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Audit Without Integrity: Ethical Failures and Fraud in High-Profile Corporate Cases

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This study explores ethical violations and audit failures in various large-scale corporate fraud cases. Using a qualitative descriptive method and based on secondary data from documented fraud cases and published audit reports, the study applies the Fraud Triangle framework, focusing on how weak integrity, objectivity, and professional competence have undermined public trust in the auditing profession. Using a qualitative descriptive method and the Fraud Triangle framework, which includes pressure, opportunity, and rationalization, the study analyzes cases from Indonesia (SNP Finance, Jiwasraya), China (Evergrande), and Germany (Wirecard). The analysis reveals that many audit failures observed in this study appear to stem more from ethical challenges than from technical incapability, driven by client pressure, weak internal controls, and compromised auditor independence. These cases demonstrate a recurring global pattern in which auditors neglect their responsibility to act in the public interest.

Keywords: auditor ethics, internal auditor, competence, internal control, fraud triangle, audit failure, professional responsibility, SNP Finance, Evergrande, Wirecard, Jiwasraya

Introduction

In the modern financial landscape, the role of auditors has become increasingly crucial in safeguarding the integrity and transparency of financial reporting. Publicly listed companies, due to their exposure to capital markets and public scrutiny, bear significant responsibility in ensuring that their financial statements reflect a true and fair view of their financial performance and position. Within this structure, public accountants—specifically external auditors—serve not only as examiners of numbers but also as ethical guardians who are expected to maintain high levels of independence, integrity, and professional conduct.

Public accountants operate under the framework of both national and international ethical standards. In Indonesia, these standards are outlined by the Ikatan Akuntan Indonesia (IAI) and further detailed through the Kode Etik Akuntan Indonesia, which emphasizes five key principles (Siregar et al., 2019): integrity, objectivity, professional competence and due care, confidentiality, and professional behavior. These ethical codes are intended to guide accountants in their decision-making and to ensure public trust in the financial information audited and reported. An accountant who adheres to these principles is expected to resist client pressure, disclose

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conflicts of interest, maintain impartiality, and act in the interest of stakeholders, not merely management. As noted by Gondodiyoto and Hendrik (2007), auditing in today's context has expanded well beyond traditional financial checks. It now includes the assessment of complex information systems, internal controls, and digital processes—domains where fraud can be hidden more easily. This evolution demands that auditors possess not only technical knowledge of financial standards and information systems, but also a strong ethical foundation to detect red flags and resist manipulation or coercion.

Despite the existence of robust ethical guidelines and audit standards, high-profile corporate frauds continue to emerge globally, exposing troubling gaps between ethical ideals and professional practice. In Indonesia, the case of PT Garuda Indonesia's manipulated revenue recognition raised serious concerns about the objectivity of its auditors. And the recording of fictitious receivables in the financial statements and the auditor's failure to uncover the manipulation by PT Sunprima Nusantara Pembiayaan (SNP Finance) have led to a decline in public trust in the auditing profession. Similarly, in China, the massive debt concealment by Evergrande led to PwC's uphol resignation and intensified scrutiny on the firm's audit performance. In Germany, Wirecard's fake bank balances remained undetected by its external auditor, Ernst & Young, for years—raising global alarm over audit failures. These cases reveal systemic ethical weaknesses within the auditing profession. They suggest that many failures stem not from a lack of technical ability but from compromised values often driven by client pressure, conflicts of interest, or ethical rationalization. The question arises: are auditors upholding their ethical responsibilities, or are they simply fulfilling procedural checklists?

