GLOBALIZATION AND THE ACCOUNTANCY PROFESSION IN DEVELOPING COUNTRIES

An examination of the historical development of the Indonesian accountancy profession (1954 – 2008)

Yudi Irmawan

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School of Management

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Abstract

Studies on the development of the accountancy profession in the ex-colony countries have recently adopted theoretical and methodological frameworks that linked such development with the socio-historical context of these countries as former colonies or dependants of the more developed countries. More specifically, they associate the emergence and development of the accountancy profession in these countries with the historical and contemporary global expansion of capitalism.

However, there is still a need for further research. First, how global expansion of capitalism penetrates is different across different country settings. Hence, this process would be best understood by incorporating the socio-political, economic and historical specificity of the given country. Second, previous studies emphasize the internal dialectic contradictions of capitalism in analysing the changes and dynamics of the profession in ex-colony countries. Recent literature, however, has introduced methodologies that recognize the need to acknowledge the existence of any rivalling structures as possible external sources of the dialectic progress of capitalist expansion. In regard to this, the socio-political and historical context of Indonesia may offer a case of how the interactions between global expansion of capitalism and existing rivalling structures may shape the development of the accountancy profession. The need for further research is amplified by the fact that previous studies on the Indonesian accountancy profession have generally ignored the influence of these wider socio-political factors.

The primary aim of this study is thus to investigate how the accountancy profession has emerged and developed in Indonesia over the last five decades. To achieve its objectives, this research draws insights from the tradition of the globalization theory as a critique to global expansion of capitalism and Robert Cox historical structure methodology. The central argument of this thesis is that the development of the Indonesian accountancy profession followed the changes in the country's system of political economy, which in turn has been heavily influenced by the relationship between ex-colony countries with their former colonizers within the context of the capitalistic world order. In other words, this study accepts the contention that the

spread of the Western-style accountancy profession across the globe, including Indonesia, was the consequence of global expansion of capitalism. However, the working and the extent of such influence is also shaped by alternative social structure(s) existing at the global level and/or emanating from the complexities of the Indonesian historical and societal context.

To substantiate this argument, the study uses document analysis to understand the development of the Indonesian accountancy profession during the three main periods in its history. In the first period (1954 – 1966), the analysis shows that the Westernization of the accounting profession was compromised by Indonesian nationalism, ideological division amongst the Indonesian leaders and the Cold War. In the second period (1967 – 1997), the process was compromised by the oligarchic capitalism of the New Order political regime. The Westernization of the profession could only reach full speed after the 1997 Asian financial crisis, which has undermined the politico-business coalitions under the New Order that had prevented Indonesia from fully integrating into the global capitalist economic order.

Keywords :

Accounting history, history of the accountancy profession, globalization, historical structure, Indonesia, the Indonesian accountancy profession.

kanggo Mamah, Bapa, Agus, Asep, Novi sareng Titin

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List of abbreviations and acronyms

ADB	Asian Development Bank
APEC	Asia-Pacific Economic Cooperation
Bapepam	*Badan Pengawas Pasar Modal* The Capital Market Supervisory Agency
BPKP	*Badan Pengawasan Keuangan dan Pembangunan* The Financial and Development Supervisory Agency
BPPK	*Badan Pendidikan dan Pelatihan Keuangan* The Financial Education and Training Agency
CGI	Consultative Group on Indonesia
DSAK	*Dewan Standar Akuntansi Keuangan* Financial Accounting Standards Board
Golkar	*Golongan Karya* Functional Groups
IAI	*Ikatan Akuntan Indonesia* The Indonesian Institute of Accountants
IAI-KAP	*Ikatan Akuntan Indonesia - Kompartemen Akuntan Publik* The Indonesian Institute of Accountants - Public Accountant Section
IAPI	*Institut Akuntan Publik Indonesia* The Indonesian Institute of Public Accountants
IAS	International Auditing Standards
IFRS	International Financial Reporting Standards
IGGI	Inter-Governmental Group on Indonesia
IIK	*Institut Ilmu Keuangan* Institute for Financial Sciences
IMF	International Monetary Fund
INFID	International NGO Forum on Indonesian Development
Inpres	*Instruksi Presiden* Presidential Instruction

KAP	*Kantor Akuntan Publik* Public Accounting Firm(s)
Keppres	*Keputusan Presiden* Presidential Decree
KMK	*Keputusan Menteri Keuangan* Finance Minister Decree
KNPA	*Komite Norma Pemeriksaan Akuntan* Committee for Accountant's Examination Norms
KPAI	*Komite Prinsip Akuntansi Indonesia* Committee for Indonesian Accounting Principles
MoF	Ministry of Finance
NIVA	*Nederlands Institute Van Accountants* Netherlands Institute of Accountants
NPA	*Norma Pemeriksaan Akuntan* Accountant Examination Norms
PAI	*Prinsip Akuntansi Indonesia* Indonesian Accountancy Principles
PAL	Public Accountant Law
PPAk	*Pendidikan Profesi Akuntan* Professional Accountant Education
SOE	State-owned Enterprises
STAN	*Sekolah Tinggi Akuntansi Negara* State College of Accountancy
UNA	*Ujian Nasional Akuntansi* National Accountancy Examinations
USAP	*Ujian Sertifikasi Akuntan Publik* Certified Public Accountant Examinations
VAGA	*Vereniging van Academisch Gevormde Accountants* Association of Academically-trained Accountants
YPIAI	*Yayasan Pengembangan Ilmu Akuntansi Indonesia* Foundation for the Development of Indonesian Accountancy

Chapter 1

Introduction

1. 1. Background

Accountancy, as a practice and a profession, has spread across geographical boundaries to become one of the most global professions. Imperialism and colonialism have been suggested as vital factors contributing to the spread of accountancy, resulting in accountancy structures in most ex-colony countries resembling that of their former colonizers. The adoption of a particular model of institutional arrangement of the accountancy profession among developing and/or ex-colony countries needs to be explored to enhance our understanding of the historical development of the accountancy profession across various country settings. This study is concerned with the historical changes in the institutional arrangement of the accountancy profession and not the history of the practice of accountancy in ex-colony countries.

Three sociological perspectives on the profession, viz. the conventional, interactionist, and critical perspectives, have informed the studies examining the historical development of the accountancy profession. Conventional perspective theorists see the emergence and development of the accountancy profession as a natural consequence of the increasing needs of accountancy services to accommodate business expansion, economic growth and industrialization. This perspective does not problematize accountants' claim of professionalism and, as such, has received much criticism for neglecting to consider the influence of historical and socio-political

aspects of accountancy. The interactionist perspective, on the other hand, views the accountancy profession as being just another competing interest group in society set to secure and maintain the social and economic interests of its members by convincing others of its legitimacy and importance (Perks, 1996 p.15). Professional infrastructure is therefore seen as the mechanism for securing and maintaining the economic and social interest of accountants. However, this perspective has also been criticized as it ignores the influence of the structural conditions of the society in relation to the success and failure of a professional claim for legitimacy (Perks, 1996; Willmott, 1986). Shortcomings in the previous two perspectives were addressed by the critical perspective, which has its roots in the critical social theory, a tradition within sociology that emphasizes a historical analysis of social evolution in understanding society and its institutions (Caramanis, 1996). This perspective locates the emergence and development of the accountancy profession within its social, political and economic context and sees the professionalization of accountancy as the strategy of collective social mobility in achieving closure and control over the market for accountancy services (MacDonald, 1985), involving the interactions between accountants with various elements in the society including the state (Willmott, 1986).

