

# Reflection on Ethical Aspects of Conduct and Behavior of the Accountant in the Light of Theoretical Assumptions of the Agency Theory

## *Reflexão sobre Aspectos Éticos de Conduta e de Comportamento do Contador à Luz dos Pressupostos Teóricos da Teoria da Agência*

Article received on 7/17/2022 and accepted on 3/3/2023

**Anna Klara Faria Pereira**  
Uberlândia-MG  
Graduating in Accounting from UFU<sup>1</sup>  
Annaklara\_pf@hotmail.com

**Graciela Dias Coelho Jones**  
Uberlândia-MG  
PhD in Business Administration from Mackenzie-SP<sup>2</sup>  
Professor at FACIC-UFU<sup>3</sup>  
graciela.jones@ufu.br

### ABSTRACT

The Brazilian Accounting Standard - Accountant's Professional Code of Ethics, approved at the Plenary of the Federal Accounting Council, on February 7, 2019, states that when it is not possible for the individual to eliminate the conflict of interest in a situation, he must act so as not to jeopardize their professional independence. The objective of this study is to discuss the ethical aspects of conduct and behavior of the accountant, analyzing conflicts of the entrepreneur-accountant relationship, through the theoretical assumptions of the Agency Theory. Therefore, the parameters of the Accountant's Code of Professional Ethics are adopted. To support the study, examples of fraud cases that have occurred in recent years are discussed. In the approach considered, the entrepreneur assumes the role of "principal" with an interest focused on the economic result of the company and the accountant assumes the figure of "agent", whose concern goes beyond the maintenance of employment, involving moral, ethical and conduct. As a result, it can be inferred that the Agency Theory has great potential to explain the entrepreneur-accountant conflict.

**Keywords:** Fraud. Ethic. Accountant's Professional Code of Ethics. Agency theory.

### RESUMO

A Norma Brasileira de Contabilidade – Código de Ética Profissional do Contador, aprovada no Plenário do Conselho Federal de Contabili-

dade, em sete de fevereiro de 2019 declara que quando não for possível para o indivíduo eliminar o conflito de interesses de uma situação, o mesmo deve agir de modo a não colocar em risco a sua independência profissional. O objetivo do presente estudo é refletir sobre os aspectos éticos de conduta e de comportamento do contador, que o conduzem a práticas fraudulentas, tomando-se por base os pressupostos teóricos da Teoria da Agência com ênfase, abordagem e aplicação voltadas para a contabilidade, para explicar o conflito existente entre o empresário e contador. Para tanto, adotam-se os parâmetros do Código de Ética Profissional do Contador. Para embasar o estudo, são discutidos exemplos de casos de fraudes ocorridas nos últimos anos. Na abordagem considerada, o empresário assume o papel de "principal" com o interesse voltado para o resultado econômico da empresa e o contador assume a figura do "agente", cuja preocupação vai além da manutenção do emprego, envolvendo questões morais, éticas e de conduta. Como resultado, é possível inferir que a Teoria da Agência tem grande potencial para explicar o conflito empresário-contador.

**Palavras-chave:** Fraude. Ética. Código de Ética Profissional do Contador. Teoria da Agência.

### 1. INTRODUCTION

On February 7, 2019, the Plenary of the Federal Accounting Council approved the Brazilian Accounting Standard (NBC PG 01) - Accountant's Code of Professional Ethics, which is based on the provisions of Article 6(f) of Decree-Law No. 9,295/1946, as amended by Law No. 12,249/2010. This rule seeks to dictate the conduct of the accountant, as well as the accounting technician, both in the practice of the profession and in related matters. The code establishes that the accountant's conduct must follow the guidelines established in the code, in the other Brazilian Accounting Standards and in the legislation in force, and presents, among other things, the accountant's rights and duties, prohibited attitudes and activities, some observations regarding the provision of accounting services, as well as the penalties applied for violating the established precepts.

Currently, in addition to ethics for accounting professionals being a subject that is treated with greater emphasis and discussed in colleges, relationships within companies are becoming increasingly critical, a situation caused mainly by the search for better results in the market. According to Jesus, Sarmiento and Duarte (2017), the modern company is increasingly becoming a fundamental instrument for satisfying the multiple interests and expectations of a complex and ever-changing society.

Thus, it is essential to pay more attention to ethics and social responsibility in the corporate sphere, since relationships can become delicate as different interests are defended, which are linked to lines of command in different hierarchies. This highlights the possibility of subordinates (accountants) being induced, through their superiors, to practice illicit conduct and behavior which, in addition to being contrary to ethical

<sup>1</sup> UFU – Federal University of Uberlândia, Uberlândia/MG, CEP. 38408-100

<sup>2</sup> Mackenzie-SP - Mackenzie Presbyterian University of São Paulo, São Paulo/SP, CEP. 01302-907

<sup>3</sup> FACIC-UFU - School of Accounting - Federal University of Uberlândia, Uberlândia/MG, CEP. 38400-902

standards, violates current legislation (NBC PG 01 - Accountant's Code of Professional Ethics of 02/2019), such as crimes involving fraud and corruption. In other cases, this occurs consciously on the part of the accounting professional, who subsequently assumes responsibility for the penalties applied.

According to Magalhães, Souza, Favero and Lonardoní (2008) and Murcia and Borba (2007), fraud is the intention to harm the interests of others in order to obtain one's own benefits. "Fraud is usually the means to achieve a specific purpose of the agent himself, such as solving personal or business problems, or meeting the expectations of market analysts" (CONDÉ et al., 2015, p. 96). According to Wuerges and Borba (2014), pressure is directly linked to the company's situation, as it is assumed that companies that do not meet the expectations of their stakeholders are more susceptible to fraud, since managers are under greater pressure for better results in the market.

Considering the current scenario, the conduct and behavior of the accountant in accordance with the rules of the Federal Accounting Council (CFC) take on a broader aspect. In this context, this study questions accounting ethics and, above all, how the business-accountant relationship is dealt with in the business environment. In order to emphasize this relationship, the present study is relevant in analyzing cases of fraud and behavior that violate the (NBC PG 01) - Accountant's Code of Professional Ethics, with the application of the theoretical assumptions of the Agency Theory.

