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PROFESSIONAL ETHICS ON THE QUALITY OF FINANCIAL REPORTING

Muhammad Wahyu Ramzy Ramadhan[1*], Yanuar Ramadhan [2]
Universitas Esa Unggul, Indonesia[12]
wahyuramzyy@student.esaunggul.ac.id[1*],yanuar.ramadhan@esaunggul.ac.id[2]

Abstract: Besides to provide information on the company's financial position and performance, quality company reporting enable firms to give potential investors and shareholders based on the competence of the firm’s management to meet the expectations of the business surroundings. This study aims to determine the extent of the impact of professional ethics on the quality of financial reporting, and how to apply it. This research is a literature review from various research sources. The results show that professional ethics has a significant relationship with the quality of financial reporting and is fundamental to the quality of an organization's financial statements. The application of quality financial reporting characters, high ethical commitment, and consistency play an important role in making quality financial reporting.
Keywords: Professional Ethics, Financial Reporting Quality, Utilitarianism, Stewardship

INTRODUCTION

Besides to provide information on the company's financial position and performance, quality company reporting enable firms to give potential investors and shareholders based on the competence of the firm’s management to meet the expectations of the business surroundings (Bondoc.M.D & Taicu. M, 2019). Based on the statement of Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), the reporting quality is a report that provides exact and righteous data about the performance and financial position of a firm. The more quality it offers, the more benefit will be provided by stakeholders towards the financial statements. Financial reporting quality comprises a wide range of information, including both financial and non-financial data, that may be used to make informed business decisions. This study examines what factors influence the quality of financial reporting from an ethical standpoint, particularly accounting professional ethics, as well as how this quality can be assessed and measured.

Meanwhile, ethics have numerous meanings and might be contradictory; as a result, ethical concerns are very important and are used in many facets of everyday life. Ethics can be evaluated through a variety of branches and lattices of analysis, whether modern or classical (Filipe, Alberto, Ferreira, 2011). Key qualities that appear in the professional body's code of ethics are independence, objectivity, integrity, judgement, and competence. High ethical standards are required due of the implosion of the technology bubble and the subsequent collapse of Enron, WorldCom and Arthur Anderson among other companies and individuals. (Rockness & Rockness, 2010).

This research is based on previous research, most of which do not link the ethical aspects and the quality of financial reporting to the ethical theory itself. Therefore, this research will cover utilitarianism theory and also Stewardship theory so that it can be a guideline for professional ethics in presenting financial reporting. Qualitative factors of quality and usefulness are included in financial statements and other types of financial information.

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Cost, which is a significant impediment to the reporting firm's capacity to provide valuable financial data, works in the same way. However, different forms of information may require different approaches to applying qualitative features and cost limitations. For example, applying it to information on current economic resources and claims, as well as changes in those resources and claims, could be different. In the IFRS concept (2015), the components for the characteristics of financial reporting consist of fundamentals and enhancing the qualitative characteristics of financial reporting. Financial information must be rerelevantnd represented faithfully in order to make it useful The relevance of financial information needs to be capable of providing a difference in the dedecision-makingrocess for users even if the users choose not to. To represent truly accurate reporting, it must have three characteristics. These characteristics include completeness, neutrality, and freedom from error. Of course I,t is not easy to achieve these three characteristics, but that is where the board's goal is to maximize these qualities as far as possible. There are some main characteristics, which are verifiability, comparability, understandability and timeliness which can enhance the utility of relevant information and give an exact representation of what is designate to be represented. The boosting qualitative features can also assist in selecting which of the two techniques to depict a trend should be selected if they are both judged to provide equally relevant information and a true portrayal of the case. Comparability allows users to understand and identify the likeness and differences between items. In contrast to other qualitative characteristics, comparability has no relation to individual item. Comparisons require at least two or more items. User decisions include things like selling or keeping investments or deciding whether to invest in one reporting organization or another. It is therefore advantageous when one financial report may be compared to similar information from other firms with different dates or periods. Direct and indirect verification are the two methods available. When we talk about "direct verification," we're referring to methods like counting currency that use direct observation to verify an amount or representation. By checking the inputs to a model, formula, or other technique and then recalculating the outcome with the same methodology, indirect verification is accomplished. Recalculating ending inventory using the same cost flow assumptions as the beginning inventory is one example of verifying the carrying amount of inventory through inputs (amount and cost) (e.g., using the first-in, first-out method). In order to have an impact on their decisions, decision-makers need timely access to relevant information. There is no value in relying on information that is out of date. Despite the fact that the reporting period is over, some data may still be helpful in the future. It's a good idea to have this functionality because some people need to be able to observe and analyze patterns.