Over the last three decades, there has been increasing recognition that accounting and auditing is interdisciplinary in nature (see e.g. Roslender and Dillard, 2003, Humphrey and Lee, 2005). Therefore, the interpretive and critical perspectives have gained more attention as they offer theoretical and methodological frameworks capable of capturing the complexity of the social, economic and political factors surrounding the operation of accounting and auditing (see e.g. Uche, 2002). As methodologies, both traditions assume that power is distributed unequally in society

and as such, the interests and power of various social agents influencing the development of the profession need to be recognised. In other words, to understand the development of the accountancy profession in a country requires the analysis of the political economy relationships within that country (Puxty *et al.*, 1987). Such analysis will not only help identify the major political and economic forces within the country but also of their relationships and interactions with each other. Both traditions have also made a considerable contribution in the quest to understand the dynamics of the accountancy profession in the context of less developed countries.

The critical perspective in particular has gained increasing attention in exploring and understanding the dynamics of the profession in those countries, partly due to the limitations of mainstream accounting research, which disregards contextual differences, including the socio-political and historical context, between the developed and developing societies. Furthermore, the critical perspective recognized the fact that many of the ex-colony countries have had certain historical and/or contemporary socio-political and economic links to their former colonies in the developed countries from which accountancy originated.

The influence of the critical perspective is apparent in the latest surge of studies on the emergence and development of the accountancy profession in ex-colony countries. Unlike the conventional or mainstream perspective, such studies do not attempt to compare the development of the accountancy profession in the developing or ex-colony countries with that of the developed countries (Bakre, 2001). Instead, the studies offer new explanations linking the history of the accountancy profession in ex-colony countries with their socio-historical context as a former colony or

dependant of the more developed country. Specifically, they associated the emergence and development of the accountancy profession in the ex-colony countries not only with the historical but also contemporary expansion of capitalism at the global level. Annisette (1999; 2000), for example, used the notion of informal imperialism in explaining the early development of the accountancy profession in Trinidad and Tobago. In the case of Jamaica, the emergence and subsequent development of the accountancy profession was explained using the notion of cultural imperialism and globalization (Bakre, 2001, 2005, 2006).

According to the studies, the history of the accountancy profession in the ex-colonized developing countries does not follow the same trajectory as that of the developed countries, as the development of the profession in those countries is shaped by the socio-political conditions inherited from the colonial era as well as the power configurations between countries during the post-independence/neo-colonial era. Because of their position as ex-colony countries, the existence and the models of the accountancy profession in such countries were often influenced and/or dictated by the need of their colonizer. As a result, it is not surprising to find the models of the accountancy profession that exist in the ex-colonies are "quite often traceable to their colonial past" (Bakre, 2001 p.8). The influence of the former colonizers on the development of the profession in their colonies did not stop with the end of formal and direct colonialism but instead continued in more indirect or informal ways (Annisette, 1999, Annisette, 2000) through cultural imperialism and globalization (e.g. Aba-Alkhail, 2001; Bakre, 2005, 2006). However, the expansion of capitalism and its influence on the development of the profession differs from one colony to the other. For example, in the Philippines, the indigenous movement to form their

accountancy profession was viewed as a form of native resistance against the imperialist, stereotyping the Filipinos as incapable of administering public monies (Dyball *et al.*, 2007). In Jamaica, a faction of the elites of the profession aspired to maintaining affiliations with the profession of the imperial centre and as such hindered the attempts at localizing the profession (Bakre, 2005, 2006).

Despite the evidence presented by previous studies, there is still a need for further research in the area for a number of reasons. First, research in understanding the operations of accountancy in different time and space contexts needs to continue to further our understanding of how global expansion of capitalism works across different settings (e.g. Carnegie and Napier, 2002; Carnegie and Rodrigues, 2007; Walker, 2008; Walker and Shackleton, 1998). Secondly, most prior studies emphasised the internal dialectic contradictions of capitalism as the source of change and dynamics in the accountancy profession in ex-colony countries while more recent literature recognised the role of rivalling structures in contributing to the dialectic progress of global expansion of capitalism (see e.g. Hoogvelt, 2001). Finally, a large majority of previous work was conducted in the context of the former colonies of the UK or the US and little is known about the colonial legacy of other imperial powers, particularly the Dutch, on the development of the accountancy profession in their colonies. Given the aforementioned discourse, the following section will elaborate on the objective of this study.

1. 2. Research aims

Previous studies have established that the development of the accountancy profession in ex-colonies did not always follow the same path as that of the colonizers due to

various external and internal factors. Hence, there is a need to explore other country contexts to enhance our understanding of the phenomenon, especially among ex-colonies other than that of the UK and the US. Indonesia, a former colony of the Dutch, offers an interesting case not only due to its colonial past but also because it has not been much explored.

Although previous studies in the context of Indonesia have helped in understanding the historical development of the profession, they generally failed to provide a comprehensive and contextualized story for several reasons. First, the majority of previous works were founded on the functionalist perspective of the profession whereby the emergence and development of the accountancy profession was purely attributed to the needs of a growing society (e.g. Sapiie, 1980). Secondly, most of those studies either partially or completely ignored the wider social, political, and economic context surrounding the major events that marked the development of the profession. Finally, none of those studies provided a comprehensive account of the development of the profession following the 1997 Asian financial crisis.

Given the limitations of prior studies presented above, this study aims to narrow the gap in the literature by examining the historical development of the Indonesian accountancy profession within the context of its colonial past and its position within the global political and economic order across different periods. In other words, it seeks to describe how the accountancy profession has developed to its current state as well as identify and explain factors that have shaped its development. Specifically, it addresses the following questions:

(a) What caused the accountancy profession to emerge in Indonesia and how did it develop in its early stages post-independence?

(b) How did the profession develop during the economic and political stability of Soeharto's New Order regime (1967 – 1997) and what factors impact on its development?; and

(c) How did the 1997 Asian financial crisis affect the development of the accountancy profession?

The following section describes how the research aims will be achieved.

1. 3. Methodological and theoretical framework

It is argued that the history of the accountancy profession in ex-colony countries should be interpreted within the specific context of the given country. This study therefore needs to identify a theoretical and methodological framework that would help make sense of the major events related to the profession within the context of Indonesia's socio-political and economic constellation for the period in question. In this regard, the critical perspective is deemed capable of offering a more contextualized explanation of the history of the accountancy profession in Indonesia. Unlike the conventional history methodology, the critical perspective suggests that the history of the profession needs to be framed within its socio-political context (Miller *et al.*, 1991, Fleischman *et al.*, 2003). It should not be seen as consequences of a natural and unproblematic social order but rather the result of actions and reactions of various social agents as constrained and/or facilitated by the prevailing social structures. Such methodology enables multi-interpretations of history, each according to the assumptions made about the nature and changes of social order, in understanding the social context of the accountancy profession.

In the context of ex-colonized countries such as Indonesia, the tradition of the globalization theory offers an important tool in explaining the historical development of the accountancy profession. It suggests that the development of the profession in those countries cannot ignore the influence of the historical and contemporary process of the global expansion of capitalism within the framework of the capitalist world order. According to the world-system theory of globalization, countries can be categorized into core and periphery areas depending on their position in the global economic system. Core areas refer to the powerful advanced capitalist countries that take centre stage in the global capitalist order. The peripheral areas, on the other hand, are the rest of the world from where the core countries accumulate their wealth. Global expansion of capitalism determined the relationship between the core and periphery countries through different historical stages. As Hoogvelt (2001) summarized:

> "Capitalism's inherent contradictions (the driving force of the dynamics of change) were thought to be worked out in different phases of expansion, punctuated by crises, in which state and inter-state relations were time and again rearranged as political structures that held in place a continuing exploitative economic relationship between 'core' and 'peripheral' areas. (p.12)"

In other words, globalization can be seen as a progressive evolution of different world orders with different core-periphery relationship models. At each and every stage, a particular socio-economic relationship between the core countries and the peripheral countries prevails. In particular, such global orders have enabled core countries to exert influence on the mode of production of the peripheral countries based on their need to accumulate wealth. Peripheral countries were "assigned a particular function

at the service of the essential needs of accumulation at the centre, or the core, of the system" (Hoogvelt, 2001 p.3).