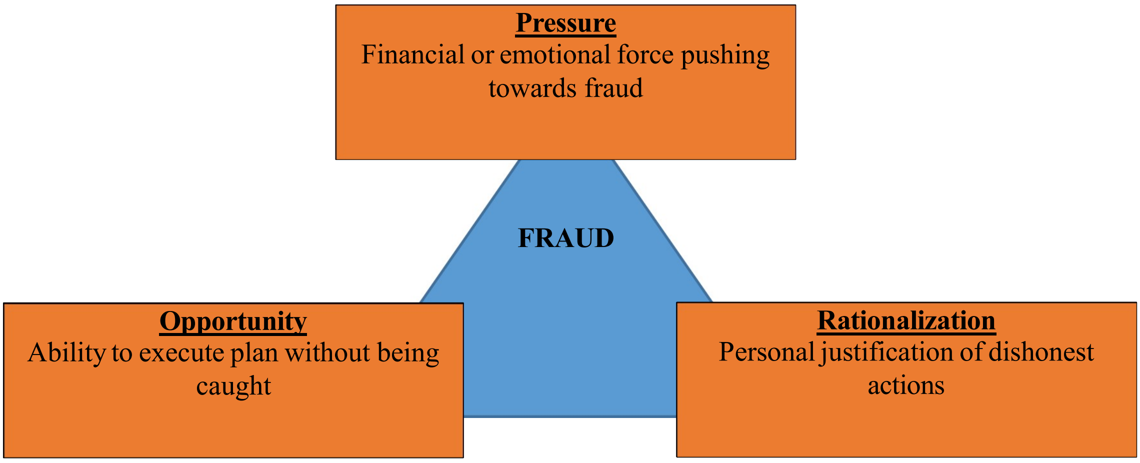
This paper examines such failures through the lens of the Fraud Triangle framework comprising Pressure, Opportunity, and Rationalization—to understand how fraud can persist despite the presence of auditors. By using a qualitative descriptive method and reviewing selected fraud cases from Indonesia, China, Germany, and other countries, this study identifies patterns of ethical erosion in audit practice (Basri et al., 2019). It also explores ways to strengthen ethical accountability, reinforce independence, and protect the integrity of the auditing profession in the face of increasing global financial complexity.

Literature Review

Business ethics plays a fundamental role in shaping auditor behavior and decision-making. The auditor's responsibility is not merely technical, but moral. The International Federation of Accountants (IFAC) and national bodies such as Indonesia's IAPI and IAI provide ethical guidelines for auditors, outlining key principles such as integrity, objectivity, professional competence, confidentiality, and professional conduct. These ethical principles serve as the backbone for auditing standards and help ensure that audits provide accurate and fair views of a company's financial health.

In the context of technological advancement, auditors must also evaluate information systems and their vulnerabilities. Gondodiyoto and Hendrik (2007) argued that modern auditing must incorporate system-based assessments, including data security, transaction trails, and IT governance. Failure to integrate these aspects can result in overlooked fraud mechanisms, especially in companies heavily reliant on digital infrastructure.

The Fraud Triangle, conceptualized by criminologist Donald Cressey, remains a foundational model for understanding the root causes of fraud. It identifies three core drivers: Pressure (financial or performance-related stress), Opportunity (lack of effective controls), and Rationalization (ethical justification by the fraudster).



Source: Author

This framework is particularly useful in analyzing both management fraud and audit negligence. When applied to global fraud cases, it reveals systemic and ethical weaknesses in auditing practices.

Methodology

The research in this article employs a qualitative descriptive approach. According to Sugiyono (2018), qualitative descriptive research is a method used to provide an overview or analysis of a phenomenon without exploring cause-and-effect relationships. This approach focuses on gaining an in-depth understanding of a phenomenon through data collection methods such as interviews, observations, case studies, and document analysis. In this study, data collection relies on secondary data from various literatures and is based on existing case studies.

This research was conducted using the literature review technique, which involves examining and evaluating the results of previous studies and thoughts of earlier researchers, and then presenting a summary and critical analysis of a particular case. The method applied is a literature study, where data are obtained through reviewing and understanding relevant theories from various sources (Adlini et al., 2022). The data sources used include books, journals, and articles discussing the enforcement of the code of ethics, the public accounting profession, or other matters related to the topic of this research.

Result and Discussion

Result

Fundamental Principles of Professional Ethics in Accounting. Ethics is a fundamental element in the practice of any profession. In general, professional ethics encompass a set of values, principles, and standards of behavior that serve as guidelines for conducting professional activities. These principles are typically outlined in a code of ethics, which must be adhered to by every individual within the profession. The accounting profession is among those that place a strong emphasis on ethics, given the accountant's role in consistently acting in the public interest. The responsibility of a professional accountant is not limited to serving the interests of clients or employers alone but also includes the obligation to uphold the broader public interest. In fulfilling this responsibility, accountants are required to consistently comply with the provisions of the professional code of ethics. Non-compliance with the code of ethics can damage the profession's reputation and diminish public trust in accountants.

