

AGENCY THEORY: CODE OF ETHICS FOR THE ACCOUNTING PROFESSION FROM AN ISLAMIC PERSPECTIVE

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Abstract. The ethics of the accounting profession is the basis for accounting professionals in taking action so that agency conflicts can be avoided. The ethical principles of the accounting profession focus on five aspects; integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. However, ethical standards are very dependent on the ethical values of the people in each region so that cultural, religious, and socio-economic aspects make the universality of ethical principles difficult to achieve. Religious values, especially Islam, which is the religion of the majority of the population in Indonesia, become one of the accountants' considerations in conducting ethical assessments. Professional Accounting Ethics in an Islamic perspective can direct an accountant to be responsible for his duties without forgetting the element of God. Therefore, based on ethical problems that often occur among accountants, this literature review aims to understand Islamic ethics in producing future ethical accountants.

Keywords: Agency Theory, Professional Accounting Ethics, Islamic Accounting Professional Code of Ethics

I. INTRODUCTION

In the world of business and accounting, it has become normal for each principal, managerial and stakeholder to have their own preferences and goals. The principal and agency are assumed to be economically rational parties so that they have their own motivations that are beneficial for each party. This tendency for differences in preferences and interests gives rise to a proposition called "Agency Theory". In practice, information asymmetry and management control systems clearly show the misalignment of the interests of the principal and agent. This misalignment of interests can be overcome through certain governance structures and mechanisms even though it creates agency costs for the company.

The existence of the concept of agency theory coupled with the number of companies that are starting to develop internationally shows the importance of international convergence of accounting standards. The internationalization of the accounting profession requires convergence both from a technical perspective as well as in training and ethical aspects. In this case, IFAC (International Federation of Accountants) has emerged as an organization that helps realize international convergence regarding professional standards, including standards governing ethics (IESBA, 2012). IFAC, which is an international accounting organization consisting of 180 members and associations in 125 countries, has a mission to serve the public interest and strengthen the accounting profession throughout the world (IESBA, 2012) by publishing the Code of Ethics for Professional Accountants.



The creation and application of a worldwide code of ethics for the accounting profession makes it possible to regulate professional conduct in a way that harmonizes standards, principles, and behavioral norms. Furthermore, this global code must offer a structure for the steps that should be followed in order to direct experts in handling conflicts.

The accounting profession's ethical standards center on five key areas: objectivity, professional competence and prudence, secrecy, professional behavior, and integrity. These guidelines attempt to capture the key beliefs of the stakeholders that professional accountants serve (N. L. Ahmad, 2017).

The universality of ethical principles is difficult to achieve due to cultural, religious, and socioeconomic factors, with religious aspects having the greatest influence on individual behavior. Professional ethical standards, on the other hand, are dependent on the ethical values and standards of society in each region. Religion provides society with particular ethical values, therefore moral and ethical values that are reflected in ethical codes and religious values that people follow might be barriers to the harmonization of ethical codes (N. L. Ahmad, 2017).

As of right now, none of the IFAC member nations have embraced the code of ethics for the accounting profession that the organization has developed, nor have any of them done so with identical procedures. Is it conceivable for a global code of ethics for the accounting profession to coexist peacefully with the norms and values upheld by the nations in which it conducts business? It is up for question whether or not this code of ethics can be applied to all nations given that they all practice various religions. (Barrainkua-Aroztegi & Espinosa-Pike, 2014).

In Indonesia, the code of ethics for the accounting profession used is the 2020 Indonesian Code of Ethics for Accountants created by IAI (Indonesian Association of Accountants) in collaboration with IAPI (Indonesian Association of Public Accountants) and IAMI (Indonesian Association of Management Accountants) in collaboration with the Development of the Accountant Profession in Indonesia which supported by PPPK Ministry of Finance. In the Indonesian Code of Ethics for Accountants, the ethical principles of the accounting profession also focus on the same five aspects as the international code of ethics. However, the existing code of ethics is considered not to facilitate accountants in Indonesia, which is dominated by Muslims. There are differences in principle between the conventional code of ethics and the Islamic code of ethics. According to Ahmad & Ahmad (2009), Muslim consumers of accounting information are becoming more and more interested in financial services and products that adhere to Sharia law. The values of conventional accounting ethics are secularized and center around materialism, maximizing profit, and self-interest. Since Islam rejects the division of worldly issues from those pertaining to the afterlife, these accounting principles are incompatible with Islamic ideals (Djuitaningsih, 2013). As a result, it is wise to incorporate religious principles into accounting, which implies that accounting is no longer value-free and that the ultimate objective is to serve society as a whole in addition to all shareholders and stakeholders.