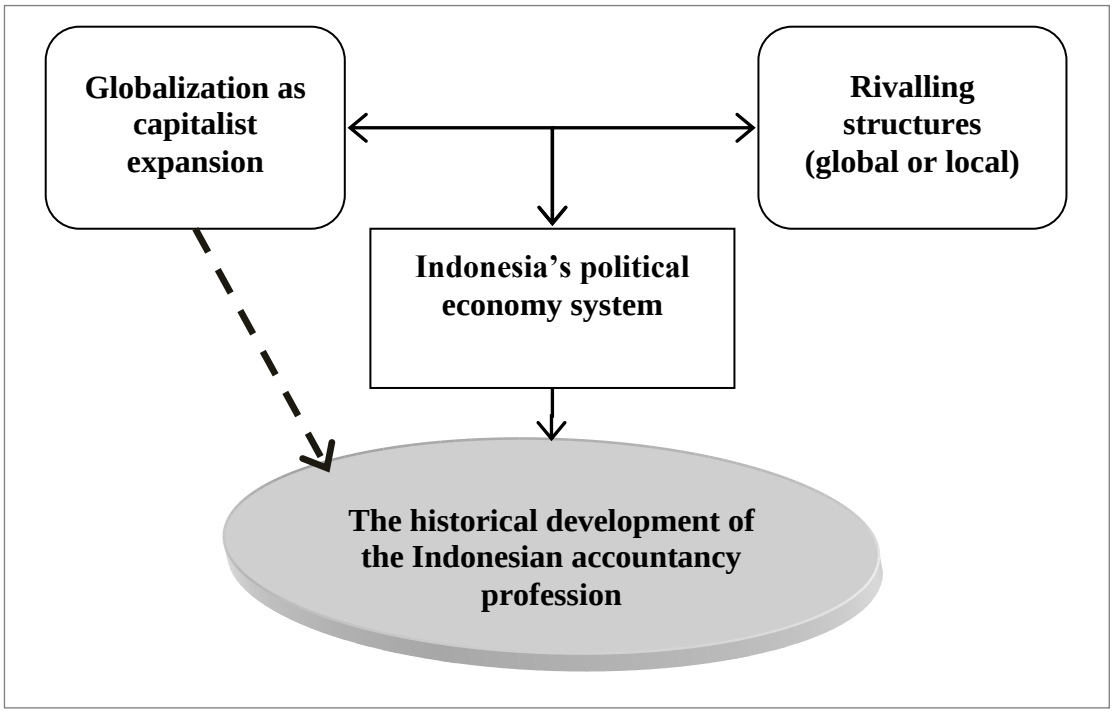
This study adopts Robert Cox's[1] concept of historical structure in understanding the sources of changes in the relationship between core and periphery countries throughout the different stages of capitalist expansion. Cox regards capitalism as a social structure with its own set of material capabilities, institutions and ideas. The three elements of structure interact with each other at three levels of human activity: social forces as engendered in any particular mode of production, forms of state, and world order. Mode of production or the system of political economy is central to Cox's argument in understanding changes in the world order as "production creates the material basis for all forms of social existence" (Cox, 1987 p.1). Cox defined production as not only covering the production of goods but also all the social and political consequences of such production processes, i.e. "the production and reproduction of knowledge and of the social relations, morals and institutions that are prerequisites to the production of physical goods" (Cox, 1989 p.39 cited in Bieler and Morton, 2003). A particular mode of production requires a particular structure of the state, which consequently, alters the structure of the world order. On the other hand, power relations in a particular world order enable cross-border influences on the structure of the states, which in turn influences the evolution of social forces. According to this methodology, besides capitalism, there exist different historical structures in any given time in history. The different capitalist world orders, and

[1] Robert Cox (1926 - present) is a Canadian scholar in International Relations and International Political Economy (IPE). He is known as one of the pioneer scholars who adopted critical theory into the field of International Relations and is regarded as the founder of modern-day IPE (Schechter, 2002 p.2).

changes thereof, are therefore the results of the interaction between capitalism with rivalling ideas, material forces and institutional forces of other competing structures.

This study argues that the prevailing system of political economy adopted by peripheral countries such as Indonesia determines the development of the accountancy profession in that country. Hence, the first step in understanding the historical development of the profession in a given period is to appreciate the prevailing system of political economy in that period. Figure **1-1** presents the theoretical framework of this study.

Figure 1-1: The theoretical and methodological framework of the study



This study accepts the contention that the spread of the Western-style accountancy profession in Indonesia was the consequence of global expansion of capitalism. However, the progress of such a process depends on the infiltration of the wider and more fundamental capitalist system of political economy (hence the dotted line in

Figure 1-1). In this regard, both the world-system theory of globalization and Robert Cox's historical structure help inform how the mode of production or the system of political economy adopted by peripheral countries such as Indonesia evolved within the context of the capitalist world order. Globalization theory captures the modes and means of how capitalism exerts its influence on Indonesia's system of political economy in any given period. On the other hand, the concept of historical structure requires the recognition of any other alternative social structures existing at the global level and/or emanating from the complexities of the Indonesian society in the corresponding period. The outcome of the interactions of both is the prevailing system of political economy that existed in Indonesia, which in turn provides the context for understanding the development of the Indonesian accountancy profession across different periods in its history.

1. 4. Data collection and analysis

The study uses document analysis to achieve its objectives. Archival or document analysis is a common historical research method (Fleischman *et al.*, 2003) that particularly fits the purpose of this study which seeks to describe and analyse macro-structural historical changes. Archival documents provide clear and tangible records, are relatively free from circumstantial subjectivity embedded in interviews or observations, and are valuable sources when the actual actors are unavailable and/or difficult to interview or observe (Grady, 1995). The use of more than one source of documents may corroborate each other and thus enhance their value as sources of information (Jupp, 2006).

The study does not draw significantly on interviews as they are deemed not suitable in narrating the macro-structural and institutional changes in the profession for a number of reasons. Firstly, interviewees may have been captured by certain conception of what a profession is and difficult to provide their own conceptualisation of the profession. Secondly, the research was conducted during the time of tension between the Indonesian Ministry of Finance and the profession and given the researcher's position as an employee of the Ministry, interviewees may be reluctant to express their personal views or reveal much information. Finally, the documents have revealed much of the information on the history of the profession to the extent that interviews may only provide confirmatory information. Several informal unstructured interviews were conducted with three officials from the Ministry of Finance but later stopped because they did not provide significant additional information.