In Indonesia, the professional code of ethics for accountants is formulated by the Indonesian Institute of Accountants (Ikatan Akuntan Indonesia or IAI) and compiled in an official module. This code of ethics contains a number of fundamental principles that serve as the foundation for the professional conduct of accountants, including:

Integrity, which is the principle that requires individuals to be honest, firm, and transparent in all professional and business relationships. Integrity reflects a commitment to always speak the truth and avoid any form of misleading information.

Objectivity, which is the principle that requires all accountants to act fairly, impartially, and free from bias or conflicts of interest. Accountants must also avoid any undue influence from others that could compromise their professional judgment.

Professional Competence and Due Care, which is the principle that requires individuals to continuously maintain and develop their professional knowledge and skills to ensure that the services provided remain relevant and of high quality. In addition, accountants are obligated to perform their duties with diligence, care, and in accordance with applicable technical and professional standards.

Confidentiality, which is the principle that requires an accountant not to disclose confidential information obtained through professional relationships to external parties or unauthorized individuals. Accountants are also prohibited from using such confidential information for personal gain or for the benefit of third parties.

Professional Behavior, which is the principle that requires accountants to comply with applicable laws and regulations and to uphold the image of the profession by refraining from any conduct that could harm its reputation.

The implementation of the code of ethics plays a crucial role in maintaining public trust in the accounting profession. Adherence to the code enables accountants to perform their duties with transparency and accountability, thereby enhancing the reliability of financial reports and supporting the stability of the broader economic and financial system. However, violations of the code of ethics by public accountants remain a serious issue that frequently arises in professional practice.

Case Analysis: Global Audit Failures

Evergrande (Tiongkok) dan PwC—(2023)

China’s Evergrande Group, with over RMB 2 trillion in liabilities, collapsed under the weight of concealed debt. PwC, its long-time auditor, came under criticism for not flagging the company’s worsening liquidity and overstated assets. PwC resigned in 2023 amid regulatory pressure. The ethical questions revolve around whether the auditor's independence was compromised by commercial relationships with a politically sensitive client.

Analysis of the Fraud Triangle elements:

Pressure—Evergrande was under huge financial pressure due to RMB 2 trillion in hidden debt and liquidity problems.

Opportunity—PwC, as Evergrande’s auditor, had access to the company’s financial records but failed to detect or report the overstated assets and cash flow issues.

Rationalization—PwC might have rationalized overlooking problems to maintain its lucrative and politically sensitive client relationship, possibly fearing losing business or regulatory backlash.

Analysis of Fraud Ethics in Accounting Profession—Case in PwC and Evergrande:

Integrity—PwC, as Evergrande's auditor, was ethically obligated to report the true financial condition of the company. However, criticism arose because PwC did not flag Evergrande's concealed debts and overstated assets, raising questions about whether they compromised integrity by allowing misleading financial statements to persist.

Objectivity and Independence - Auditors must remain independent and objective, free from undue influence. PwC's long-standing commercial relationship with Evergrande—a politically sensitive and high-profile client—might have compromised their independence, leading to less rigorous auditing and failure to challenge management's representations.

Professional Competence and Due Care—PwC was expected to apply professional skepticism and due care to detect signs of fraud or financial misstatement. The failure to detect or report Evergrande's liquidity issues suggests possible lapses in exercising due diligence or applying sufficient audit procedures.

Confidentiality vs. Reporting Fraud—While auditors must keep client information confidential, they also have an ethical duty to report fraud when discovered. PwC's silence or delay in reporting Evergrande's financial problems can be seen as an ethical failure to fulfill this duty.

Professional Behavior—By not adequately addressing Evergrande's financial troubles, PwC risked violating professional standards and damaging public trust in auditors. Ethical business behavior requires prioritizing public interest and financial transparency over commercial gains.

Responsibility to Report Fraud - The core ethical responsibility of auditors is to protect stakeholders by reporting fraudulent or misleading financial information. PwC's resignation in 2023 amid regulatory pressure can be observed as a reflection of regulatory and ethical tension earlier in the audit engagement.

