors who audit the financial statements of government agencies (Department/Institution/ BUMN/D) are required to act professionally by complying with auditing standards and established audit behavior rules. The State Auditing Standards (SPKN) is a standard for conducting state financial management and accountability audits covering general standards, standards for audit execution and reporting standards mandated by the Supreme Audit Agency (BPK) and/or its auditors. This becomes important, because the contribution of BUMN/D in the development of the national economy is very big role through the distribution of profits provided to the government.

The auditor's profession is a faith-based profession because this profession exists because the public has the expectation that the auditor will perform its duties by always upholding independence, integrity, honesty and objectivity so that the services provided by the auditor are not detrimental to the users of audit services. A good auditor's performance will increase people's confidence in their profession. However, if the auditor performs unethical or behavioral behavior that could damage the auditor's professional image then the public no longer trusts the auditor. The last few years there has been a decline in public confidence, as shown by the various cases such as corruption, illegal practices or abuses committed by the audit profession as happened in the case of Enron and WorldCom in the United States, as well as the case of Telkom in Indonesia so that the credibility of the auditor increasingly questioned (Alim *et al*, 2007). As well as the case of selling and buying by the auditor's opinion by the BPK in case for code violations very seriously. In such cases as independent parties, accountants have engaged themselves in the manipulation of financial statements and opinions to the detriment of investors and the public at large. These cases became a hard slap for the auditor's profession because people have begun to doubt the credibility of this profession.

The public claims to obtain the services of auditors with high quality standards, and claim them to do their best. Therefore the auditor profession establishes the technical standards and ethical standards that should be used as guidance by the auditors in conducting the audit. Ethical standards are important to the audit profession because the auditor has a position of trust and faces possible conflicts of interest.

The ethical code or ethical rules of the audit profession provide guidance for professional auditors in defending against temptation and in making difficult decisions. If the auditor is subject to or adheres to such pressure and demand, then there has been a violation of the ethical principles held by the profession. That is why an auditor should always keep his vigilance in order not to be easily subject to the temptations and pressures that bring him into violation of ethical principles in general and professional ethics. In the case of ethics, the auditor profession must have a high moral commitment as outlined in the rules set by the organization, also known as a professional code of ethics that must be obeyed by the auditor in performing its duties. Code of ethics of accountants is an ethical rule that has been agreed and regulated by professional institutions. With this code of ethics, accountants are expected to understand and apply it as a responsibility in their professional engagement.

Auditor performance is a manifestation of work done in order to achieve better work results in achieving organizational goals. In addition, the auditor's performance is a major concern for both the *stakeholders* and the public in assessing the results of the tests. To improve its performance, an auditor is required to act professionally by observing the auditor's ethical code consisting of integrity, independence and professionalism. Thus the audit function which is the final line of defense should optimally be able to encompass the deviations that occurred, and all that can not be separated from the moral ethical role of the government auditors that exist.

Moral ethics is also called ethical consciousness that includes unethical behavior, that is, behavior that deviates from the main task or the main purpose that has been agreed (Dijk, 2000). Unethical behavior should not be morally acceptable as it may cause harm to others and the environment (Beu and Buckly, 2001). In addition, unethical behavior is very dependent on the interaction between personal characteristics with asocial phenomena that arise, environmental and psychological factors are complex (Buckly *et al.*, 1998). In addition, Dallas (2002) explains that unethical behavior can lead to an unhealthy work climate and can lead to the tendency of accounting fraud (Lane and O'Connel, 2009) and may disrupt performance accountability (Dijk, 2000; Beu and Buckly, 2001).

The large number of accounting frauds occurring on local government financial reports conducted by the Supreme Audit Agency (BPK), indicates that the quality of local government financial reporting in Indonesia is still not good and accounting fraud is already very worrying because it has harmed the country in large amount. Wells (2007) explains that accounting fraud refers to accounting errors made intentionally with the purpose of misleading the reader/user financial statements. The goal is done with negative motivation to take advantage of individuals or certain parties. According to the *Association of Certified Fraud Examiners (ACFE),* the accounting fraud can be classified into three types, namely fraud in financial reporting, misappropriation of assets and corruption, and all kinds of accounting fraud can occur in the government sector.