In this context, the aim of this study is to discuss the ethical aspects of the accountant's conduct and behavior, which lead to fraudulent practices, based on the theoretical assumptions of the Agency Theory with an emphasis, approach and application focused on accounting, to explain the conflict between the businessman and the accountant. To this end, the standards of conduct of the Brazilian Accounting Standard (NBC PG 01) - Accountant's Code of Professional Ethics, approved by the Plenary of the Federal Accounting Council on February 7, 2019, were adopted. To support the study, five examples of fraud cases are discussed: (1) fraud and embezzlement, (2) bribery and criminal organization, (3) money laundering, (4) accounting fraud and (5) manipulation of financial statements.

Agency Theory conceives of the organization as a set of contractual relationships between the owners of capital and the company's managers, focusing on opportunistic behavior and the incentives provided by the owners of capital to the workers (LAVARDA; BONET, 2011). The investors or owners of capital, presented as the "principal", establish a relationship of production of goods and services with the workers or managers of the company, who represent the figure of the "agent" (Hodge, Anthony & Gales, 2003).

The research conducted by Condé et al. (2015) considered two theories applied to the case of an US corporation, to verify the adherence of the theoretical assumptions of corporate scandals (TEC) and the fraud triangle (TTF) in the case of accounting fraud practiced by the Kmart company. The study sought to analyze the motivational components of the TTF in the case under investigation, as well as the corporate governance system adopted by the company from the perspective of the TEC.

The present study also applies theory, specifically Agency Theory, in an expanded approach to Accounting, considering the "principal" to be the owner of the company/entrepreneur and the "agent" to be the accountant, in order to discuss the ethical aspects of the accountant's conduct and behavior, which lead to fraudulent practices.

The study developed by Martínez (1998), called "Agency theory in accounting research", mentioned that the organizational literature defines the principal as the shareholder or owner of the capital, while the agent is the manager, who manages for the owners of the company (principal), but the principal-agent relationship is not only established between owners and managers. The author's work presents eleven principal-agent relationships, different from the one addressed in this study.

The relevance of the study lies in the fact that it covers aspects of the accountant's ethical conduct and behavior, fraudulent practices, the recent Brazilian Accounting Standard (NBC PG 01) - Accountant's Code of Professional Ethics and the application of the Agency Theory. Based on this, it presents an advance for research in the area of Accounting, which studies the subject, as it can adopt the theory as an explanation for the conflict of interest between businessman-accountant.

The Agency Theory, with its emphasis, approach and application focused on Accounting, has shown great potential for explaining the conflict between the entrepreneur and the accountant.

## 2. ETHICS IN THE ACCOUNTING PROFESSION

"When we talk about ethics, it's natural to immediately think of morals. The word ethics comes from the Greek ethos, which means 'way of being' or 'character' as a way of life also acquired by man" (KEIKO et al., 2005, p. 59). By extension, it is a compilation of rules and principles that define the integrity and guide the customs of an individual, a social group or a society.

In the sphere of accounting, the ethics of accounting professionals is a topic in evidence. Sousa and Oliveira (2019) state that nowadays, given the countless changes in the country, it is necessary for accountants to make greater use of truthful and secure information, aimed at both management support and market perspectives. In view of this, it is essential that accounting professionals act ethically when it comes to rendering accounts for organizations. This conduct, as well as all the accountant's actions, must be guided by the Code of Ethics, considering any inconsistencies with NBC PG 01. According to Keiko et al. (2005), the main reason for the growing concern about ethics in the accounting profession is due, among other things, to the propensity of professionals to behave unethically, which stems from the obstinate focus on performance and the constant search for better results, most often demanded by the company's owners.

The studies by Magro, Silva and Zonatto (2017), which highlighted the ethical dilemmas of the accounting profession; Antunes, Neto, Yayla and Okimura (2012), who addressed ethical conduct through the practice known as "Parrhesia", and finally Kraemer (2009), who was one of the authors to present the ethics-secrecy relationship, argue that the transformations that have marked recent decades, the competitiveness of the market and the quest to maximize profits have made it more difficult to practice and respect the Code of Accounting Ethics within the corporate world. In this scenario, Kraemer (2009) points out that it is the accountant's responsibility to maintain integrity and loyalty in order to positively influence the environment in which they operate.

According to Antunes et al. (2012), accountants are presented with situations in their professional practice that involve them in moral dilemmas and highlight the behavior they consider appropriate in relation to that which society imposes on them. In this context, Magalhães et al. (2008, p. 4) state that "[...] Ethics carries great weight, since honest and effective work is the result of a professional's sound training". In a similar and complementary way, Nascimento et al. (2011) suggest that the treatment of accounting professionals, since the training period, should be geared towards strict ethical precepts that provide guidelines in accordance with the rules laid down by law.

However, it is known that there are imperfections and inadequacies caused by accounting errors that can arise from a large volume of work, physical or mental factors, complexity of the work material, lack of support or even premeditated actions. These errors, which can also be generated by administrative failures such as pressure, coercion and inducement on the part of the manager, result in some accounting irregularities (Magalhães et al., 2008). These irregularities are shown in Table 1.