Wirecard (Jerman) - (2020)

Wirecard AG, once hailed as one of Germany's top fintech companies, collapsed in 2020 after it was revealed that €1.9 billion in cash reported on its balance sheet did not exist. The company had claimed the funds were held in trustee accounts in the Philippines, but both local banks and the central bank denied such accounts existed. Ernst & Young (EY), the company's long-time external auditor, signed off on Wirecard's financial statements for years, failing to independently confirm the existence of the funds, despite warnings from whistleblowers and investigative journalists.

Analysis of Fraud Triangle in Wirecard Case

Pressure—Wirecard faced intense pressure to maintain rapid growth and meet investor expectations, especially to stay competitive in the fintech sector.

Opportunity—Weak internal controls and over-reliance on trust in management gave executives room to fabricate transactions and mislead auditors. The global structure made financial flows hard to trace.

Rationalization—EY may have rationalized overlooking red flags to protect its longstanding client relationship and avoid reputational damage, even though this contradicted professional auditing standards.

Ethical Violations in the Wirecard Case Based on Professional Standards

Lack of Professional Skepticism—EY failed to exercise due diligence, such as directly verifying bank balances. Ethical accountants must approach audits with a questioning mindset, especially when large funds are involved.

Compromised Independence—EY's close relationship with Wirecard may have influenced its judgment.

Ethical standards require auditors to remain independent, free from personal or financial bias.

Failure to Act on Red Flags—Despite whistleblower reports and media scrutiny (e.g., *Financial Times*), EY continued to sign off the audits. This reflects a serious lapse in professional responsibility.

Breach of Public Trust—Accountants serve not just clients, but the public interest. EY's inaction contributed to Wirecard's deception of regulators and investors, violating core ethical principles.

PT Asuransi Jiwasraya (Indonesia - 2019)

PT Asuransi Jiwasraya, a state-owned life insurance company in Indonesia, was involved in one of the country's biggest financial scandals, with estimated losses reaching over Rp 16.8 trillion by 2019. The company manipulated its financial reports to show healthy earnings and solvency, while in reality, it was suffering heavy investment losses.

Between 2006 and 2019, Jiwasraya used creative accounting techniques—including asset overvaluation and aggressive revenue recognition—to mislead regulators and policyholders. The firm invested in high-risk "pump-and-dump" stocks with poor fundamentals, violating prudent investment guidelines.

Auditing Failure:

External auditors, including the Supreme Audit Agency (BPK) and prior public accounting firms, failed to detect or report the manipulation in time. They did not question management's investment strategies or verify the quality of assets, allowing misstatements to go unchallenged.

Analysis of the Fraud Triangle in Jiwasraya Case:

Pressure—Jiwasraya faced pressure to meet return guarantees on insurance products, pushing executives to falsify earnings to maintain credibility and avoid regulatory scrutiny.

Opportunity—Weak internal controls and ineffective auditor oversight gave management the ability to manipulate records without immediate detection.

Rationalization—Management likely justified the manipulation to "buy time" and recover future losses. Auditors may have rationalized inaction due to trust in management or lack of independence.

Ethical Violations in the Accounting Profession—*Case: Jiwasraya Scandal:*

Integrity—Management intentionally manipulated financial statements to show profits and solvency, hiding large investment losses. Auditors failed to disclose these misstatements, violating the ethical foundation of integrity.

Objectivity and Independence - Auditors did not question risky investment decisions or asset overstatements. The lack of skepticism suggests their independence and objectivity were compromised, possibly to maintain a favorable relationship with the client.

Professional Competence and Due Care—Auditors failed to detect or report creative accounting practices used over more than a decade. This shows negligence in applying adequate audit procedures and understanding the risks.

Professional Behavior—The concealment of financial problems and lack of transparency damaged public trust in auditors and state institutions.

Public Interest Responsibility—Jiwasraya's collapse affected thousands of policyholders and the credibility of the Indonesian financial system. Accountants failed to act in the public interest by enabling fraud to continue for years.