Tuanakota (2007) describes the findings of Cressey (1953) that there are three factors that cause accounting fraud, namely the opportunity, rationalization and the impulse or pressure. In addition, Albrecht *et al.* (2008) trigger that accounting fraud is also known by the *fraud* caused by situational stress associated with individual conditions in considering the action is right or wrong, the opportunity to commit fraud and personal integrity, which refers to a personal code of ethics of the individual. This can be observed through moral development theory as in ethical studies. In other words, accounting cheating is closely related to ethics and is an illegal act. Albrecht *et al.* (2008) explains that violations of ethics, honesty and responsibility are at the core of accounting fraud.

Some previous researchers Finn *et al.* (1988), Shaub *et al.* (1993), Kohlberg (1976), and Trevino (1992) explain that ethical behavior is significantly influenced by others faced by an individual in his or her professional environment regardless of whether his or her behavior is in accordance with the code of conduct. The level of influence on the ethical behavior of an individual auditor may be influenced by a long close relationship organization with related parties, whether from within or from outside the organization, such as the head of the organization of management, government, and accounting firms other (Finn *et al.,* 1988). While the results of research conducted by Shaub *et al.* (1993) suggests that the auditor's ethical orientation (influenced by the cultural environment and personal experience) not only affects the auditor's ethical sensitivity but also affects both organizational commitment and professional commitment.

The results of research conducted by Hernandez and Groot (2007) and Puspasari and Suwardi (2012) and Primasari (2014) explained that the ethics and environment of accounting control are two very important things related to the tendency of a person to commit accounting fraud. In addition, the cause of accounting fraud is the presence of opportunity factors and this is due to lack of supervision and weak internal control of an organization. Therefore, Hogan *et al.* (2008) explains that auditors contribute to the reduction of opportunity factors in accounting fraud.

In this article, discussed about the auditor's unethical behavior, auditor ethics, the tendency of accounting fraud committed by clients in collaboration with the auditor and its impact on the performance of government auditors. In addition, discuss the theory of attribution and agency theory underlying the writing of this article. The purpose of writing this article is to analyze through literature studies that many factors that affect the performance of auditors, especially government auditors. Factors to be analyzed is the existence of unethical behavior conducted by the auditor and the tendency of accounting fraud, where both factors are expected to affect the performance of auditors in doing their work.

Agency Theory and Attribution Theory

Agency theory (Jensen and Meckling, 1976) is often used to explain the accounting fraud issues and to solve the problems arising from the differences of interest between principal and agent called *agency problems.* This problem can be solved by the proper contract planning to align the interests between the principal and the agent. In addition, agency theory is based on several assumptions (Eisenhardt, 1989), which are assumptions about human nature, assumptions about organizational and assumptions about information. The assumption of human nature emphasizes that human beings have selfishness, limited mind and always avoid risk. Organizational assumptions are the existence of conflicts between members of the organization, and assumptions about information explain that information as commodity goods that can be traded. In addition, agency theory is often also used to explain the problem of unethical behavior done by individuals and accounting fraud in an organization.

Attribution theory was first proposed by Heider (1958), who argued that a person's behavior is determined by a combination of internal and external forces. Moreover, attribution theory explains why individuals engage in unethical behavior or accounting fraud trends. In addition, this theory can also be used to determine the factors that affect the characteristics of individual auditors. They assume that the characteristics of individual auditors is one determinant of the auditor's performance.