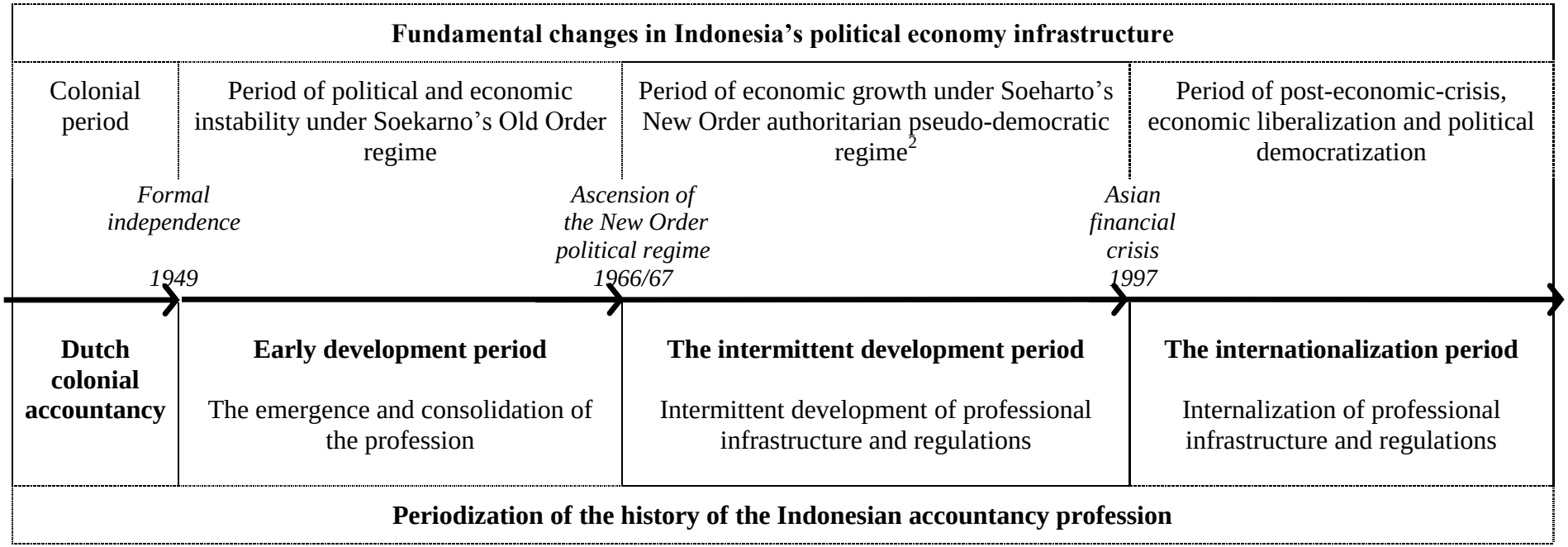
The documents were accessed during the data collection stage in Indonesia between August and November 2007. Most of the documents were obtained from the Indonesian Ministry of Finance, and being an employee of the Ministry, the researcher had the privilege of getting unrestricted access to the archives. Since the Ministry of Finance is also the regulator of the profession, this meant that the researcher was also able to access documents from vital institutional agents in the development of the profession over the last three decades i.e. the World Bank, the Asian Development Bank (ADB), the professional associations as well as other related pressure groups. Access to the documents from these institutions provides insight to the position and role played by them in the history of the profession. The documents obtained ranges from primary to secondary documents including confidential correspondences between institutions, official documents, statutory

legislations, legal documents, newspaper and magazine articles; and, last but not least, books and previous research on the topic. Other sources of documents include the University of Indonesia, the Indonesian Institute of Accountants, the Indonesian National Library and the internet. These institutions were the primary sources for the archives documenting the development of the profession in the first two periods as well as Indonesia's social, politico-economic context across the three periods such as reports of projects, loan agreement, research reports and news articles.

The documents are analysed to provide explanation of the historical development of the accountancy profession in post-independent Indonesia between 1954 and 2008. The analysis is conducted in the following steps. First, the theoretical framework requires the recognition of Indonesia's politico-economic configurations (as well as the global and local factors influencing them) during the last five decades. By reviewing the literature on Indonesia's political economy, three major periods in Indonesia's political-economic history are followed in this study: the first period is from the early 1950s until 1966; the second period is between 1967 and 1997; and the final period is from 1997 until the present time. The three cut-off points represent major and fundamental changes in Indonesian social as well as political conditions. Following this step, the major events in the history of the profession are identified by reviewing documents on the history of the profession (e.g. the association's official and previous studies on the history of the profession). Finally, these events are linked back to the wider social and political context of the corresponding period to provide a contextual narrative of the profession. In this step, the globalization theory and Cox historical structure help the analysis by identifying the social and politico-economic actors that may have influenced the direction of the development of the profession.

This step requires analysing documents that may provide explanation as to why a particular event took place (such as statutory regulations on the profession and documentation of any accountancy project) as well as documents that provide information on the country's politico economic system such as the government business laws and regulations. Figure **1-2** presents the periodization used in this study, summarizing major events and socio-political and economic structures that exist at both global and local levels.

Figure 1-2: Timeline showing major changes in political economy infrastructure and the development of the Indonesian accountancy profession



[2] The term refers to the fact that, although the New Order Indonesia formally carried out democratic measures such as general elections, the ruling regime systematically attempted to eliminate political competition such as by limiting and simplifying political parties and forbidding certain ideological and political thinking, as well as granting President Soeharto the right to appoint a large fraction of parliament from the military and government-affiliated NGOs (see e.g. Vatikiotis, 1998, Cassing, 2000).

As can be seen in Figure 1-2, the first period covers the years from 1954 until 1966. Having experienced the independence war (1945 – 1949) and gaining status as a newly independent country, in this period Indonesia was marked by political and economic instability. However, it was also the period that signified the establishment and consolidation of the post-independent Indonesian accountancy profession, marked by major events such as the enactment of Act number 34 year 1954 and the establishment of the Indonesian professional association of accountants. The second period spans over 30 years (1967 – 1997), the period when Indonesia was under the New Order political regime. During this period, Indonesia experienced significant economic growth attributable to political stability brought about by the New Order, a political regime founded when Soeharto became Indonesia's second president following a bloody and controversial transition of power between 1965 and 1966. Surprisingly, the accountancy profession did not develop rapidly as expected given the remarkable economic growth during the 32 years of the New Order rule. The final period was the period after the 1997 Asian financial crisis until 2008, which marks another transitional period when the New Order fell as one of the consequences of the crisis. A major outcome from the event is the rapid progress in the development of the profession, particularly towards meeting international standards.

The next section presents the summary of the findings. It will show that the developments in the profession are embedded in the wider changes in Indonesia's politico-economic conditions and that changes in the latter were the result of the interaction of rivalling social structures existing in each of the periods in question.

1. 5. Summary of findings

The world-system theory and historical structure provide evidence that the development of the Indonesian accountancy profession is influenced by the wider changes in Indonesia's political economy. Global expansion of capitalism has certainly contributed to the progress towards a Western-style accountancy profession. However, the progress was not smooth as it faced various obstacles emanating from alternative social structures that shaped Indonesia's political economy system across the three periods. As a result, the development of the profession in the last 50 years has been characterized by an intermittent attempt at Westernization of the profession. The narrative of the historical development of the profession in the three periods shows that progress towards a Western-like profession is inseparable from the efforts to liberalize and integrate Indonesia's economy towards global capitalist economy.

The fluctuation of the adoption of the Western-model profession was evident during the first two decades of the post-independence Indonesian accountancy profession. As a newly independent country, Indonesia was not only a battlefield for ideological, material and institutional forces of two rising world powers (the US and the Soviet Union), but also domestic rivalry among nationalist aspirants in nation building. Thus, in this period, the emergence of the profession was seemingly part of the country's attempt to open up its economy to foreign investment during the early years of its independence. However, such attempts faced fierce obstacles when Indonesia leaned towards the Soviet-Chinese model of development under the Soekarno era (especially during 1957 – 1965). The US influence on the profession only resumed when the country turned its economic orientation towards the West following a political *coup-d'état* in 1966 which brought about Soeharto's New Order political

regime into power. An important point to note during this period was that the key success factor of the US in overcoming ideological barriers was through elite nurturing via educational cooperation. Following the initial establishment of the profession, major events in the profession gave signs that the US model would overwhelmingly be influential in determining the future of the profession, especially as the country entered a period of political stability and economic growth starting from 1966.

A similar display of intermittent Westernization of the profession is apparent in the second period. Being a Western-backed regime, the New Order immediately submitted itself to the Western-model of economic development during its early years in power. Consequently, signs of Americanization of the profession were prevalent. For example, the first accounting and auditing standards of 1973 were heavily influenced by US GAAP (e.g. Tuanakotta, 2007). Over time, however, the New Order evolved into a politico-business regime, turning the country into oligarchic capitalism.[3] As a result, the real progress towards building Western-like professional infrastructure only occurred in the first and last decade of the New Order. Despite the exciting start in the early years of the New Order, the profession failed to develop as might be expected given the context of economic growth and political stability, and

[3] According to Baumol *et al.* (2007), oligarchic capitalism is a capitalist economic system where

> "… government policies are designed predominantly or exclusively to promote the interest of a very narrow (usually very wealthy) portion of the population or, what may be worse, the interests of the ruling autocrat and or his (or her) friends and family (in this instance the system is better characterized as a "kleptocracy")" (p.71)."