**Table 1 - Irregularities in the Accounting Profession**

| CLASSIFICATION / GENERALITIES | SPECIFICATIONS / CHARACTERIZATIONS   |
|-------------------------------|--|
| Technical imperfections       | Non-compliance with predetermined standards that support the execution of accounting work. |

|                                  |  |
|----------------------------------|--|
| Professional Negligence          | Failure to comply with the moral obligation to keep bookkeeping in good order.   |
| Technical and bookkeeping errors | Organization of documents with improper indication, defects in function or classification that do not represent reality. |
| Infringements                    | Non-compliance or partial compliance with an administrative order.   |
| Simulations                      | Creation of unrealistic and irregular situations that do not correspond to reality.                                      |
| Adulteration                     | Alteration of bookkeeping that jeopardizes the integrity of the register.  |
| Fraud                            | Intentions to harm others' interests.  |
| Professional guilt               | All errors that cause material and moral damage to third parties.  |
| Professional responsibilities    | Job loss, compensation for damages or criminal liability regardless of the irregularity committed.                       |

**Source:** Adapted from Magalhães, A. D. D. F.; Souza, C. D., Favero, H. L.; Lonardon, M. (2008). *Perícia Contábil: uma abordagem Teórica, Ética, Legal, Processual e Operacional* (6. ed.). São Paulo: Editora Atlas

According to Table 1, fraud stands out among all the irregularities, originated from both accounting errors and administrative failures. It is known that the purpose of accounting is to provide information so that its users, both internal and external to the entity, can make decisions (IUDÍ-CIBUS et al., 2005), but "when, however, it is used to show non-existent facts, or without the rigor of truthfulness and with the intention of benefiting someone to the detriment of others, there is accounting fraud, and it becomes untrue and therefore false" (MAGALHÃES et al., 2008, p. 26).

In this context, it is common to use the Fraud Triangle (TDF), originally proposed by Donald R. Cressey, to explain the variables involved in the occurrence of fraud. The TDF presents three factors under which the author believes white-collar crime occurs: financial pressure or need, opportunity and rationalization. In the conception of his general hypothesis, the author consolidates that the absence of one of the pillars that support the theory would inhibit the transgression of financial trust. However, Wuerges and Borba (2014) state that even when opportunity is not present, there are some cases in which managers can create it. The pressure to succeed creates opportunities for criminal behavior.

### 3. AGENCY THEORY

Agency theory studies the relationships that exist between various agents in an organization (JUNQUEIRA et al., 2014). These relationships begin when one or more people, known as "agents", act as designated representatives of the "principal", making decisions on its behalf (ROSS, 1973; JENSEN; MECKLING, 1976). As it is a set of relationships established in a contract between the owners of the capital and the workers, due importance is given to opportunistic behavior and the incentives of each party (LAVARDA & BONET, 2011).

In the view of Martinez (1998), the central issue of analysis in Agency Theory is the possibility of the agent assuming opportunistic behavior with regard to their actions or omissions, with a view to increasing their personal satisfaction. The agent is rational, avoids risk and is primarily oriented towards his own interests, i.e. he is seeking to maximize his own well-being. Table 2 shows some cases in which it is possible to see a principal-agent relationship

**Table 2:** Examples of the relationship between Principal and Agent

| RELATIONSHIP PRINCIPAL - AGENT   | WHAT DOES THE PRINCIPAL EXPECT FROM THE AGENT?   |
|----------------------------------|--|
| Shareholders - Managers          | Managers maximize shareholder wealth (or share value).   |
| Bondholders - Managers           | Managers maximize the Debenture Holder's return.   |
| Creditors - Managers             | Managers ensure compliance with financing contracts.   |
| Clients - Managers               | Managers ensure the delivery of products of value to the Customer. Quality (higher), Time (lower), Service (higher) and Cost (lower).          |
| Government - Managers            | Managers ensure compliance with the company's tax, labor and social security obligations.  |
| Community - Managers             | Managers ensure the preservation of community interests, culture, values, the environment, etc..   |
| Shareholders - External Auditors | External auditors attest to the validity of the financial statements (focus on profitability and efficiency).                                  |
| Creditors - External Auditors    | External auditors attest to the validity of the financial statements (focus on liquidity and indebtedness).                                    |
| Managers - Internal Auditors     | Internal Auditors evaluate operations from the point of view of their efficiency and effectiveness, generating recommendations that add value. |
| Managers - Employees             | Employees work for managers to the best of their ability, meeting their expectations.  |
| Managers - Suppliers             | Suppliers provide the material needs of the Managers at the time required, in the quantities requested.  |

**Source:** Adapted from Martinez, A. L. (1998). Agency theory in accounting research. Encontro da ANPAD- ENANPAD, 22. Retrieved from <http://www.anpad.org.br/admin/pdf/enanpad1998-ccg-12.pdf>.

Because it is a flexible model, Agency Theory adapts to different relationships (Ross, 1973), as can be seen in Table 2.

According to Arruda, Madruga and Freitas Junior (2008), agency theory is the theoretical basis that analyzes relationships between participants in a system, where ownership and control are assigned to different people, which can result in conflicts of interest between them. In this sense, Ross (1973) states that agency problems are universal. According to this author, all contractual agreements, whether between owners of capital and workers or between the state and the governed, contain significant agency elements. Jensen and Meckling (1976) add that if both parties to the relationship are utility maximizers, it is strongly believed that the agent will not always act in accordance with the expectations and interests of the principal.

Thus, the "principal" can limit the divergence of its interests through appropriate incentives for the "agents", incurring monitoring costs and

bonding costs, which are designed to delimit the activities of the “agents”. As a result, in some situations, the “principal” guarantees, through payments, that the “agent” will not carry out actions that are harmful to him, since it is generally impossible to ensure that, at zero cost, the “agent” will make decisions that are optimal from the “principal's” point of view and that maximize his well-being (JENSEN; MECKLING, 1976).

The combination of Monitoring Costs, Liaison Costs and Residual Loss, which corresponds to the measurable monetary loss of well-being on the part of the “principal”, are called Agency Costs (JENSEN; MECKLING, 1976). Agency costs are all the expenses incurred by the “principal” to ensure that the actions of the “agent” are in line with its own interests, and these costs are used to mitigate agency conflicts. In this context, Wuerges and Borba (2014) state that the owners of the invested capital are willing to bear supervisory costs to ensure that there are no exaggerations on the part of management.

Alchian and Demsetz (1972) stated in their study on Information Costs that a more effective control over corporate activity is achieved by transferring decision-making authority to another group whose job it is to manage the decisions, so that shareholders retain the authority to supervise the members of the management group, as well as the main structural decisions of the organization.

According to Jensen and Meckling (1976), once the relationship between the owners of capital and the managers fits into an agency relationship, the existence of issues related to the separation between ownership and control is not unexpected. The problem of inducing the “agent” to act in such a way as to maximize the well-being of the “principal” is common to all organizations, but agency costs develop in different ways in each of these contractual relationships.