PT Sunprima Nusantara Pembiayaan (SNP Finance)—(Indonesia-2018)

PT Sunprima Nusantara Pembiayaan (SNP Finance) is a financing company engaged in household equipment financing and is a subsidiary of the Columbia Group. However, the company later became involved in a significant financial statement manipulation case. SNP Finance was suspected of recording fictitious receivables in its financial statements. These non-existent receivables were used to present a much healthier financial condition than what actually existed and served as the basis for securing loans from 14 banks as well as issuing Medium Term Notes (MTNs). As a result of this fraudulent practice, the financial services industry and the public suffered losses amounting to trillions of rupiah. In the context of SNP Finance's financial statement audit, the Public Accounting Firm (Kantor Akuntan Publik or KAP) Satrio, Bing, Eny & Rekan, a member of Deloitte Indonesia, acted as the independent auditor. The firm conducted the audit and issued an Unqualified Opinion (Wajar Tanpa Pengecualian/WTP) on the company's financial statements. However, this unqualified opinion was controversial, as it was suspected of not reflecting the true financial condition of SNP Finance.

In carrying out the audit, the Public Accounting Firm (KAP) was considered to have failed in applying adequate audit procedures and lacked professional skepticism, which led to its inability to detect the existence of significant fictitious receivables in the financial statements. Several weaknesses were identified, including a lack of deep understanding of the information system used by SNP Finance related to customer data, inaccuracies in recording financing receivables journal entries, and insufficient and inappropriate audit evidence for consumer financing receivable accounts. In addition, the Financial Services Authority (OJK) and the Center for Financial Profession Development (P2PK) under the Ministry of Finance revealed that the firm's quality control system also had serious deficiencies. One of the key issues was the presence of threats to independence due to close relationships between senior personnel on the audit team and the client's management, which could compromise audit independence and objectivity. These findings indicate that KAP Satrio, Bing, Eny & Rekan did not fully comply with the Auditing Standards and the Professional Standards of Public Accountants in performing its audit duties for SNP Finance.

Analysis of Violations by KAP Satrio, Bing, Eny & Rekan Based on the Fraud Triangle:

Pressure—The pressure faced by the Public Accounting Firm (KAP) stemmed from the need to maintain its business relationship with SNP Finance, which was financially significant for the firm. There was pressure to issue a favorable audit opinion in order to avoid losing the client or to meet the firm's business targets. In this case, such business pressures may have led the firm to override standard audit procedures and compromise professional scepticism, prioritizing client retention and commercial interests over audit integrity and ethical responsibility. This reflects how financial dependence on a client can influence auditor behavior and contribute to audit failures.

Opportunity—The opportunity for the Public Accounting Firm (KAP) to commit fraud or negligence arose from weak internal quality control systems, such as the lack of adequate supervision over senior personnel who had close relationships with client management. Furthermore, the insufficient understanding and inadequate examination of the client's information systems and audit evidence created vulnerabilities that allowed the firm to fail in detecting the fictitious receivables manipulation. These weaknesses opened the door for serious audit lapses, ultimately undermining the reliability of the audit process.

Rationalization—KAP personnel may have rationalized their actions with justifications such as "the client is important," "the audit is good enough," or "there was no intent to deceive, only procedural errors." They may also have believed that issuing an unqualified opinion (WTP) would not directly harm others, or that the mistake was not entirely their responsibility. These forms of rationalization diminish the moral weight of their professional failure, allowing them to justify inadequate audit practices and reduce feelings of guilt or accountability for not conducting the audit in accordance with established standards.

Violations by KAP Satrio, Bing, Eny & Rekan in the SNP Finance Case Based on IAI’s Code of Ethics Principles:

Integrity—Integrity requires auditors to be honest and sincere in performing their duties. In the SNP Finance case, the Public Accounting Firm (KAP) issued an Unqualified Opinion (WTP) on financial statements that were, in fact, manipulated through fictitious receivables. This action reflects a lack of honesty and sincerity, as the auditors failed to disclose the true financial condition of the company.

Objectivity—Auditors must be free from bias, conflicts of interest, or undue influence from others that could impair their professional judgment. The findings indicating close relationships between senior personnel of the audit firm and the management of SNP Finance suggest a potential loss of objectivity. As a result, the audit may not have been conducted independently and objectively, thereby compromising the reliability of the audit opinion.

Professional Competence and Due Care—Auditors are required to possess adequate expertise and perform audits with due care in accordance with applicable standards. In this case, the audit firm was found to have failed to fully comply with auditing standards, demonstrated a lack of understanding of the client's information system, and did not gather sufficient and appropriate audit evidence. This indicates a violation of the principle of professional competence and due care.