Hutchcroft (1998), on the other hand, contrasts capitalism under rational-legal states versus capitalism under patrimonial states. He further divides patrimonial-state capitalisms into bureaucratic (the state is a consolidated unit and relatively strong against business interests) and booty capitalisms (the state is relatively weak against business interests). Chua (2008) argued that over the 32-year rule in Indonesia, the New Order transformed from bureaucratic to oligarchic to plutocratic/kleptocratic capitalism (p.27-28).

the closeness of the New Order to Western powers during its 32 years of rule. By the 1990s, for example, the profession was considered to be lagging far behind the US/UK standards (Briston, 1990) and by the early 2000s, the profession was still considered as relatively small compared to other countries of similar economic size (The Asian Development Bank, 2003).

The development of the profession reached full speed following the 1997 Asian financial crisis, which has fundamentally shifted the power configurations in Indonesia and significantly undermined the crony capitalism of the New Order. It also strengthened the pressure on the economic liberalization agenda, facilitated by IMF's financial assistance programs to Indonesia during 1997 – 2003. Unsurprisingly, reforms and restructuring in the accountancy profession were part of the wider liberal agenda. As a result, both the scope and magnitude of progress towards the internationalization or Westernization of the profession reached an unprecedented level. The professional association actively transformed the professional infrastructures (e.g. standards, certification and associations) to meet acceptable international standards. On the other hand, the Government was forced to provide the legal framework for the profession, which sparked tension between the Government and the profession.

Given the trajectory of its history, it is anticipated that the development of the profession in the future heavily depends on the extent to which liberal capitalism prevails in Indonesia. Recent developments indicate that although the institutional framework seemed to be firmly in place in the country, challenges still exist albeit sporadically.

1. 6. Contributions

This study contributes to our understanding of the accountancy profession in the ex-colonized countries in the following ways. First, it contributes to the growing literature attempting to understand the operation of the accountancy profession in various locales and across different time horizons (see e.g. Walker and Shackleton, 1998). It provides another piece of empirical evidence of the development of the accountancy profession in a context other than that of former British colonies. In particular, it provides evidence on how the accountancy profession emerged in a former Dutch colony, a topic that has not been addressed before. This will be helpful in the long-term effort of constructing general propositions about professionalization (Burrage et. al., 1990 cited in Caramanis, 1999 p. 158) and as such, "researchers are encouraged to study professions … as individual empirical cases rather than specimens of some more general, fixed concept" (Freidson, 1983 cited in Caramanis, 1999 p.158). Secondly, by utilizing the historical structure methodology, it provides an account of how and to what extent the forces of globalization influenced the development of the accountancy profession in ex-colony societies over a long period. While accepting that the birth and development of the accountancy profession in ex-colony countries is an inevitable consequence of globalization, it certainly takes the view that the process may be more complex and open-ended than previous studies suggested. Finally, the study also offers an analysis of the major sources of dynamics in the Indonesian accountancy profession over the last five decades from the critical perspective by incorporating the issues of power differences both within the Indonesian society and between states under the global politico-economic order. No previous studies have adopted such a methodological and theoretical framework. As a

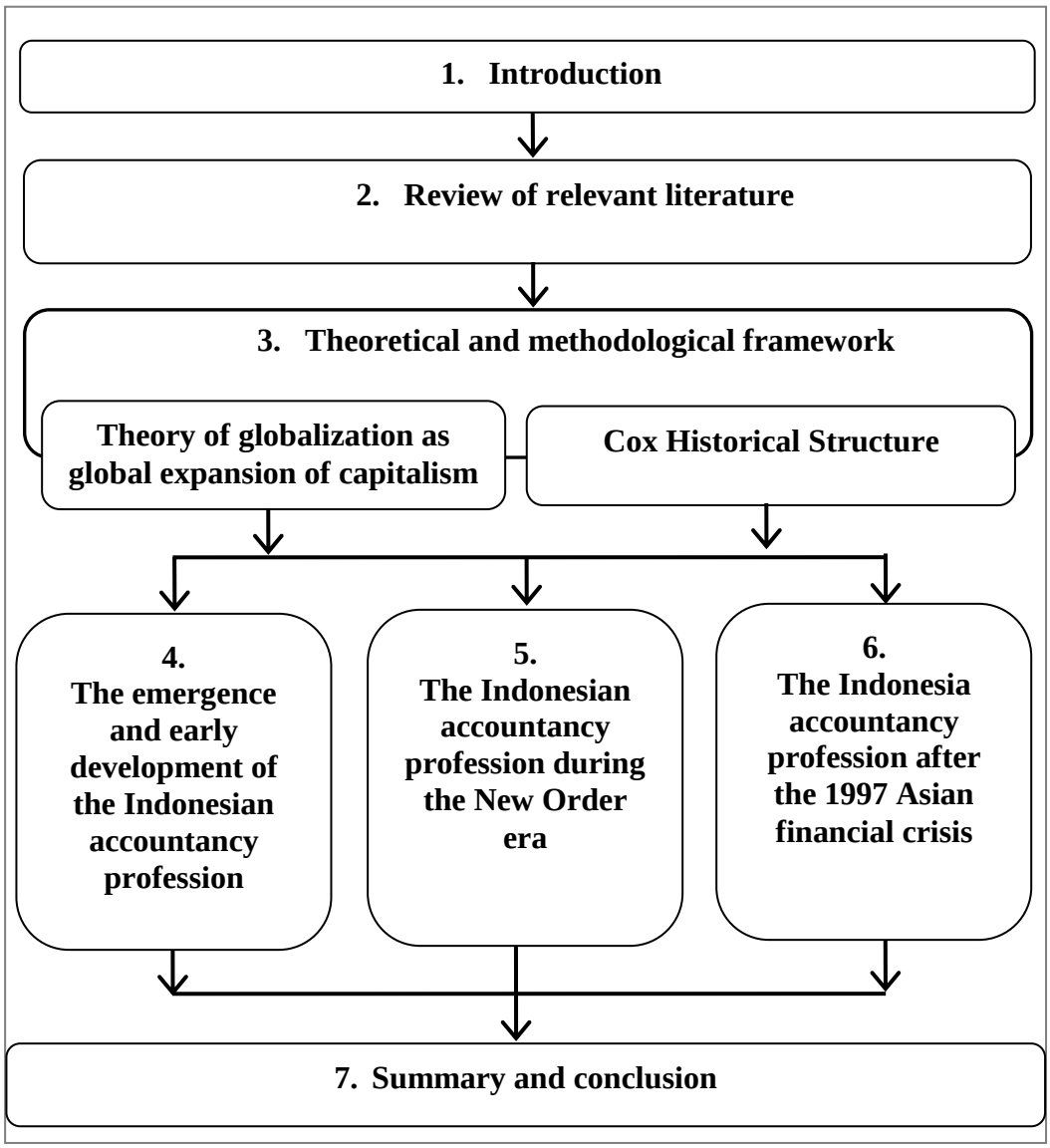
result, it gives a more contextualized history of the Indonesian accountancy profession.

In terms of practical contributions, this study adopts a broader view of the implications of accounting research as suggested by some authors (Gendron and Bedard, 2001; Roslender, 2006). Accounting research should benefit not just the members of the accountancy profession but also the broader stakeholders of the accountancy profession (users of their services, governments, and the public). Its applicability should be interpreted as more than "the introduction of new knowledge to auditors and the identification of emerging practice issues" (Gendron and Bedard, 2001). Accounting research should not be based only on the belief of the convenience of the status quo but also on the belief of the possibility of building something better, which incorporate the perspectives of a broader range of stakeholders and thus encourages a better fit between accountancy and the interests of all elements of the society (Roslender, 2006 p.266). In this respect, the practical applicability of this study rests in its value in giving new perspectives to the regulator of the accountancy profession (and the public of the developing and ex-colonized societies in general) on the importance of adopting the professional model that best suits the conditions of the country. The decision as to the type of professional arrangements and infrastructure should be based on democratic principles and not imposed by the needs of external forces and interests.