Judging from cases of fraud or unethical behavior committed by accountants, it shows that the existing code of ethics for the accounting profession is not enough to reduce ethical violations committed by accountants. For example, in 2019, PT Garuda Indonesia stated that



its financial performance in 2018 reached US\$ 809 thousand. However, it turned out that there were irregularities in the accounting records. After being examined, finance suspected that there were irregularities in recording transactions in order to polish the annual financial reports. One of the collaboration transactions with PT Mahata Aero Teknologi, a startup offering on-board WiFi technology, was contested by two commissioners and was documented as income by management. According to the timeline, PT Garuda Indonesia works with PT Mahata, a startup that offers on-board WiFi, and PT Mahata is responsible for paying for all installation and maintenance fees. Even though Mahata hadn't paid compensation fees until the end of the year, management continued to record compensation income for these rights.

From the case of PT. Garuda as mentioned above, it can be concluded that there is an indication of a lack of awareness of the ethics of the accounting profession. This has resulted in increased public demands for financial reporting that is in accordance with their religious beliefs. The relationship between accounting professional ethics and religious values, especially Islam as the majority religion in Indonesia, shows that Islamic ethics in accounting can direct an accountant to be responsible and trustworthy. Many people consider that the values contained in Islam provide ethical principles that are appropriate for the business environment. Caliyurt, (2007) argues that ethical behavior is shaped by moral principles derived from religion. Therefore, based on ethical issues in accounting, this article aims to understand Islamic ethics in producing future ethical accountants.

II. DISCUSSION

Agency Theory and Accounting Professional Ethics

Agency theory is a contract or relationship that exists between the principal (the party who instructs the agent to carry out work) and the agent (the party who receives instructions to carry out tasks from the principal in the interests of the principal). The important point of Agency Theory is that the principal's rights are handed over to the agent in carrying out tasks where there is an inverse interest between the principal and the agent.

Agency theory is closely related to the ethics of the accounting profession due to the ethical assessment of the accounting profession. An accounting professional must of course provide fair ethical actions and not discredit his clients. Although of course accounting professionals have their own interests, they are obliged to put them aside by upholding professional ethics. It is hoped that the implementation of professional ethics can reduce fraud and unethical actions towards company stakeholders.

The Importance of Accounting Professional Ethics

There is a growing demand for ethical accountants in the accounting field, which drives up the requirement for ethics education and discussion. According to Dellaportas et al. (2006), accounting students' ethical development can be enhanced by their educational experience. According to McPhail and Walter (2009), the moral commitment and development of accounting students should serve as the foundation for ethics teaching in the accounting curriculum. Bakar et al. (2003) contend, however, that there hasn't been enough done by accounting instructors to help students deal with moral and ethical dilemmas. Numerous



debates drawn from the literature emphasize how ethics may be incorporated into the teaching process and how it can help accounting students develop their ethical thinking. Since students will eventually work as accountants and auditors, accounting instructors must incorporate ethics into the curriculum on a critical basis (Pomeranz, 1997). Research indicates that there is an increasing consensus that revisions to accounting education's ethics are still necessary (Cooper et al., 2005).

As a result, the academic community highlights the necessity of expanding the accounting curriculum's coverage of ethics (Caliyurt, 2007; Cooper et al., 2005). According to Fisher (2005), in order to create future ethical accountants, ethical covering needs to be a part of the training process. Accountants are expected by society to conduct themselves in a morally and professionally manner. It is expected of accountants to be morally upright and capable of seeing ethical problems. The accountant also has an obligation to guarantee the quality of financial information that could influence the decision-making of users and to convey data with the utmost honesty. Furthermore, ethical concerns are circumstances that call for discussion in which a person must decide what is right or wrong. According to Abdul Rahman (2010), integrity and human values have been lacking among accounting students during the last several years of accounting education. According to Djuitaningsih (2013), accountants' ignorance of heavenly values in financial and commercial activity is the reason behind this.