Auditor Performance

The performance of the auditor is an action or execution of inspection duties executed by the auditor objectively on the financial statements of an organization with a view to determining whether the financial statements are presented fairly in accordance with generally accepted accounting principles (Trisnaningsih, 2007). In other words, the performance of the auditor is the result of work achieved in performing its duties and become one of the benchmarks used to determine whether the results of audits conducted by the auditor has been in accordance with predefined standards or guidelines. The standard consists of quality of work, quantity of work and timeliness. The quality of examination results can not be separated from the existence of the auditor and the working environment conditions encountered at the time. In addition, the quality of work is a success rate on the achievement of auditor work based on all skills, skills and knowledge possessed by the auditor. The quantity of the auditor's work is the number of work completed and in accordance with the targets for which the auditor's job is responsible. While the timeliness is the accuracy in completing the work and in accordance with the time available.

With respect to the audit standards established by the government, the audit shall be carried out by a person or more who has sufficient technical expertise and training as an auditor. In other words, the auditor should have and improve knowledge of audit methods and techniques and all matters concerning government such as government organizations, functions, programs and activities. Auditor expertise can be obtained through continuing education and training and adequate experience in conducting audits. In addition, an auditor must also have independence in conducting the audit in order to provide opinions without any influence from other interested parties.

Public sector audit not only examine and assesses the fairness of public sector financial statement, but also assesses the compliance of government officials to applicable laws and regulations. In addition, public sector auditors also examine and assess the economical, efficient and effective nature of all government jobs, services or programs. Thus, if the quality of the public sector audit is low, it will result in the risk of lawsuits (litigation) against government officials and will appear cheating, corruption, collusion and various irregularities. The quality of public sector audit of the government is determined by the technical capabilities of the auditor and the independence of the auditor (Wilopo, 2006). The technical capabilities of the auditor are set out in the first general standard, that the staff assigned to perform the audit must collectively possess sufficient professional qualifications for the required task, as well as on the third general standard, namely that in the conduct of audits and the preparation of reports, professional skill carefully and thoroughly. In addition to the general standards, all fieldwork standards also illustrate the need for an auditor's technical capabilities.

Auditor independence is necessary because the auditor is often referred to as the first party and holds a major role in performing a performance audit, since the auditor may access financial information and management information from the audited, professional and independent organization. Although in reality this independent principle is difficult to be absolutely implemented, between the auditor and the auditee must strive to maintain the independence so that the objectives of the audit can be achieved. Auditor independence is one of the foundations in the concept of auditing theory. In this case there are two aspects of independence, the independence of the actual *(real independence)* of the auditors individually in lesaikan bears a job, which is commonly called the *"practitioner independence"*. *Real independence* of the auditors individually contains two meanings, namely confidence *(self-reliance)* from any personnel and the importance of the terms related to the auditor's opinion on the financial statements. The second aspect is the independence of the independence that appears / looks *(independence in appearance)* of the auditors as professional groups commonly called *"profession independence"*.

In addition to the above two aspects, independence has three dimensions, namely independence in making the program, independence in the examination and independence in making the report. Independence in making programs include free from interference and disagreement with the *auditee* that is intended to limit, define and reduce the various parts of the audit; Free from interference with or an uncooperative attitude relating to the procedure chosen and free of the various efforts associated with the audit work to review other than those provided in the audit process.

Independence in the examination includes direct and free access to all books, records, officers and employees as well as resources related to the activities, obligations and resources examined; active cooperation of the inspected leader during the examination; free from any attempt by the parties to be examined to determine the conduct of the examination or to determine the admissibility of a proof and to be free of personal interests and relationships which result in the limitation of the examination of various activities and records. In addition, independence in making reports includes free of loyal feelings or obligations to reduce the impact of reported facts; the waiver of a deliberate or unintentional use of an ambiguous language in the statement of facts, opinions and recommendations and in its interpretation and is free from any attempt to reject the auditor's judgment as the proper content of the audit report, both in terms of factual and opinion

Thus, in order to improve the independence of the public sector auditor, the position of the public sector auditor, both personally and institutionally, must be free from influence and interference and separated from the government. An independent auditor may report to all parties neutrality.