1. 7. Structure of the thesis

This thesis is comprised of seven chapters. Figure 1-3 presents diagrammatically the structure of the whole thesis:

Figure 1-3: The structure of the thesis



Chapter 1 introduces and summarizes the thesis. It explains the background to the research and the chosen theoretical and methodological framework, as well as the data collection and analysis. It also outlines the findings and the expected contribution of the study.

Chapter 2 presents the literature review. One of the primary aims of the chapter was to map the existing theories and approaches in examining the development of the

accountancy profession in ex-colony countries. The chapter starts by outlining the major sociological perspectives explaining the origin and nature of the accountancy profession in the context of developed countries. The chapter then continues by elaborating the theories and approaches used to explain the historical development of the profession in emerging/transitional economies as well as developing and ex-colonized countries. Finally, the chapter presents a review on prior studies on the history of the accountancy profession in Indonesia. Besides providing justifications as to why the critical perspective was adopted, the last two sections are important in fulfilling the second aim of the chapter, which is to identify the gaps in the literature. The chapter ends with a discussion on the necessary attributes of the methodological and theoretical framework chosen to provide a contextualized history of the Indonesian accountancy profession over the last five decades.

Chapter 3 outlines the methodological and theoretical framework adopted in this study. It starts with a brief overview of the fundamental differences between methodologies that underpin the conventional, interactionist and the critical perspectives on the accountancy profession. Following this discussion is a summary of how the critical perspective has influenced research on the history of accountancy and the accountancy profession. The chapter continues by describing the concept of globalization, interpreted as the different stages of global expansion of capitalism. The chapter then explains the historical structure concept, which argues that the source of changes of the different stages of capitalist expansion was due to the interaction between capitalism and competing social structures. It ends by explaining how the different stages of global expansion of capitalism have had a profound effect

on Indonesia's system of political economy, which in turn shaped the development of the accountancy profession.

The following three chapters present the empirical part of the thesis. They present the narratives of the development of the Indonesian accountancy profession during the last five decades. The approach used to present the story is as follows. Each chapter starts by describing the socio-political and economic context in the period in question, the prevailing system of political economy and finally the narrative of the development of the accountancy profession for the corresponding period.

Chapter 4 starts the analysis by unravelling the emergence and the early development of the profession, covering the period between 1954 and 1966. It first describes and explains the socio-political conditions of Indonesia as a newly independent country and their effects on the political economy of the country and describes major events in the early development of the Indonesian accountancy profession. It then unravels the conditions and factors that enhance our understanding as to why the country established an accountancy profession only five years after establishing its own government and amidst political and economic instability. Finally, it also explores the conditions and factors behind the switch towards the US accounting system.

The development of the profession during the New Order era (1967 – 1997) is the topic of Chapter 5. The chapter starts by describing the achievement, central features, and major actors during the New Order. It then describes and explains the different periodization of economic management under the New Order and the reasons/factors why the regime had become a politico-business regime where political and economic

power intermingled. The study describes major events in the profession during this era and offers an explanation of how and to what extent the New Order had influenced such development. More specifically, it explores and explains why the profession did not make significant progress despite the political stability and economic growth brought by the New Order administration during its 32-year rule.

The topic of Chapter 6 revolves around how and to what extent the 1997 Asian financial crisis has shaped the recent development of the profession. As in previous chapters, Chapter 6 starts with an analysis of how the crisis had affected Indonesia's political economy configurations and dragged Indonesia into market-oriented capitalism. The chapter then shows how such changes affect the development of the profession by narrating the dynamics of the profession during the last decade. It describes the significant and unprecedented transformations that took place in almost every aspect of the profession in rapid succession, including among others, changes in the professional infrastructure and statutory regulations of the profession.

The summary and conclusion chapter provides a review of the main points from the narratives as well as the conclusion linking them back to the theoretical framework adopted. An exploration of the possible scenarios regarding the future of the Indonesian accounting profession is also an important feature of this chapter.

Chapter 2

Literature Review

2. 1. Introduction

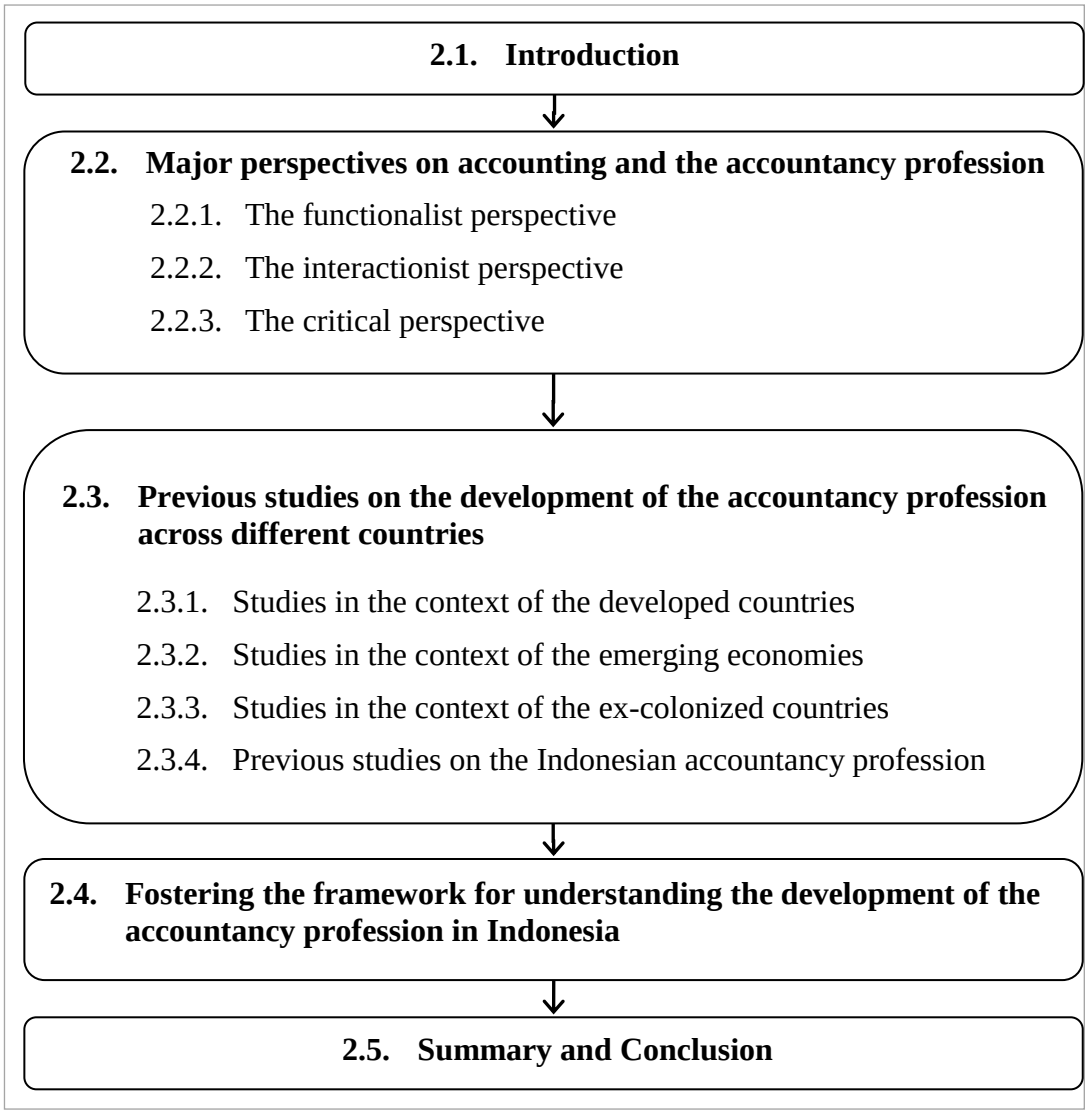
The rise of the accountancy profession and its spread to other parts of the world has attracted the attention of accounting researchers. Over the last few decades, there have been numerous studies examining the historical development of the profession across different countries. These studies have been characterized by the increasing plurality of theoretical perspectives embedding different, sometimes conflicting, philosophical and methodological assumptions. The different perspectives determine how both accounting and the accountancy profession are defined, as well as how and why accountants have successfully achieved and maintained their professional status. Understanding the various perspectives, their differences and similarities, is thus a crucial step in understanding the plurality of literature in the area. The aim of this chapter is to provide a review of the relevant literature on the history of the emergence and development of the accountancy profession across different countries. This will help in fostering the appropriate framework for interpreting the history of the Indonesian accountancy profession.

