

CHAPTER 1

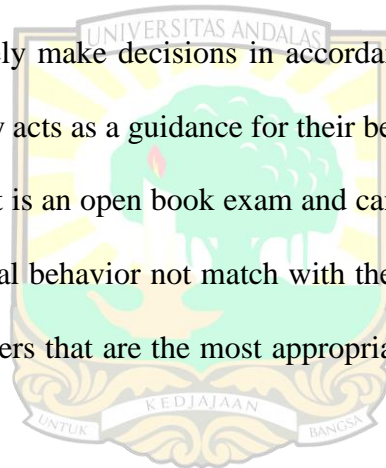
INTRODUCTION

1.1 Background of the Problem

For a long time, the business world has not gone a single year without seeing a case of financial scandal that is more often than not followed by major corporate collapses. May it be in accounting, auditing or other sectors. This can be seen from the Enron case that had happened many years ago in 2001 that caused a huge blow to auditing, such as the increase of auditing fees and the drop in the number of potential audit providers (Asthana et al., 2009). To the more recent one such as the Patisserie Valerie case that had just happened in the year 2019. Considering the trend of the scandal that shows no sign of stopping anytime soon, clearly this is a problem that has yet to be solved. The number of cases also means that there is an overwhelmingly large amount of people willing to commit such crimes, for a number of reasons. These people could either be accountants, auditors, financial managers, or other people working in the financial sector of a business or organizations.

The International Federation of Accountants (IFAC) has a code of ethics for professional accountants to adhere to. Indonesia also has its own code of ethics that is set by the Indonesian Institute of Certified Public Accountants (IAPI). The code of ethics requires all public accountants to always remain objectives with no bias, to

maintain professional competence and confidentiality and to always work with integrity. The code explains the correct behavior for accountants and penalties that would be given if it is violated. Certified Professional Accountants (CPA) are also required to pass the professional ethics exam before they can become a CPA. However, despite the existence of this, there still countless numbers of issues and scandals that occur every year. Students find it very easy to cheat and plagiarize and not fully realize the impact of their actions, these behaviors may carry on later on in their career (Ariail et al., 2015). Furthermore, according to Ward et al. (1993), individuals would ultimately make decisions in accordance to their need in a given situation and that code only acts as a guidance for their behavior. Additionally, for the professional ethics exam, it is an open book exam and can be done online. There may be people that whose ethical behavior not match with their answers on the exam, but rather on write down answers that are the most appropriate that would allow them to be accepted.



In Indonesia alone, there has been countless cases that happened over the past year. A recent case perpetrated by public accounting office, Ernst and Young (EY) where they are accused of not thoroughly reporting the financial reports of Hanson International Plc. They have overstated the company's income by 613 billion rupiah. As a result, they are penalized by Financial Services Authority (OJK) for violating the code of ethics for public accountants. (<http://cnbc.id/6hoJLw>, accessed on November 10, 2021). There are so many other public accountant scandals that exist.

Ernest and Young was also involved in the Indosat Ooredoo scandal a few years back in which they gave the financial reports Unqualified Opinion despite them not finishing the calculation and analysis yet. As a result, they were fined up to 1 million US dollars (<https://nasional.kontan.co.id/news/mitra-ernst-young-indonesia-didenda-us-1-juta>, accessed on November 17, 2021).

From these scandals, it can be seen that they cause a problematic trend as it negatively impacts many actors. At the smallest scale, it will hurt the firms involved and it will tarnish their good image and cause public doubt towards that particular firm. On top of that, it would also cause the public to lose confidence and/or trust on the auditing profession as a whole (Barrainkua & Espinosa-Pike, 2018). The trust public has on auditors are further damaged when the perpetrators of the scandals are the auditors themselves.

This problem does not appear out of nowhere. All these perpetrators were once students that have learnt the basics of accounting and grew up to pursue a career in auditing or other financial sectors. This problem could stem from the fact that potential auditors are not taught enough of the importance of honesty, especially at their jobs. Even after the numerous scandals and downfalls of major corporations, we see that the number of cases that surfaces every year never dwindles. According to Amernic and Craig (2004), these ceaseless cases may be caused by the way accounting program or at business schools are inadequate in providing a curriculum that encompasses not only the technical part of accounting, but also the ethical.