## 4. SOME REFLECTIONS

Over time, there has been a greater occurrence of cases involving fraud, bribery and passive corruption in the accounting profession (CONDÉ, 2013; CONDÉ et al., 2015). By consulting the online newspaper Valor Econômico, it can be seen that since May 2018, there have been a number of cases involving arrests and convictions of accountants in the political and business spheres, both nationally and internationally.

We present and discuss five cases for reflection, in order to provide a theoretical basis for this study.

### Case 1 - Fraud and embezzlement

According to the newspaper Valor online, the São Paulo State Public Prosecutor's Office ordered the arrest of the owner of Dolly soft drinks, the company's former accountant and the former financial manager due to a fraudulent scheme that had been going on since 1998. As a result of the blocking of assets by the courts, the company closed its factory in Tatuí (SP) and laid off around 700 people. The scheme was covered up by embezzlement by the accountant, but the prosecutor's office said it was just a “smokescreen” for federal and state tax fraud, which resulted in the accumulation of approximately R\$ 4 billion. According to the prosecutor of the Special Economic Crimes Group (Gedec), the creation of companies using straw man, false invoices, changes in the corporate structure, among others, were also investigated (MAIA et al., 2018; “VALOR ONLINE, 2018; MELO, 2018).

Based on the above, it is possible to conclude that “employees, regardless of the position they hold, are prone to making decisions that serve their own interests to the detriment of the organization” (CONDÉ, 2013, p. 17).

It is known that there are legal, ethical and moral facts surrounding the manipulation of information in the organization, with fraud in the Accounting Statements being an accounting adulteration that goes against the rules and principles laid down by law and is therefore illegal (CONDÉ, 2013). According to the Brazilian Accounting Standard - Accountant's Code of Professional Ethics, Art. 5, point g, it is forbidden for accounting professionals to “contribute, in the exercise of their profession, to the performance of an act contrary to the law or intended

to defraud it, when carrying out the services for which they have been expressly contracted” (NBC PG 01, 2019, p. 85).

In Case 1, it is possible to come across assumptions of the Agency Theory, with regard to the conflict between owners of capital and the accountant. However, there is no evidence to conclude whether the accountant legislated in his own cause, defending his own interests, or was asked to act unlawfully, violating the ethics and conduct provided for in the Accountant's Code of Professional Ethics.

### Case 2 - Payment of Bribes and Criminal Organization

According to the newspaper Valor online, during the investigation by the Federal Police (PF) into the so-called “Ports Decree” issued by a former president, he was indicted and had his assets blocked by the courts along with ten other people. In addition, a request was made for the preventive detention of the accountant of the company suspected of having paid bribes to favor the decree. The newspaper reiterates that, according to the Federal Police, the facts under investigation are related to the payment of bribes in cash or in the form of electoral donations, the use of shell companies and fictitious service contracts (MARTINS et al., 2018, MARTINS et al., 2018).

In this situation, there may be a suspicion that the accountant connived in the payment of bribes to favor the decree. On the one hand, there would be a clear conflict of interest between the principal (businessman) and the agent (accountant), and on the other, there would be evidence of non-compliance with the Accountant's Code of Professional Ethics.

Fraud is cited by the United Nations (UN) as one of the seven main attitudes characterized as corrupt, along with actions such as bribery and exploitation of conflict of interest (GEHRKE et al. 2017). In line with this, Condé (2013, p. 19) states that “due to the nature of the illicit act, fraud is classified as a crime in Chapter VI of the Brazilian Penal Code - CPB (BRASIL, 1940), consisting of a deliberate action to deceive third parties in order to unfairly obtain a personal advantage, in which case the fraudster practices the action through willful misconduct, aiming to or assuming the risk of harming third parties”. In order to ensure ethical conduct and compliance with the rules laid down by law, NBC PG 01 (2019, p. 85), Art. 5, paragraph n, reiterates that accountants are prohibited from “engaging in activities or linking their name to ventures with illicit purposes”.

### Case 3 - Money laundering

The Federal Public Prosecutor's Office (MPF) indicted a former governor of Paraná, his wife, his son and his accountant for laundering money from toll bribes and other corruption schemes during their time in office. The accountant and the former governor's cousin, both financial operators of the former governor, were charged with crimes of criminal organization and passive corruption. Embezzlement of approximately R\$8.4 billion was found, involving the cancellation of road works and the increase of fees in concessions in Paraná (BETO RICHA, 2019; VIEIRA, 2019).

In this context, it can be seen that the accountant did not act with zeal, diligence and honesty, damaging his dignity and professional independence. According to the Accountant's Code of Professional Ethics, it is forbidden for accounting professionals to “exercise the accounting profession with negligence, malpractice or imprudence, having violated rights or caused damage to others” (NBC PG 01, p. 85). This violation of rights is reinforced in the works of Magalhães et al. (2008) and Gehrke et al. (2017), who characterize fraud as intentions to harm the interests of others in order to obtain their own benefits. Therefore, “[...] fraud is related to the practice of an illicit action, which may have criminal, civil or administrative repercussions for the fraudster” (CONDÉ, 2013, p. 16).

The conflict of interest dealt with by the Agency Theory considers the possibility of the agent engaging in opportunistic behavior with regard to their actions, with the aim of increasing personal satisfaction

(Martinez, 1998). Specifically in Case 3, there is no explicit conflict of interest between principal and agent. In fact, the evidence presented in the case allows us to infer the existence of opportunistic behavior, focused on serving personal interests.

## Case 4 - Accounting fraud

According to the newspaper Valor online, the international supermarket chain Dia, of Spanish origin, has opened an internal investigation in order to determine whether there was manipulation of figures and the occurrence of accounting fraud in the statements presented worldwide in 2017. With stores in Spain, Argentina, Portugal and Brazil, the newspaper claims that the investigation into the accounting reports affects Brazil. Two of the world's Big Four auditing firms KPMG and Ernest Young (EY) are involved in the case. The audit has gathered information on the grants and bonuses given by industries to the chain, the transfer of stock between franchises, the company's sales and the accounting of gains and losses (Mattos, 2019).