The chapter is structured as follows. The next section discusses the major sociological perspectives of professions in general, and the accountancy profession in particular. Section 2.3 reviews prior studies on the development of the accountancy profession across different country settings: developed countries, emerging/transitional

economies[4], and ex-colonized countries. The section ends with a review on prior studies on the development of the accountancy profession in Indonesia. Section 2.4 is dedicated to evaluating the appropriateness of the existing frameworks as a possible lens in examining the history of the Indonesian accountancy profession. Finally, Section 2.5 provides the summary and conclusion for the chapter. Figure 2-1 illustrates the structure of this chapter.

[4] The term emerging market economy was introduced in 1981 by Antoine W. van Agtmael, an economist for World Bank's International Finance Corporation (IFC). Originally, it was a narrow list of middle income to higher income countries, but the term is now widened to include both low and middle-income countries (e.g. Heakal, 2009, and Lazard Investment Research, 2008). For the purpose of this chapter, the former definition is used.

Figure 2-1: The structure of Chapter 2



2. 2. Major perspectives on accountancy and the accountancy profession

Studies on the historical development of the accountancy profession have been informed by various sociological perspectives on the profession. Each perspective views the nature of a profession and its position in society differently. Therefore, each perspective will have a different view in defining what accounting is and in giving an account of the history and meaning of the accountancy profession to the society. A good understanding of the various perspectives is a crucial step in deciding the methodological and theoretical framework to be adopted for the purpose of this study,

as each perspective will lead to different methodological consequences. It is not easy to classify the various methodologies as they sometimes overlap and conflict with each other. Nevertheless, the methodologies are commonly classified as the conventional/functionalist, interactionist, and critical perspective (e.g. Chua, 1986, Willmott, 1986, Roslender, 1992 and Perks, 1996 p.14). Each of these perspectives will be discussed in turn in the following sections.

2. 2. 1. The conventional/functionalist perspective

Early works on the accountancy profession were influenced by the functional perspective, which is largely based on the work of the socio-anthropologist Talcott Parsons (Lindblom and Ruland, 1997). This sociological view of the professions sees their emergence as a natural consequence of increasing complexity in both human needs and activities. Based on this view, the earliest attempts at defining the meaning of professions involved identifying and listing the traits or characteristics that constitute a profession (Johnson, 1972). Such attempts identified professions as occupational groups having core characteristics such as altruism, esoterism, and self-discipline. However, according to Johnson (1972), this approach has two problems. First, there is no solid agreement amongst commentators on what the true characteristics of a profession are. Secondly, as authors identify different and newer traits, they are added to the list, making it much more difficult to reach a consensus.

Unlike the earlier functionalist view that emphasised the traits of the profession, the second stream of the functionalist view of the profession defines professions based on their functions in society. This theory views professions as particular groups of individuals offering services that are deemed important to the society (Perks, 1996).

In other words, they exist to serve various human needs (Lindblom and Ruland, 1997). As a result, members of such groups (or “professionals”) are often rewarded with high social, economic, and legal status in society (e.g. Hines, 1989). Mechanisms such as certification, registration and disciplinary procedures are introduced to set exclusive boundaries to such groups in order to protect the public from “exploitation by unqualified charlatans and quacks who do not have expertise” in the service of a given profession (Perks, 1996 p.14). Under the framework of the functional perspective, the rise of accounting as a profession is deemed a natural consequence of the increasing complexity of human economic activities. The increasingly complex business and economic transactions between various members of society necessitate accounting and auditing as a mechanism of accountability. The profession, hence, emerged and developed to cater for this demand. The functionalist view on professions can therefore be considered as being sympathetic towards the professions as it generally does not problematize any claims of professionalism against the actual role it plays in society. It treats the professions’ claim of esoteric bodies of knowledge, autonomy, altruism and self-discipline (Hines, 1989; Barber, 1963 and Ritzer, 1972 as cited in Yapa, 1999) as genuine. It accepts without reservation that professions exist to serve ‘public interests’ and perceives them "as a positive force in social development, standing against the excesses of both *laissez-faire* individualism and state collectivism” (Johnson, 1982 p. 12).

However, the functionalist perspective has received much criticism. Some authors perceive it as a naive and de-contextualized view of the profession as it ignores the dynamic complexity of human interactions and the power relations within society (see e.g. Johnson, 1972), and as such, theories of the accountancy profession

stemming from this perspective are considered inadequate. Hines (1989) argued that accounting knowledge is socially constructed and, over time, it changed and gave different meaning to accountants' works. In addition, the human dimension of accounting and auditing practice has been ignored by the conventional/functional view on accounting. This has resulted in the de-contextualization of accounting and auditing while in reality they are indeed bound to both place and time (see e.g. Carnegie and Napier, 1996). The above criticisms led the interpretive/interactionist and the critical perspectives on the professions to gain more attention.

2. 2. 2. The interactionist perspectives

While the functionalist tries to explain professions from a normative viewpoint (what they should be), the interactionist perspective tries to understand them from a positive basis i.e. what professions actually are (see e.g. Uche, 2002). Rather than focusing on the attributes and function of a profession in society, interactionist theorists try to understand professions as a social process. Proponents of this perspective interpret professional aspiration as a social mobility or movement organized by a certain section of the society to attain certain objective(s). For interactionists, a profession is just another group in society imbued with self-interests, competing for its place in society. This view, therefore, puts more emphasis on the processes of professionalization rather than on the outcome of such projects (Timperley and Osbaldeston, 1975 cited in Uche, 2002 p.473).

The interactionist perspective provides an alternative interpretation of both the history and development of accounting and the accountancy profession. Professional accountants are seen as a group in society comprised of various individuals, with

similar but not homogenous interests, fighting for their existence in society (Uche, 2002). Through their activities as professionals, these individuals promote their interest through their interaction with each other as well as with other groups of individuals who are related to their activities. The identity and role of the accounting and auditing profession is therefore the product of these social interactions. In other words, the meaning of accounting and the accountancy profession is largely determined by how successfully accountants build and maintain the symbolic meaning and the material value of accounting as well as convince the rest of the society to believe in them.

Under this perspective, the functionalist assumption that professionals are of importance to the society is put under scrutiny. Interactionists contest the notion of competence and community service as the main explanatory variables of the emergence of a profession and place greater attention to the complexity of social organizations (Uche, 2002). Moreover, as professions need to justify their existence in society, they always try to convince others in the society of their legitimacy and importance (Perks, 1996 p.15). The existence of a professional body and the mechanism of certifying, registering and disciplining its members are deemed by the interactionist theorists to be directed to achieve the ultimate goal of maintaining the profession's respected and valued social identity within society (Becker *et al.*, 1961 as cited in Yapa 1999 p.330). In other words, the interactionist perspective introduced the socio-political aspect of the accountancy profession to the analysis and raised questions regarding the accountants' claim of professionalism. Accounting is seen as not just a neutral technology but also a product of social exchange and interactions. The meaning of accounting is built on consensus of meanings which changes over

time (see e.g. Hines, 1989). Thus, its meaning and boundaries as well as the work of accountants can be different to different people across different times and places (see e.g. Napier, 2006).