Professional ethics

Normatively, ethics is a set of moral principles that separate a good thing and a bad thing and what should be done and should not be done by someone (Stead *et al.*, 1990). Meanwhile, according to Satyanugraha (2003) ethics is the values and moral norms in a society. Therefore ethics is defined as morality. This is in line with the opinions of Boynton and Johnson (2005) that define ethics as an institution consisting of moral principles and standards that focus on human behavior to be able to determine "right" and "wrong". Likewise, Arens and Loebbecke (2009) argue that ethics deals with moral and value devices. Therefore, ethics is a moral and behavioral principle that becomes the basis of action for a person, so that what he does is regarded as a commendable deed that increases the degree of dignity and honor for a person.

Arens and Loebbecke (2009) explain that the moral principles for various professions are essentially the same. Principles relating to ethical behavior are honesty, integrity, holding promises, loyalty, justice, caring for others, respecting others, being accountable and accountable. Additionally, Belkaoui and Picur (2000), Farhan and Halim (2004) and Primasari (2014) describes the five values of ethics, namely *fairness, ethics, honesty, social responsibility and truth* as the most important element in the accounting morality. In the community there is also a so-called professional ethical rule that is specific to certain groups of professions. Professional ethics is a code of ethics to regulate the behavior of its members in carrying out its professional practice to the public. Included is a profession of auditors who must prioritize ethics in every activity of his profession.

Indonesian accountant's ethics code (Basuki, 2004) consists of three parts, namely ethical principles, ethical rules and ethical rule interpretation. The ethical principle provides a basic framework for the ethical rules governing the delivery of professional services by members. While the interpretation of ethical rules is a guide in the application of ethical rules. Various ethical issues are directly or indirectly related to audit activities. Many auditors are facing serious problems because they do small things that none seem to contain serious errors, but in reality they just pile up to be a big mistake and constitute a serious violation of the trust given. Therefore, knowledge of warning signs of ethical issues will provide an opportunity for the self to protect oneself, and at the same time, build an ethical atmosphere in the workplace.

Volker (1984) and Bebeau *et al.* (1985) states that professional accountants tend to ignore the moral issue when finding technical problems. Additionally, Cushing (1999) describes the working framework based on *game theory* for testing approach with the ethical standards of the accounting profession. Research conducted by Ludigdo and Machfoedz (1999) resulted in the formulation that ethical violations should not occur if the accountant has the knowledge, understanding, and willingness to apply adequate moral and ethical values in the conduct of his professional work. The research results of Payamta (2002) states that based on IFAC ethical guidelines, the ethical requirements of an accounting organization, should be based on the basic principles that govern the actions / behavior of an accountant in performing his professional duties. These principles include: (1) integrity, (2) objectivity, (3) independence, (4) trust, (5) technical standards, (6) professional ability, and (7) ethical behavior.

Ethical theory has become an interesting subject of a number of philosophers such as Mautz and Sharaf (1961) argue that ethical theories focus on knowledge and emphasize its role in providing practical guidance. Ethical problem is a problem always faced in the auditor profession, because the auditor has two parties that must be served, the client and the public / public. This is related to the fair presentation of financial statements / fair (Shaub *et al.*, 1993).

Meanwhile, Hume (1995) uses another approach in analyzing the ethical behavior of an individual. According to him, ethical behavior is a birth trait that can be empirically verified by what is done and not what should be done according to the rules of behavior. The rules of conduct, he argued, could not point to actual practice. Practice actually pointed right, that people are still suspicious of the possibility of independent fairness associated with government auditors audited by government agencies. Various scandals that resulted in losses to the state and society due to collusion between clients with auditors still occur. Meanwhile, professional ethics is a special application of the general ethical theory. The application of general theory to professional ethics stems from the professional responsibilities afforded by society (Mautz and Sharaf, 1961).