The Need for an Islamic Ethics System in Accounting

The foundation of the Islamic perspective is the idea that there is only one creator, God, and that all people must bow down to Him. Based on Islamic laws and regulations, the Islamic ethical system is set forth as guidelines for behavior when leading an Islamic life. The fundamental ideas of the Koran, which Allah revealed to the Prophet Muhammad, the Sunnah, often known as Hadith, and the interpretive science of Fiqh are the three primary sources of Islamic ethics. Therefore, these three primary sources serve as the cornerstone and rules for incorporating Islamic ethics into the accounting field and as the framework for the principles that accountants uphold in the course of their work.

Islam argues that sharia ethical accounting principles can safeguard economic objectives. Siwar and Hossain (2009) cite the sharia code of ethics' goal of preserving social justice for people and realizing advantages for people in this life as well as the next to bolster this claim. According to Siddiqi (2000), Islamic law has therefore established more moral norms in an effort to improve life. Additionally, Islamic ethics stem from divine ideals that are necessary for accounting procedures in the commercial world, such as morality, justice, accountability, and honesty (Abuznaid, 2009). Islamic ethics is centered on the ideas of living a decent life, striking a balance between one's material and spiritual demands, and promoting social justice in society (Bhatia, 2004). Humans were made to carry out their duties in order to fulfill the reason for their creation (Abuznaid, 2009). This is the idea of Taqwa and Faith, which denotes the role of people as earthly caliphs. Accountants are answerable to Allah and His messengers in their capacity as Caliphs. As a trustee, the accountant's conduct must be compliant with Islamic principles. The Islamic code of ethics forbids usury and gambling in financial transactions, as well as lying, fraud, and breach of

contract. However, it also balances these prohibitions with financial considerations that ensure the community's welfare in economic activities.

Islamic accounting methods are intrinsically based on the public's desire for heavenly values and excellent ethics, such as trust, honesty, integrity, and justice in financial transactions (Triyuwono, 2011). In Islam, the pursuit of Allah's pleasure and effective management in business and everyday life depend on the practice of ethical accounting (Abdul Rahman, 2010, 2003; Hamid & Yaya, 2005). Normal ethics is not entirely consistent with Islamic principles and Sharia (Islamic law), despite many parallels between Islamic ethics and normal accounting ethical notions and procedures (Bhatia, 2004). Conventional accounting ethics and Islamic ethics differ not only in their goals but also in their fundamental beliefs. According to Hameed and Yaya (2005), Islamic morality and conventional accounting ethics are at odds since normal accounting methods are meant to accomplish worldly objectives that are unrelated to religion and divine values. Accordingly, Triyuwono (2011) contends that traditional accounting concepts are not morally acceptable because they are portrayed as secular, capitalistic laws. But unlike western law, Islam has its own set of regulations that serve as a foundation for accounting and reporting procedures (Ahmad, 2014). Djuitaningsih (2013) thus underlined that the accounting discipline must fully adopt an Islamic framework, or Sharia, in order to integrate Islamic ideals.

AAOIFI Sharia Accounting Standards

Standards and sharia codes of ethics for Islamic financial institutions are being prepared by the non-profit organization AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions), an international Islamic organization. Matters pertaining to Islamic financial institutions' (IFIs') governance, ethics, audits, accounting, and sharia standards. 200 member institutions from 40 countries, including central banks, sharia financial institutions, and other members of the sharia banking sector, support AAOIFI. In addition, AAOIFI has released two code of ethics standards, seven governance standards, five audit standards, and 26 accounting standards. The financial authorities or central banks of nations that practice sharia finance have likewise embraced the AAOIFI norms.

In order to address the issue of discrepancies between sharia and traditional accounting products, AAOIFI made a significant contribution to the development of sharia banking standards. However, only a few countries mandate the presence of these standard regulations; elsewhere, standard implementation is entirely voluntary. Certain nations adhere to standards that are significantly dissimilar from the AAOIFI criteria and correspond with their degree of acceptance. For instance, sharia standards established by AAOIFI have been mandatory in Oman, Pakistan, Bahrain, Syria, and Sudan. Nevertheless, nations like South Africa, England, Brunei, France, Egypt, Kuwait, Malaysia, Lebanon, United Arab Emirates, Dubai, and Malaysia only willingly adopt sharia standards for their institutions. Sharia norms and AAOIFI standards are utilized as sharia standard guidelines for sharia firms in Indonesia.