It is the job of financial reports to educate and inform those who are well-versed in business and economics, as well as those who are meticulous in their evaluation and analysis of data. Even the most intelligent and devoted users may want the assistance of an expert at times in order to comprehend information about a complex economic event. As a result, categorizing, portraying, and presenting information in a clear and concise manner makes it easier to absorb. In terms of ethics, this study provides a theoretical framework based on utilitarian philosophy. The optimum course of conduct is the one that maximizes enjoyment, according to this ethical view (Mubaraq & Saidu, 2019). This approach defines pleasure as the sum of all pleasures derived from an action, eliminating any suffering or pain experienced by those involved in the action. Utilitarians believe that any activity or behavior that has the greatest balance of beneficial outcomes or the least possible balance of bad repercussions is justifiable. Morally proper activity, according to utilitarianism, will not injure others but will instead increase happiness or utility.

The accountant profession requires high service quality, accountability and illustrates that its professionalism is influenced by a professional code of ethics (Osazevbaru, 2021). As a result,

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stewardship theory is also used in this research. This theory's concept is based on stakeholder theory and is a governance theory in which managers are service providers whose motivations are aligned with the goals of multiple parties (Caldwell, Cam, et al, 2008). Governance theory is concerned with (1) how organizations seek to optimize performance and accountability, (2) how values and goals are integrated into the systems and structures created, (3) how leaders develop and maintain relationships that result in commitment and cooperation from those who work with and for them, and (4) how leadership and management principles are formally applied in running an organization's business. (cf. McClusky, 2002; Steinberg and Pojunis, 2000).

METHODS

This research method is propped by the access of some related journals, also research conducted from distinct countries. The search for these journals was carried out using searches related to the quality of financial reporting as well as accounting ethics, and was based on articles published in online databases.

RESULTS AND DISCUSSION

Professional Ethical Behavior and Quality of Financial Reporting

Enofe, Edemenya, and Osunbor (2015), investigated the effect of ethics on the quality of financial reporting in Nigerian businesses. The quality of financial reporting is strongly linked to accounting ethics, according to data analysis. He suggested that firms set up an ethics and compliance department to oversee and direct the implementation of ethics in daily operations. An investigation of the relationship between corporate ethics commitment and financial reporting quality in Korea was conducted by Choi and Pae in 2011. Ethical-minded companies produced better financial reporting than unethical-minded companies, according to his findings. In addition, the company's dedication to business ethics has a long-term effect on the quality of future financial reporting, as was discovered.

In Indonesia, research was conducted on university lecturers and accountants from consulting firms in Batam City, such as public accounting firms, financial audit institutions, and accounting service offices. Edi, E., and Enzelin, I. (2022) investigate the impact of accounting, specifically integrity, objectivity, competence, confidentiality, and professional behavior, on the quality of financial reports. According to the findings of this study, integrity, objectivity, competence, and confidentiality all have a significant impact on the quality of financial reports. The study also sheds light on how important accountant ethics are in producing high-quality financial reports, as well as how to improve accountant ethics to ensure high-quality financial reports.

Research conducted by Odong (2019), critically examines the influence of accounting ethics on the quality of financial reports in manufacturing companies in Uganda. To provide impartial, dependable, and transparent financial reports, researchers found that strong ethical standards are essential. The code of ethics of the accounting profession has a strong influence on the behavior of accountants. The legal system, community value system and belief not to harm society also influence each other in the professional behavior of accountants.

In Iran, Mahdavikhou, M., and Khotanlou, M. (2011), conducted a study aimed at studying the impact of professional ethics in promoting the quality of financial reporting. The Tehran Stock Exchange (TSE) had 440 companies listed in 2010 as part of the

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study's statistical population. There is a statistically significant correlation between the quality of financial reporting and professional ethics. Financial reporting can be portrayed as unrealistically as possible if it is characterized by a lack of professional ethics and qualitative features.

Mabil, A. N. (2019) conducted research on 90 accountants spread across the headquarters of eight commercial banks based in South Sudan. The goal of this research is to find out how accounting ethics affect South Sudan's financial reporting. This study focuses on the effect of accountant competence, independence, objectivity, and integrity on the quality of financial statements in commercial banks in South Sudan.. Financial reporting quality was positively impacted by accountants' competence, independence, objectivity, and honesty, according to the study's findings. Being proactive and providing professional help in financial reporting is widely viewed by other bank employees as a sign of accountants' competence and professionalism (Osazevbaru, 2021).