A government accountant is a profession composed of practitioners who provide services in three broad areas including auditing, tax and management consulting services on local government (public sector). In providing its services, professional accountants are based on a number of special autonomy granted by the public. The public provides a wide range of freedoms to the profession and services provided, professional accountants bear responsibility for (1) clients, (2) society, (3) colleagues, and (4) itself (Mautz and Sharaf, 1961). In fulfilling its responsibilities as a profession, the accountant regulates the behavior of its members in a code called the code of ethics, which is the norm of behavior that governs the accountant's relationship with the client, the accountant with colleagues/colleagues, the accountant with the community.

Tendency of Accounting Fraud

The tendency of accounting fraud is defined as the existence of inappropriate actions, policies and means, cunning, concealment and disguising, in presenting financial statements and organizational asset management that lead to the goal of achieving profit for itself. In other words, the tendency of accounting fraud is a growing threat. Generally it happens because of three reasons, namely the existence of opportunities, incentives or pressure and rationalization or attitude. Opportunities are circumstances that support the possibility of an act of accounting fraud tendency. Incentives or pressures are conditions of pressure that motivate individuals or leaders to take action on the tendency of accounting fraud. The rationalization is the justification or justification of the parties involved by the act of accounting fraud tendency that their behavior is in accordance with their personal code of ethics or in general many individuals who do such actions.

The forms of accounting fraud (IAPI, 2011) include (a) manipulation, falsification or alteration of accounting records or supporting documents, (b) incorrect presentation, (c) wrong in the deliberate application of the accounting principle, and (d) misappropriation of assets. In other words, the tendency of accounting fraud generally occurs because of the influence of the internal environment and the external environment of an organization (Armand, 2007 ;Thoyibatun, 2012), among others is the morality of the people involved in it, as explained by Wilopo (2006) Have a high morality then can reduce the tendency of accounting fraud and if an organization has low ethical standards, it will cause the risk of high accounting fraud. Similarly, the results of research conducted by Dallas (2002) which states that the various accounting fraud committed by companies Enron, WorldCom, and Xerox in the USA due to unethical behavior conducted by individual public accountants on the organization.

Previous Research

Trevino (1986) explains that the development of individual moral consciousness is a cognitive process, that is how an individual experiences a dilemma of ethics, the process of deciding what is right and wrong for the case experienced in his work. Trevino uses a moral-related decision model. Therefore, Trevino relates it to the variables used in Kohlberg's research. This is what Trevino believes is that an individual will engage in unethical behavior or a tendency to commit accounting fraud, when faced with difficult conditions and related to the morality of the individual.

Kohlberg (1976) conducted a study on the hierarchy of stages of moral development of individuals, which consists of six stages, namely the first two stages are called the pre-conventional, people (usually children) make moral decisions based on reward and punishment. In the third and fourth stages (conventional), social rules and the needs of others is irrelevant to moral reasoning. Finally, in the fifth and sixth stages is referred to as post-conventional, that is good for society included in the moral thinking.

Kohlberg (1976) analyzed that moral reasoning on the sixth stage rarely achieved in practice and high stages of individual morality, then the individual will be more attention to the wider interests and universal than the interests of the organization alone, let alone the interests of the individual. The higher the moral level of an individual, the individual is increasingly trying to avoid the tendency to commit accounting fraud that will harm many parties. The results of research conducted by Liyanarachi (2009), Arnold and Ponemon (1991), Welton (1994) and Patterson (2001) reinforce the results of Kohlberg's research, which explains that individuals with high levels of moral reasoning are more sensitive to ethical issues, So tend to do unethical actions.

Research conducted Shaub *et al.* (1993) on ethical sansitivities and professional/organizational commitment of auditors. The results of his research indicate that the ethical orientation of the auditor influences the level of commitment both to the organization and to the profession. These results provide an ethical perspective view of the auditor and how this perspective helps shape his or her views on the organization and profession.