Code of Ethics for Islamic Accountants according to AAOIFI

Trustworthiness, validity, objectivity, professional competence and diligence, faith-driven behavior, professional conduct, and technical requirements are the components of the

Islamic Accountant Code of Ethics, according to AAOIFI. The full explanation is provided below in accordance with the AAOIFI core framework.

1. Reliability

An accountant must maintain honesty and integrity in order to be deemed trustworthy. When performing his duties for clients, an accountant has an additional obligation to respect confidential information.

2. Authenticity

Accountants must obtain authorization from Islamic/Syariah law and comply with all applicable laws and regulations before providing any professional services.

3. Neutrality

It is required of an accountant to act impartially, fairly, and without conflict of interest.

4. Expertise and diligence in their work

Competency is a prerequisite for accountants. To fulfill his obligations as a professional worker, an accountant must conduct himself in a professional manner and be able to study a great deal.

5. Behaviour influenced by faith

Accounting conduct needs to be mindful of and compliant with Islamic ideals, which are derived from sharia law.

6. Technical standards and professional conduct

In addition to following accounting and auditing requirements in Islamic financial institutions, an accountant must also abide by professional regulations.

Implementation of the Islamic Accountant Code of Ethics

The Islamic Accountant Code of Ethics differs from the traditional Accountant Code of Ethics in a few ways based on how it is implemented. Here's the explanation.

1. The religious elements that shape the norms and tenets of the accounting system are different in the sharia (partner) accounting model. This fact demonstrates that accounting is a vital component of society's social and economic life rather than a "technical" profession. Understanding accounting as part of a larger institutional setting rather than as an isolated field would help us comprehend accounting systems and their history, present condition, and future potential.
2. The Islamic accounting model's ethical standards and principles are heavily influenced by religious considerations, which have two effects on accounting. First, there is the matter of Muslim accountants adhering to their own ethical principles. The Islamic ethical rules for accountants include a section that is exclusively grounded in Sharia norms, such as behavior based on faith and validity. The second is compliant with the accounting

profession and Sharia (e.g., technical standards, reliability, objectivity, and professional competence). The second path is adhering to business ethics in addition to personal ethics. Accounting can be viewed as a social science since the Islamic accounting model's ethical norms and principles have a tendency to grow and solidify.

3. After being exposed to religious elements, several of the sharia accounting model's tenets have particular qualities. These principles include, among others, the following: increased disclosure of accounting information; accountability; materiality; dependability; and social responsibility and reliability. As a result, someone who misuses resources ought to answer to Allah. In order for Muslims to make judgments in line with their religious commitments and adhere to their beliefs, Islamic accounting reports must be trustworthy, include all relevant information, and disclose information more than regular reports.
4. The purpose of creating financial reports under the Islamic accounting model is to ascertain the worth of the property from which zakat is given in addition to giving stakeholders the information they require. Items from financial statements that are used in the zakat calculation are valued at market value, and figuring out the nisab (minimum taxable) is a clear task. The application of the accounting as responsibility principle is made possible by the zakat mechanism; noteworthy distinction between zakat and "ordinary" taxes paid to the state by all people (not just Muslims) is that zakat payment is seen as an Islamic religious requirement.

III. CONCLUSION

It is clear from the preceding literature analysis that an accounting professional needs to conduct himself in a morally and reasonably manner, and he shouldn't disparage his clients. Accounting professionals must set aside their personal interests in order to sustain professional ethics, even if they inevitably have some. It is believed that putting professional ethics into practice can lessen fraud and unethical behavior toward stakeholders. Because it is not universally accepted, the application of traditional professional standards of ethics is frequently questioned. According to AAOIFI, there may be a way to address the numerous unethical practices within the accounting industry. The Islamic Accounting Code of Ethics includes elements of trustworthiness, legitimacy, objectivity, professional competence and diligence, faith-driven behavior, professional behavior, and technical standards.

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