In this specific situation, a conflict between agents is characterized. The conflict of interest dealt with by the Agency Theory considers the possibility of the agent assuming opportunistic behavior with regard to their actions (or omissions), in order to increase their personal satisfaction (Martinez, 1998).

It is known that fraud is related to intentional action aimed at benefiting oneself or third parties in certain situations (MURCIA; BORBA, 2005; GEHRKE et al., 2017; FERREIRA et al., 2013, MURCIA et al., 2008). Murcia and Borba (2005) state that there are two types of fraud, Management Fraud and Accounting Fraud. The first is characterized by the employee's action against the entity to obtain their own benefits, while the second involves those committed on behalf of the organization, i.e. scandals led by the company's executives, usually involving fraud in the financial statements. Condé (2013, p. 23) reiterates that "the fraudulent actions of the first group almost always represent the consequence of irregularities previously practiced by employees and constitute the most frequent cases of accounting manipulations".

According to Crutchley, Jensen and Marshall (2007), companies with fewer people outside the audit committee and with more committed external directors are more likely to avoid fraud. In order to curb fraudulent actions that violate current legislation, NBC PG 01 (2019, p. 85) states that it is forbidden for accountants to "perform technical accounting work without observing the Brazilian Accounting Standards issued by the Federal Accounting Council."

## Case 5 - Manipulation of Financial Statements

Kmart, the third largest retailer, filed for bankruptcy on January 22, 2002, that being the largest petition ever filed by a retailer, just two months after Enron, one of the biggest accounting fraud cases of current times, filed for the largest bankruptcy in history. The speculation about Kmart's financial situation went on for weeks, and it is known that the company failed to manage its supply chain, which led to its inability to compete and achieve the results of its biggest competitor, Walmart. "The case involves the practice of fraudulent acts, perpetrated by executives of that organization, aimed at omitting information about the real financial situation of the company and maintaining their bonuses for the results achieved" (CONDÉ et al., 2015, p. 101). It can be said that after a period of rapid expansion in the 1970s, the company began its period of decline. While competing companies eagerly experimented with and absorbed the use of computers, Kmart's store managers rejected them, assuming that the new technology would reduce their independence.

*In the Kmart case, it can be observed that the fraudulent agents committed fraudulent acts in order to conceal the real situation of the company. In one of the SEC's charges, it was found that the fraud was practiced by recognizing "subsidies" in advance in order to meet the company's earnings expectations. In the other complaint, the*

*fraudsters omitted the real reasons for an excessive purchase of material that compromised the organization's financial condition. In both situations, the fraudster's aim was to hide the real situation of the company, its critical liquidity condition and the forecast deficit in the corporation's results (CONDÉ et al., 2015, p. 105).*

Accounting statements should minimize the incompatibility of information between internal and external users, i.e. they should be reliable documents, produced in an impartial manner and which portray the financial, economic and equity reality of companies. However, it is common to find untruthful and biased information in financial statements, due to the manipulation of data by those responsible for preparing them, with the aim of boosting their own interests and/or the interests of the company (MURCIA; BORBA, 2007).

In the Kmart case, Condé et al. (2015, p. 101) show that "there was a strong pressure on Kmart executives and employees to improve the gross contribution margin (GCM) of the products sold in their departments. Every year, the performance of sectors and executives was evaluated, based mainly on the GCM". In this Case 5, it is clear that there is a conflict of interest, according to the Agency Theory with an emphasis, approach and application focused on accounting, as pressure is observed on executives and employees to improve the company's margin. This pressure between the owner and executives characterizes a conflict between agents.

Murcia, Borba and Schiehl (2008) pointed out that the existence of a conflict of interest between shareholders and managers has the third highest level of importance attributed to the Red Flags in the "Structure and Environment of the Entity" group, i.e. it is a relevant red flag for detecting fraud in the financial statements.

## 5. THE POTENTIAL OF AGENCY THEORY TO EXPLAIN THE CONFLICT BETWEEN ENTREPRENEUR AND ACCOUNTANT

Agency theory is particularly marked by the conflict of interest that surrounds it. The research conducted by Martinez (1998) mentions that the organizational literature defines the principal as the shareholder or owner of the capital, while the agent is the manager, who manages for the owners of the company (principal), but the principal-agent relationship is not just between owners and managers. The author's work presents eleven principal-agent relationships (Table 2). However, no relationship was identified between the Entrepreneur and the Accountant, in the same approach proposed by the present study.

Following another approach with a focus on accounting, we considered the relationship between the "principal", which in this case is the business owner (entrepreneur) and the "agent", known as the accounting professional. This conflict of interest begins when the most basic focus of the relationship is analyzed, i.e. the levels of risk.

According to this application of the theory, the "principal" expects a higher return on the capital invested in the company, since he considers the opportunity cost of the investment and, on the other hand, there is the figure of the agent, the company's accountant, who, in a stable position, is willing to take less risk.'

The accounting professional, who has NBC PG 01 as a basis for his conduct, also seeks to preserve his morals and reputation, without prejudice to his dignity and professional independence. According to the Brazilian Accounting Standard of February 7, 2019, article 5, paragraph t, the accountant is forbidden to "renounce professional freedom and must avoid any restrictions or impositions that may impair the effectiveness and correctness of his work" (NBC PG 01, 2019, p. 85).

It is known that every investment has a cost, called the cost of capital and that from the moment the owner of the invested capital decides to invest funds in a particular company, they consider the opportunity cost of that investment. According to Beuren (1993), opportunity cost is adopted when there are one or more viable alternatives involved in a decision. The opportunity cost of the chosen option corresponds to the gains rejected by not selecting the other alternative. Therefore, the

owner of the capital makes the choice considering that the result obtained, i.e. the return on capital, will be greater than the results generated by the rejected best alternative. In this way, the entrepreneur establishes a relationship with the "agent" inside the company, so that he can theoretically have an individual defending his interests internally.