Aslikanasy and Windsor (1995) although not specifically looking at professional commitment, they claim that assimilation of beliefs and organizational values affects the integrity and independence of auditors. This study attempts to test it with a thought that in the ethical decision-making process of auditors in conflict situations, auditors with high levels of professional commitment are more likely to refuse client requests in situations of audit conflict, and auditors with lower professional commitment are more likely to meet client demand in situations of audit conflict. In other words the auditor with a strong commitment to the profession will be more independent in the situation of the audit conflict than the auditor who lacks strong professional commitment.

Auditor Professional Commitment

The performance of the auditor is influenced by various factors, such as unethical behavior and the tendency of accounting fraud committed by the client to cooperate with the auditor for a particular interest. This causes the performance of auditors to be questioned by the general public and cause distrust of the auditor's performance. Therefore, the auditor in performing his or her work shall be guided by the audit standard that serves as a guide and guidance for all members of the auditor's organization in compliance with the code of ethics and performs the professional duties and obligations as contained in the code of conduct for the accountant. By adhering to auditing standards, accountants are expected to demonstrate a high commitment in backing provide services to users of professional services.

Institute of Certified Fraud Examiner (ICFE) has developed professional standards for its members, which consist of professional standards, auditing standards and reporting standards. Professional standards governing the integrity and objectivity, professional competence, due professional care, an understanding of the client and giving the orders and confidentiality. Auditing standards governing the audit of fraud and audit evidence. While reporting standards regulating the matters of a general nature and content of the report.

An auditor must implement a code of ethics and professional commitment in doing his job, because of the presence of an auditor it can behave more ethically by refusing to pressure clients to cooperate commit accounting fraud. Additionally, Rotter (1966) and Tsui & Ferdinand (1996) explains that an auditor's ethical awareness can be enhanced through learning ethics and education or training as professional accountants. In other words, institutions or accountant organizations must equip accountants by training and socialization of ethics in handling various cases that will be faced. It also requires the supervision of the work of accountants implementers.

Accounting fraud committed by the auditor together with its clients due to their weak internal control organization, as described by Coram *et al* . (2008) that the organization has an effective internal audit function will be able to detect the existence of accounting fraud committed by its members. With the internal control then the unethical actions of individual auditors will be reduced. If the effectiveness of internal control is high then unethical behavior will decrease. Wilopo (2008) explains that internal control is very important for an organization, because it can provide protection for the entity against human weakness as well as to reduce the possibility of errors and actions that are not in accordance with the rules. Moreover, morality is also an important factor in the incidence of accounting fraud, as described by Wilopo (2006) that with the increase of morality (ethics) a person can reduce the tendency of the accounting fraud.

II. Conclusion and Implication

Code of ethics for accountants are binding rules as a symbol of public confidence in the accounting profession. In carrying out his professional duties, the accountant shall comply with the code of professional conduct, which governs the relationship between the accountant to his client, where the accountant should act as an independent and objective party.

Accounting fraud is an illegal act which is closely related to ethics or morals of an individual, which in this case is the government auditor. An auditor who has a high level of moral reasoning not likely to commit accounting fraud, because it can have an impact on the performance of the auditor itself.

To reduce unethical behavior that auditors, required an oversight of the work of auditors. In addition, ethics and accounting control environment are two very important things related to the tendency of a person to commit accounting fraud. In other words, one of the causes of their chance to do the accounting fraud was the lack of oversight and weak internal control organization. Besides, auditors have a strong commitment to the profession will be more independent in a conflict situation compared with the auditors audit the less strong commitment to the profession.

Implications of the analysis of this article is the need for the role of government in making policies (regulations) to eradicate corruption and accounting fraud by issuing multiple regulations and legislation related to combating corruption and fraud in accounting, in addition to the establishment of the corruption eradication commission (KPK) through a special regulation which is an institution of super body with extraordinary powers are expected to support the government in efforts to combat corruption and fraud in Indonesia.

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