Professional Behavior—Professional behavior requires auditors to uphold the reputation of the profession and avoid actions that may undermine public trust. The audit firm’s failure to detect fraud and the issuance of a misleading opinion damaged the reputation of the public accounting profession and reflects a breach of the principle of professional behavior.

Discussion

The central question of this study is whether auditors are truly upholding their ethical responsibilities or merely fulfilling procedural checklists. Based on the analysis of four major cases—Evergrande (China), Wirecard (Germany), Jiwasraya and SNP Finance (Indonesia)—the findings suggest that auditors have not fully upheld their ethical duties, and instead often fall into a mechanical execution of audit procedures without deep consideration of ethical values. Although the auditors in all these cases completed the technical steps of the audit—such as document examination, balance confirmation, and audit evidence collection they failed to demonstrate professional skepticism, independence, and commitment to the public interest, which are fundamental to ethical auditing. For instance, in the Wirecard case, EY failed to directly verify the existence of €1.9 billion in cash despite prior warnings from whistleblowers. This indicates that procedures may have been followed, but without the critical mindset that should accompany ethical audit practices.

Similarly, in the Evergrande case, PwC failed to reveal the company's hidden debt of over RMB 2 trillion for years. This raises serious concerns about the auditor’s integrity and independence, especially considering PwC’s longstanding commercial relationship with a politically sensitive client. Such behavior suggests that ethical judgment was overshadowed by business interests and client pressure, while standard procedures were applied without questioning the substance of transactions or management’s intentions. The Jiwasraya and SNP Finance cases also demonstrate how auditors issued unqualified opinions on financial statements that had been manipulated. In these instances, auditors neglected their moral responsibility to protect the public interest and focused instead on completing formal audit procedures without critically analyzing the information provided.

Using the Fraud Triangle framework, this study reveals recurring patterns explaining auditors’ ethical failures:

Pressure: Auditors were under pressure to retain important clients or avoid conflicts with management.

Opportunity: Weak internal quality control systems and lack of oversight created environments where ethical lapses could go unnoticed.

Rationalization: Auditors often justified their inaction with excuses such as “there was no intent to deceive,” “it was a procedural mistake,” or “the client is too important.”

These findings suggest that ethics are not being treated as the foundation of the audit process, but are instead reduced to formal compliance checklists. Auditors appear more focused on documentation and procedural completion than on ethical reflection and critical judgment. To address this issue, there must be a paradigm shift in audit practice from a compliance-based approach to one rooted in values and ethical responsibility. Professionalism in auditing should not only be measured by technical completeness but also by the auditor’s courage to question, challenge, and even reject misleading information when necessary to protect the public interest.

Conclusion

This study observes that major audit failures across jurisdictions often reflect patterns of ethical breakdowns, rather than purely technical shortcomings. The analysis of selected fraud cases indicates that auditors frequently failed to uphold key ethical principles outlined by professional bodies such as the Ikatan Akuntan Indonesia (IAI) and the International Federation of Accountants (IFAC), particularly those related to integrity, objectivity, professional competence, and professional behavior.

Through the lens of the Fraud Triangle, this paper highlights recurring factors that may contribute to audit failure—such as pressure from client expectations, opportunities arising from weak internal controls, and rationalizations that appear to justify professional misconduct. These patterns, observed across multiple cases, suggest a link between ethical erosion and the decline of public trust, reputational harm, and financial losses within the auditing profession.

By using a qualitative descriptive method based on secondary data from publicly reported cases, this study provides insight into the ethical challenges faced by auditors. It underscores the importance of strengthening ethical awareness, internal controls, and auditor independence to reinforce the profession’s accountability and integrity.

To strengthen audit integrity and prevent future frauds, it is essential that audit firms:

Reinforce internal quality control systems,

Encourage independence and professional skepticism,

Provide ethics-focused training to reduce rationalization,

And prioritize public interest over client retention.

Ethics must be internalized as a core element of professional identity, not treated as a checklist or compliance formality. Only through such commitment can the auditing profession restore trust and truly fulfill its role as a guardian of financial integrity.

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