On the other hand, the figure of the "agent", the accountant, has divergent interests. As a salaried worker, the accountant depends on the monthly income he receives, so he is not inclined to take risks on the same scale as the entrepreneur. The accounting professional is faced with an impasse, since, at the same time as he has to perform his function within the company with excellence, carrying out his duties in a safe manner, both for him and for the company, he is expected to adopt attitudes that will lead the company to better results in the market, regardless of whether these attitudes will hurt morals, go against his conceptions and rules of correct conduct or escape the Code of Ethics on which the profession is based.

For the entrepreneur (company owner), who is used to working with the volatility of the market, a gain or loss resulting from the risk that the investee is willing to take comes down to monetary gains, with the value of the investment itself as the means and the end (MARTINEZ, 1998). On the other hand, the opportunity cost for the company's accountant involves much deeper issues, ranging from keeping their job, since they, as the owner of the workforce, are subject to the risk of unemployment and the loss of privileges. In more extreme cases, there may even be a breach of ethical principles, which may or may not involve serious sanctions, leading, in the most substantial cases of misconduct, to punishment and imprisonment.

In the examples of cases set out in topic four, there is a perception of illicit and fraudulent practices on the part of the accounting professional. The line of thinking that works on the so-called red flags, researched, among other authors, by Murcia et al. (2008) and Murcia and Borba (2007), points out that the occurrence of accounting fraud is associated with opportune environments and situations. Red flags are warning or danger signals that point to factors which put the organization's financial condition at risk.

Highlighting the application of Agency Theory in the conflict relationship discussed in this study, the conflict between the owner of capital and the accounting professional, NBC PG 01 (2019, p. 85) states in Article 4, paragraph e, that it is the accountant's duty:

*Apply the safeguards provided for by the profession, by law, by regulation or by the employing organization whenever it identifies or is alerted to the existence of threats mentioned in the rules governing the practice of the accounting profession, observing the following:*

*(i) take reasonable measures to avoid or minimize conflicts of interest; and (ii) when the conflict of interest cannot be eliminated or minimized to an acceptable level, adopt measures so as not to lose professional independence.*

In this scenario of conflicting interests, Vieira (2009) states that many professionals are subject to the wishes of the entrepreneur, who demands real economic phenomena and, in this sense, motivates the loss of independence on the part of the accountant, who sees this situation as an impasse in complying with the ethical principles demanded by the profession.

Based on what has been said in this topic, it can be seen that the occurrence of illicit activities within companies is most often linked to the wishes and impositions of the entrepreneur. This occurrence of fraud in companies often characterizes the conflict of interest between the owner of capital (principal) and the accountant (agent).

## REFERENCES

- ALCHIAN, A.; DEMSETZ, H. Production, Information Costs, and Economic Organization. *The American Economic Review*, v. 62, n. 5, p. 777-795, 1972. Recuperado de: <http://www.jstor.org/stable/1815199>.
- ANTUNES, M. T. P.; NETO, O. R. D. M.; YAYLA, H. E.; OKIMURA, R. T. Conduta ética dos profissionais da contabilidade no Brasil: a prática da parrhesia. *ASAA-Advances in Scientific and Applied Accounting*, v. 5, n. 3, p. 377-404, 2012. Recuperado de: <http://www.atena.org.br/revista/ojs-2.2.3-06/index.php/ASAA/article/view/1857>.

## 6. FINAL CONSIDERATIONS

The aim of this study is to discuss the ethical aspects of the accountant's conduct and behavior, which lead to fraudulent practices, based on the theoretical assumptions of the Agency Theory with an emphasis, approach and application focused on accounting, to explain the conflict between the entrepreneur and the accountant.

To this end, the parameters of conduct of the Brazilian Accounting Standard (NBC PG 01) - Accountant's Code of Professional Ethics, approved by the Plenary of the Federal Accounting Council on February 7, 2019, are adopted. To support the study, five examples of fraud cases are discussed, namely: (1) fraud and embezzlement; (2) payment of bribes and criminal organization; (3) money laundering; (4) accounting fraud; (5) manipulation of accounting statements.

Another study on fraud also adopted the application of theory in its development. The research carried out by Condé et al. (2015) considered two theories applied to the case of an American corporation, to verify the adherence of the theoretical assumptions of corporate scandals (TEC) and the fraud triangle (TTF) in the case of accounting fraud practiced by the company Kmart.

In the study developed by Martinez (1998), called "Agency theory in accounting research", eleven principal-agent relationships are presented, but all of them differ from the one addressed in this study.

Following the development of this study, it can be inferred that, despite being subject to the penalties set out in the Accountant's Code of Professional Ethics, when they fail to comply with the established rules, accountants are subject to situations of inducement and coercion into illicit conduct, leading to conflicts of interest.

This conflict of interest can be seen in the application of the Agency Theory approach to accounting, based on the relationship between the entrepreneur and the accountant. In this conflict, the entrepreneur takes on the role of "principal" with an interest in the company's economic results in the market and the accountant takes on the role of "agent", whose concern goes beyond keeping his job, involving moral, ethical and conduct issues.

In order to highlight the importance of conflicts of interest in organizations, the standard on which the profession is based, the Brazilian Accounting Standard (NBC PG 01) - Accountant's Code of Professional Ethics, states that when it is not possible for an individual to eliminate a conflict of interest from a situation, they must act in such a way as not to jeopardize their professional independence (NBC PG 01, 2019).

The cases for reflection discussed throughout this study provide strong evidence of a conflict of interest between businesspeople and accountants that can be explained in the light of Agency Theory. Accountants submit to the interests of businesspeople, which in this sense leads to a loss of independence, situations that have a negative impact on compliance with the ethical principles demanded by the profession. This leads to the occurrence of illicit activities and fraudulent practices within companies, most of which are linked to the wishes and impositions of businesspeople. This occurrence of fraud in companies often characterizes the conflict of interest between the owner of capital (principal) and the accountant (agent).

The contribution of this study can be highlighted by the comprehensiveness of relating ethical aspects of the accountant's conduct and behavior, the fraudulent practices committed, the recent Brazilian Accounting Standard (NBC PG 01) - Accountant's Code of Professional Ethics with the application of the Agency Theory. By proposing to use the Agency Theory to explain conflict in the accounting area, the theoretical approach presented makes it possible to advance research on the subject.