Thus far, most bachelor accounting programs in Indonesia has included accounting ethics in their curriculum; most integrating it into other courses (Limijaya, 2017). However, despite that, the scandals never cease to surface. The fact is, most accounting ethics being taught focus more on the legality of an action and less about the overall morals (Cameron & O'Leary, 2015). As a result, despite the fact accounting students are equipped with a lot of technical knowledge in accounting, there is still a very small number of programs that actually provide students with the appropriate ethical knowledge. Ethical studies are just as important as technical studies for accounting students as it helps prepare them for ethical dilemmas that they will inevitably face in the workforce, and guide them to always choose the right path, instead of making the wrong decisions. Being able to learn and live with the ethical value taught for a long period of time in the classroom would allow them to graduate as people with high integrity, professionalism and honesty (Rebele & Pierre, 2019). The current trend is, a lot of accounting students graduate with a lack of soft skills, two of which are the ethical and critical thinking skills, as they do not display a better ability than those graduated before soft skill development were emphasized (Rebele & Pierre, 2019). This lack of skill leads to a poorer quality of graduates and even bigger problems later on in the workforce.

Considering that today's accounting students will be the accountants and auditors of the future, it is imperative to know early on their ethical perceptions. This is the time to figure out the future accountants' behavior and to lay a strong ethical

foundation to prevent and/or reduce such financial scandals from happening. It is imperative to provide and equip current accounting students with proper understanding on ethical perception and behavior before they step into the workforce. There are many factors that may affect the way a student perceives ethics; one of which is education, as discussed above.

There may also be differences in the way students with different genders perceive ethics. This may have something to do with the way people of different genders are brought up or nurtured. There are conflicting results in the studies regarding the correlation of genders with ethical perception; with some finding significant influence while others discover that there is not much impact of this variable. A study done by Widyaningrum and Kamayanti (2013) states that female subjects are more likely to show a more ethical behavior compared to their male counterparts, while Hermawan and Kokthunarina (2018) finds that there is no significant difference in the ethical perceptions between the genders.

Ethical orientation is another factor that could affect an accounting student's ethical perception. Ethical orientation is measured on two spectrums that are relativism on one axis and idealism on the other (Ismail, 2014). According to Forsyth (1980), while relativists tend to reject the universal rule and are more skeptical in the existing ideas and principles, idealists tend to always view the world in an optimistic manner and always assume the best consequences can be achieved. This may affect a student's ethical perceptions too as each factor gives them a different view towards

ethics. There may be a difference in the way students who upholds universal values perceive ethics compared to those who judge ethical behaviors in relation to the situations.

Furthermore, each accounting students would have different levels for their love of money. Money is undoubtedly very important for everyone as it helps them fulfill their basic needs and also allows them to get their wants. However, although money is equally important for everyone, love of money may differ greatly from each individual. Elias and Farag (2010) finds that love of money often leads to a poorer ethical perception and that those with love of money have a significant correlation with cheating.

The aforementioned factors, education, gender, ethical orientation, and love of money, may play a role in affecting the way accounting students perceive ethics. Understanding the factors that affect their ethical perception would help in mitigating any possible unfavorable views early on and preventing the ever-increasing financial scandals committed by accountants and auditors. Moreover, there are still gaps in the studies regarding the factors that affect accounting students' ethical perceptions. There are still conflicting results in the previous studies of ethical perception with some studies finding that certain factors such as gender. There also has not been many studies conducted on the effect of personality on ethical perception. Furthermore, there is yet to be studies conducted in West Sumatra province of Indonesia. This research will aim to cover the gaps by conducting it in the West

Sumatra province of Indonesia that had not been done before and by finding a more conclusive result to the previous conflicting studies on the various factors.