Observation of Professional Ethical Behavior on the Quality of Financial Reporting

Based on the research of Enofe, Edemenya, and Osunbor (2015), that ethics in the accounting profession is fundamental in the quality of organizational financial reports. Based on these findings, the study concludes that high ethical standards are the basis for achieving objective, reliable, and transparent financial reports. The study also recommends that all accounting professionals should monitor the activities of members to ensure that a code of ethics is followed in the preparation of quality financial reports. In terms of fundamentals, starting from the recruitment process, it must be further addressed so that every employee has a high level of work ethics. This indicates, ethics is fundamental for everyone in the organization, these fundamentals can be formed through the qualitative fundamental characteristics conceptualized by IFRS, especially for an accountant.

The application of the quality character of financial reporting based on IFRS also does not seem to automatically make the quality of financial reporting better, because each company may have different views on how they respond to and interpret the character of the quality of financial reporting. Therefore, it takes a very high commitment from an ethical perspective so that professionals do not want to take advantage of the gaps in each of these financial reporting characters. In addition, if it is not balanced with a high ethical commitment, professionals will try to find loopholes in the list of components of the character of reporting quality based on the IFRS (Choi & Pae, 2011). This is where utilitarianism plays an important role to be used as ethical guidelines because based on ultirianism theory, a person must behave morally not to harm others but instead increase happiness or utility.

Better financial reports are produced by companies with a higher degree of ethical commitment than by organizations with a lower degree of ethical commitment. In addition, the company's dedication to business ethics has a long-term effect on the quality of future financial reporting, as was discovered. Because the effect of ethical commitment on business is transient and has no long-term impact, institutional mechanisms that assist companies in maintaining and improving their overall level of ethics are required to achieve better financial reporting quality.

To sustain commitment to a high level of professional ethics, it can be assisted

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by applying guidelines that are principled on integrity, honesty, competence, confidentiality, and professional behavior towards report quality (Edi, E & Enzelin, I. 2022). In order to have long-term impacts, the principles must be followed consistently and with the help of institutions. Accountants are able to provide high-quality financial reports because they are able to produce reports that are consistent, conflict-free, and confidential. The neutrality of financial statements is one of the qualitative features of financial statements, and it is the outcome of an accountant's unbiased attitude. To be objective, accountants must be fair, truthful, and conflict-free in their thinking.

In addition to guidelines for ethical principles, consistency, and external encouragement, pressure from management is also needed to produce better quality financial reporting and ethical behavior (Odong, 2019). This is in line with the theory of stewardship, namely that stakeholders must be able to provide services whose motives are in line with the goals of many parties. This refers to how the organization attempts to maximize performance and responsibility, generate value and objectives that are incorporated into the system, and develop and maintain relationships that result in mutual commitment and cooperation.

CONCLUSION

Based on the results of the analysis as well as observations from several studies in the previous section, it can be concluded that professional ethics have a significant relationship with the quality of financial reporting and is fundamental to the quality of organizational financial reports. These fundamentals can be formed through the qualitative fundamental characteristics conceptualized by IFRS, especially for an accountant. However, the application of these characters does not automatically make the quality of financial reporting better, because each company may have different views and interpretations of these characters. Therefore, it takes a very high commitment from an ethical perspective so that professionals do not want to take advantage of the gaps in each of these financial reporting characters. This is where utilitarianism plays an important role to be used as ethical guidelines because based on the theory of ultirianism, a person must behave morally not to harm others but instead increase happiness or utility.

The effect of ethical commitment on business is not persistent and does not have a long-term effect, therefore it requires institutional mechanisms that help companies to maintain and increase the overall level of ethics to achieve better financial reporting quality. To sustain commitment to a high level of professional ethics, it can be assisted by applying guidelines that are principled on integrity, honesty, competence, confidentiality, and professional behavior towards the quality of reports. In addition to guidance on ethical principles, consistency, and external encouragement, pressure from management is also needed to produce better quality financial reporting and ethical behavior. This is in line with the theory of stewardship, namely that stakeholders must be able to provide services whose motives are in line with the goals of many parties. This refers to how the organization attempts to maximize performance and responsibility, generate value and objectives that are incorporated into the system, and develop and maintain relationships that result in mutual commitment and cooperation.

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