The conclusion is that the Agency Theory is a strong ally with great potential for understanding the conflicts of interest between the principal and the agent, in this study represented by the business-river-accountant relationship.

- ARRUDA, G.; MADRUGA, S.; FREITAS JUNIOR, N. A governança corporativa e a teoria da agência em consonância com a controladoria. *Revista de Administração da UFSM*, v. 1, n. 1, p. 1-15, 2008.
- BETO RICHA, a mulher e o filho viram réus na Lava Jato. *Valor online*. (2019, fevereiro 14). Recuperado de: <https://www.valor.com.br/politica/6118513/beto-richa-mulher-e-o-filho-viram-reus-na-lava-jato>.
- BEUREN, I. M. Conceituação e contabilização do custo de oportunidade. *Caderno de Estudos*, v. 8, p. 01-12 1983. Recuperado de: doi: <https://dx.doi.org/10.1590/S1413-92511993000100003>.
- CONDÉ, R. A. D. *Fraudes corporativas: um estudo de casos múltiplos à luz da teoria dos escândalos corporativos* (Dissertação de Mestrado em Ciências Contábeis). Faculdade de Administração e Finanças, Universidade do Estado do Rio de Janeiro, Rio de Janeiro, RJ, Brasil, 2013. Recuperado de: [http://iefe.sefaz.ma.gov.br/wp-content/uploads/2013/03/02\\_Disserta%C3%A7%C3%A3o\\_Mestrado\\_Fraudes\\_Corporativas\\_Um\\_Estudo\\_de\\_Casos\\_Multiplos\\_RJ.pdf](http://iefe.sefaz.ma.gov.br/wp-content/uploads/2013/03/02_Disserta%C3%A7%C3%A3o_Mestrado_Fraudes_Corporativas_Um_Estudo_de_Casos_Multiplos_RJ.pdf).
- CONDÉ, R. A. D.; DE ALMEIDA, C. O. F.; QUINTAL, R. S. Fraude Contábil: Análise empírica à luz dos pressupostos teóricos do triângulo da fraude e dos escândalos corporativos. *Gestão & Regionalidade*, v. 31, n. 93, p. 94-108, 2015. Recuperado de: doi: <http://dx.doi.org/10.13037/gr.vol31n93.2929>.
- CRUTCHLEY, C. E.; JENSEN, M. R.; MARSHALL, B. B. Climate for Scandal: Corporate Environments that Contribute to Accounting Fraud. *Financial Review*, v. 42, p. 53-73, 2007. Recuperado de: <https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1540-6288.2007.00161.x>. doi:10.1111/j.1540-6288.2007.00161.x.
- DAL MAGRO, C.; SILVA, T.; ZONATTO, V. Como Discentes de Ciências Contábeis Reagem à Dilemas Éticos da Profissão?. *Contabilidade Vista & Revista*, v. 28, n.3, p. 53-81, 2017. Recuperado de: <https://revistas.face.ufmg.br/index.php/contabilidadevistaerevista/article/view/3629>.
- DAL-RI MURCIA, F.; BORBA, J. Estrutura para Detecção do Risco de Fraude nas Demonstrações Contábeis: Mapeando o Ambiente Fraudulento. *BBR - Brazilian Business Review*, v. 4, n. 3, p. 171-190, 2007.
- DAL-RI MURCIA, F.; BORBA, J.; SCHIEHL, E. Relevância dos Red Flags na Avaliação do Risco de Fraudes nas Demonstrações Contábeis: A Percepção de Auditores Independentes Brasileiros. *Revista Universo Contábil*, v. 4, n.1, 25-45, 2008.
- DAS GRAÇAS VIEIRA, M. O papel da contabilidade no processo da governança corporativa. *Revista Mineira de Contabilidade*, v. 1, n. 33, p. 16-22, 2009. Recuperado de: <http://revista.crcmg.org.br/index.php?journal=rnc&page=article&op=view&path%5B%5D=373>.
- DE OLIVEIRA SOUSA, F. S.; OLIVEIRA, A. M. B. A Importância da Ética para o Profissional da Contabilidade. *Id on Line Revista Multidisciplinar e de Psicologia*, v. 13, n. 43, p. 295-309, 2019. Recuperado de: <https://idonline.emnuvens.com.br/id/article/view/1523>. doi:<https://doi.org/10.14295/idonline.v13i43.1523>.
- FERREIRA, A. F.; BORBA, J. A.; WUERGES, A. F. E. O que dizem as pesquisas empíricas sobre fraudes contábeis: uma análise das principais revistas internacionais de contabilidade. *Revista RIGC*, v. 11, n. 21, 2013.
- GEHRKE, G.; BORBA, J.; FERREIRA, D. A repercussão da corrupção brasileira na mídia: uma análise comparada das revistas Der Spiegel, L'Obs, The Economist, Time e Veja. *Revista de Administração Pública*, v. 51, n. 1, p. 157-167, 2017.
- HODGE, B. J.; ANTHONY, W. P.; GALES, L. M. *Teoría de la Organización un Enfoque estratégico* (6a ed.). Madrid: Pearson Education, 2003.
- IUDÍCIBUS, S.; MARTINS, E.; CARVALHO, L. N. Contabilidade: aspectos relevantes da epopéia de sua evolução. *Revista Contabilidade & Finanças*, v. 16, n. 38, p. 7-19, 2005. Recuperado de: doi: <https://dx.doi.org/10.1590/S1519-70772005000200002>.
- JENSEN, M. C.; MECKLING, W. H. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, v. 3, n. 4, p. 305-360, 1976. Recuperado de: doi: [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X).
- JESUS, T. A.; SARMENTO, M.; DUARTE, M. Ética e responsabilidade social. *Dos Algarves: A Multidisciplinary e-Journal*, v. 29, p. 3-30, 2017. Recuperado de: <http://www.dosalgarves.com/index.php/dosalgarves/article/view/109>.