1.2 Problem Formulation

Based on the background of the problem, it can be seen that financial scandals are an issue that continues to persist. Scandals perpetrated by auditors and accountants would damage their public image and the trust the public has on them. Considering that these auditors and accountants were once students, it is important to figure out the way accounting students perceive ethical behavior early on. Therefore, the subjects of this study are accounting students enrolled in University of Andalas.

There are many factors that affect ethical perception, some of which are education, gender, ethical orientation, love of money and personality. Based on these factors, the research questions can be formulated as follows:

1. Does education affect the way accounting students perceive ethical behavior?
2. Does gender affect the way accounting students perceive ethical behavior?
3. Does ethical orientation affect the way accounting students perceive ethical behavior?
4. Does love of money affect the way students perceive ethical behavior?

1.3 Objective of the Research

Based on the formulation of the problem above, the purpose of this research is to analyze:

1. The influence of education on the ethical perception of accounting students.
2. The influence of gender on the ethical perception of accounting students.
3. The influence of ethical orientation on the ethical perception of accounting students.
4. The influence of love of money on the ethical perception of accounting students.

1.4 Benefits of the Research

This research is hoped to provide benefits as follows:

1. Theoretical benefits

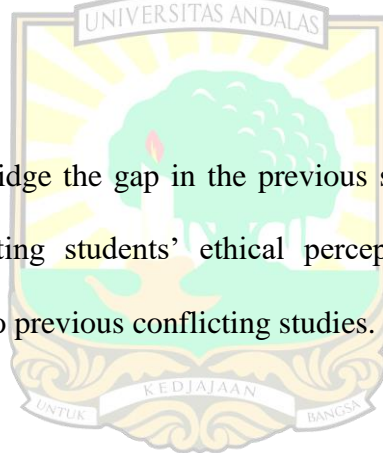
It is expected to bridge the gap in the previous studies regarding the factors that affect accounting students' ethical perception and to provide more conclusive results to previous conflicting studies.

2. Practical Benefits

- a. For Academician

This research is expected to provide further knowledge regarding the various factors that affect accounting students' ethical perceptions. It can also serve as a reference material for future studies on accounting students' ethical perception.

- b. For Students



This research can provide accounting students a deeper knowledge in the way their own perceptions are influenced. It is also expected to help them distinguish the difference between ethical and unethical behaviors and equip them with the right mindset when encountering ethical dilemma later on in a professional environment.

c. For Researcher

The research would provide an understanding in how the various factors affect the way accounting students perceive ethics. It is also written as a requirement in completing undergraduate studies in Department of Accounting, University of Andalas.

d. For Academics

This research would help in understanding the way accounting students perceive ethics and the importance of education in their ethical perceptions. This could help in designing a curriculum that would take into account not only the technical aspect of accounting, but also the ethical.

1.5 Writing System

The first chapter of the study is the introduction and it starts with the background of the problem that shows the overview and urgency of the issue and followed with the formulation of the problems which are then described as the

objectives of the research. This chapter also explains the benefits of the research and the systematics of the writing.

The second chapter is titled literature review. This chapter explains all the keywords that are going to be analyzed as well as explaining the theories used as a basis in this study. This study uses several keywords namely: ethical perception, love of money, and ethical orientation. It also describes the hypothesis development and research framework.

The third chapter is titled research methodology where the process of the study is explained. This chapter talks about the population of the study and how the samples are to be chosen from said population. Chapter three also describes how the data of the study is collected and the methods to analyze those data. This includes both classical assumption tests, multiple regression analysis and hypothesis testing.

The fourth chapter is called results and discussion where the data analysis is described. It starts with the descriptive analysis of the data to see give an overview of the overall data. Afterwards, there is an inferential analysis of data that uses the methods described in chapter three. The results of the analysis are then detailed and hypothesis tests are carried out. These determine whether the hypotheses described in chapter two are accepted or rejected. Furthermore, there is further discussion about the results of the tests.

The fifth and last chapter is titled conclusion. As the name suggests, this chapter explains the overall conclusion of the study. Moreover, it also described the limitations that this study encounters over its course as well as suggestions to future researchers on how to better the research later on.