- JUNQUEIRA, L.; SOARES, C.; MESQUITA, M.; BERTUCCI, L. Influência da Teoria de Agência na Alavancagem das Empresas Brasileiras. *Revista Economia & Gestão*, v. 14, n. 35, p. 182-209, 2014. Recuperado de: doi: <https://doi.org/10.5752/P.1984-6606.2014v14n35p182>.
- KEIKO, S.; CORRÊA, D. V.; FERREIRA, C. R. Uma breve reflexão sobre a importância da ética na profissão contábil. *Revista Contemporânea de Contabilidade*, v. 2, n. 3, p. 57-72, 2005. Recuperado de: <https://dialnet.unirioja.es/servlet/articulo?codigo=2898025>.
- KRAEMER, M. E. Ética, Sigilo e o Profissional Contábil. *Contabilidade Vista & Revista*, v.12, n. 2, p. 33-48. 2009. Recuperado de: <https://revistas.face.ufmg.br/index.php/contabilidadevistaerevista/article/view/175>.
- LAVARDA, R.; BONET, F. La Elección Estratégica y el Enfoque de la Teoría de Agencia – Un Ensayo Teórico. *Revista Contabilidade, Gestão e Governança*, v. 14, n. 2, p. 114-129, 2011. Recuperado de: <https://cgg-amg.unb.br/index.php/contabil/article/view/313>.
- MAGALHÃES, A. D. D. F.; SOUZA, C. D.; FAVERO, H. L.; LONARDONI, M. *Perícia Contábil: uma abordagem Teórica, Ética, Legal, Processual e Operacional* (6. ed.). São Paulo: editora Atlas, 2008.
- MAIA D.; FERNANDES A.; CUNHA J.; HIRATA T. Fraudes da Dolly já duram ao menos 20 anos, diz promotor. *Valor online*. (2018, maio, 10). Recuperado de: <https://www.valor.com.br/politica/5517547/fraudes-da-dolly-ja-duram-ao-menos-20-anos-diz-promotor>.
- MARTINEZ, A. L. Agency theory na pesquisa contábil. *Encontro da ANPAD – ENANPAD*, 22. 1998. *Anais...* Recuperado de: <http://www.anpad.org.br/admin/pdf/enanpa-d1998-ccg-12.pdf>.
- MARTINS L., PERON I.; VIEIRA A. G. Temer é indiciado por corrupção, lavagem e organização criminosa. *Valor online*. (2018, outubro, 17). Recuperado de: <https://www.valor.com.br/politica/5930561/temer-e-indiciado-por-corrupcao-lavagem-e-organizacao-criminosa>.
- MARTINS L.; PERON I.; CAMAROTTO M.; VIEIRA A. G. Decreto dos Portos: PF indícia Temer e pede bloqueio de seus bens. *Valor online*. (2018, outubro, 16). Recuperado de: <https://www.valor.com.br/politica/5929903/decreto-dos-portos-pf-indicia-temer-e-pede-bloqueio-de-seus-bens>.
- MATTOS A. Rede Dia investiga possível fraude contábil na operação brasileira. *Valor online*. (2019, fevereiro 12). Recuperado de: <https://www.valor.com.br/empresas/6113941/rede-dia-investiga-possivel-fraude-contabil-na-operacao-brasileira>.
- MELO A. Bens da Dolly bloqueados pela Justiça totalizam R\$ 150 milhões. *Valor online*. (2018, junho 21). Recuperado de: <https://www.valor.com.br/empresas/5612269/bens-da-dolly-bloqueados-pela-justica-totalizam-r-150-milhoes>.
- MURCIA, F. D. R.; BORBA, J. A. Quantificando as fraudes contábeis sob duas óticas: jornais econômicos versus periódicos acadêmicos no período 2001-2004. *Cadernos de Controladoria-Controladoria Geral do Município do Rio de Janeiro*. 2005. Recuperado de: <http://www.rio.rj.gov.br/dlstatic/10112/3268049/DLFE-259740.pdf/0.1.pdf>.
- NASCIMENTO, C.; BEZERRA, T.; ESPEJO, M.; PACHECO, V.; ANTONOVZ, T. O tema "ético" na percepção dos alunos de graduação de Ciências Contábeis em universidades da região Sul do Brasil. *Revista Contemporânea de Contabilidade*, v. 7, n. 14, p. 75-96, 2011. Recuperado de: doi: <https://doi.org/10.5007/2175-8069.2010v-7n14p75>.
- NORMA BRASILEIRA DE CONTABILIDADE CFC, de 7 de fevereiro de 2019. Aprova a NBC PG 01 - Código de Ética Profissional do Contador, que trata da conduta ética do contador. Recuperado de: <http://www.in.gov.br/autenticidade.html>. pelo código 05152019021400084.
- ROSS, S. The Economic Theory of Agency: The Principal's Problem. *The American Economic Review*, v. 63, p. 2, p. 134-139, 1973. Recuperado de: <http://www.jstor.org/stable/1817064>.
- VALOR ONLINE. Dono dos refrigerantes Dolly é preso em S.Paulo por suspeita de fraude. (2018, maio 10). Recuperado de: <https://www.valor.com.br/politica/5516297/dono-dos-refrigerantes-dolly-e-preso-em-spaulo-por-suspeita-de-fraude>.
- VIEIRA, A. G. MPF denuncia acusados de operar financeiramente para Beto Richa. *Valor online*. (2019, fevereiro 21). Recuperado de: <https://www.valor.com.br/politi-ca/6130803/mpf-denuncia-acusados-de-operar-financeiramente-para-beto-richa>.
- WUERGES, A. F. E.; BORBA, J. A. Fraudes Contábeis: uma estimativa da probabilidade de detecção. *Revista Brasileira de Gestão de Negócios*, v. 16, n. 52, p. 466- 483, 2014. Recuperado de: [http://www.scielo.br/scielo.php?pid=S1806-48922014000300466&script=sci\\_abstract&lng=es](http://www.scielo.br/scielo.php?pid=S1806-48922014000300466&script=sci_abstract&lng=es). doi: <https://dx.doi.org/10.7819/rbgn.v16i52.1555>.