The interactionist perspective is also not short of criticism. One of the main criticisms is its failure to incorporate social structure into the analysis of the profession. Although it takes into account human interaction as individuals or groups of individuals in the analysis, it pays little attention to power differences between members of the society and the effects of such structure on social interactions. In other words, it overlooks the existence and influence of social structure in analysing the emergence and survival of professions in modern society (Perks, 1996; Willmott, 1986), which is addressed by the critical perspective of the profession.

2. 2. 3. The critical perspective

Proponents of the critical perspective believe that the rise of professions as an important element in modern society can significantly be attributed to the unequal distribution of power amongst the society. Understanding the structure and operation of modern society is vital in answering the question of what professions are and why they exist (Perks, 1996), since the meaning and position of professions in society depends on the assumptions as to how the modern society works. For example, the trait and functionalist perspective of the professions is bounded by the view that society resembles an organism in which each of its elements has its own designated functions. As described earlier, such a view is deemed outdated because it ignores various interests and social forces that may have shaped the emergence and development of a profession. Under the critical perspectives' assumptions, the

concepts of professions are far more varied as it embraces other or alternative theories of society that problematize the functional view on society. Over recent years, the critical sociological view of the professions has inspired accounting researchers in examining and interpreting the rise and dynamics of the accountancy profession. Amongst the most notable schools of thoughts are those which stem from the Marxist, Weberian and Foucauldian schools of thought (see e.g. Chua and Sinclair, 1994; Goddard; Roslender, 1992), which will be discussed in the following sections.

2.2.3.1. The Weberian approach

The Weberian perspective on the profession is based on Max Weber's concepts of class, status groups, and party in explaining communal mobility in modern society. *Class* is defined as a group in society that shares a similar position relative to the market ("market situation"), for example, as owner of means of production or as labourers with certain level of skills and education (Gerth and Mills, 1948; Weber *et al.*, 1978). *Status* or social status of an individual is the extent to which members of society respect or honour the individual (Gerth and Mills, 1948; Weber *et al.*, 1978). Status is also a source of power and is unequally distributed within the society. Finally, *party* refers to temporary communal movements in which different classes and/or status groups join together to promote their interests (Gerth and Mills, 1948; Weber *et al.*, 1978). *Class*, *status*, and *party* are the sources of economic, social, and political power in modern society (Levine, 1998). Together with Weber's concept of closure, which explains the attempts by some members of the society in creating an exclusive group to achieve higher status, class-status-party concepts are crucial to the study of profession.

The main contribution of the Weberian tradition to the study of profession relies on its power to explain the process of how professional status is achieved. Unsurprisingly, much of the work within the Weberian perspective of the profession attempts to examine the development of the accountancy profession in its earliest stage i.e. how accountants in a given society achieved their professional status. Weber's concept of 'social closure' in particular is used as an analytical tool to examine and explain the process or mechanism of 'professionalization'. In Weberian term, profession is a class as well as a status group and the process of professionalization is a process of both social and market closure. Proponents of this view believe that professionals always try to obtain exclusive right over the market for their services for social and economic rewards (see e.g. Chua and Poullaos, 1998). This concept of 'market closure' interprets professionalism as:

> "... a strategy for controlling an occupation involving solidarity and closure which regulates the supply of professional workers to the market and also provides a basis for the domination of institutions, organizations, and other occupations associated with it" (Perks, 1996 p.15).

The Weberian concept of 'social closure' has been used to explain the history of the professionalization of accounting, especially in the context of developed countries in the West. Unlike the functionalist perspective, the history of the accountancy profession is analyzed in relation to the wider organizational and societal as well as socio-historical contexts (Colignon and Covaleski, 1991 p.141). The accountancy profession fits Weber's definition of a class-status group. The professionalization of accountancy is thus seen as a social mobility by accountants to close the market for accounting labour and skill and to gain both economic and social rewards in the form of monopoly of the accounting services and achieve high status in society. Hence, professional certification and associational membership are seen as mechanisms

enabling the inclusion/exclusion and control over entry to both the accounting market and status group as professionals. The concept of market closure and structural relationship in society is central to the arguments of the critical view of the professions. The effort of market closure is often supported by other powerful groups in society, including the state and/or powerful corporations (Perks, 1996 p.15). Unsurprisingly, the nature and extent of the relationship between the state and the accountancy profession in the professionalization process have received extensive attention from critical accounting researchers using the Weberian approach. For these researchers, understanding the structure of power relations and interactions amongst different sections of society is of central importance in investigating the emergence of accounting as a profession.

The Weberian framework has been praised for its ability to provide a richer explanation of the dynamic of the accountancy profession. Its most important contribution lies mainly on the contextual history of the accountancy profession. However, recent studies have shown how the class-status and party concept can also be used in analysing the later stage in the development of the accounting history (see e.g. Chua and Poullaos, 1998, Caramanis, 2005), as it gives a more nuanced and embedded analysis of professional development in the contemporary context. Some commentators, however, argue that one of the limitations of the Weberian framework is that it emphasizes too much the social process. Such an approach is problematic when analyzing the development of the profession in highly structured societies (Freidson, 1970 as cited in Bakre, 2001). Another problem with the Weberian view of the accountancy profession is that it is developed from theories of the social process

in the context of Western advanced capitalistic society. Its applicability in other social contexts still needs further examination.

2.2.3.2. The Marxist approach

Another sociological thought that has significant influence on the critical perspective of the profession is the work of Karl Marx on social structure and evolution. The Marxist's approach to the profession is largely based on the analysis of the mode of production or the political economy of modern society. The analysis involves looking at how a particular society produces, accumulates and distributes wealth amongst its members. Karl Marx believed that modern society is a capitalistic society where the mode of production places owners of the production capital in a position of great importance. Wealth or surplus in today's society is produced by exploiting the skills of the workers or labourers. Labour skill, including accounting and auditing expertise, is not viewed as the possession of workers but as a product of social power in play. Professionalization, in this sense, is seen as a means of social division and organization of work in which a group of labourers were granted a monopolistic right over a particular skill. Thus, the professionalization of certain occupational skill involves the promotion of the scarcity of a particular skill and the consent to monopoly over that skill by the most powerful social agents i.e. state apparatuses and market players.

For proponents of this school of thought, the accountancy profession is seen as the mechanism of social organization or division of workers with accounting and auditing skills. This division is important as accounting and auditing skills are seen as vital for both the operation and sustainability of capitalistic mode of production. Accounting is

a calculative science that provides the rational decision tool for the owners of capital to allocate or withdraw resources while auditing serves as the mechanism for checking that calculation. On a more fundamental level, both accounting and auditing are seen as an instrument for securing legitimacy, designed to offer assurance and reassurance to the public that the capitalistic system is transparent and accountable. Through the collegial control of the profession, accounting can then serve more effectively the interest of the capitalist. For some other scholars, the specific monopoly over the supposedly scarce skill also granted professional accountants a higher position compared to ordinary workers, despite being intermediary as they fit only the 'petty bourgeoisie' (Poulantzas, 1975 as cited in Caramanis, 1996).

The Marxist approach has also suffered from criticisms. First, although this approach has identified the profession's position in the structure of the capitalist society and its relation to other structural forces of society, it fails to provide historical explanations as to why and how the profession come to its current position in the society (Chua and Sinclair, 1994; Goddard, 2002). Secondly, the Marxist analysis on society and social dynamics is seen as suffering from economic determinism. Social mobility is often reduced as purely economic-motivated and, as such, it cannot explain other divisions that may exist within professional life that are attributable to non-economic factors such as gender or race inequality. Finally, Marxists claim that professions are just another means used by the capitalist class in exploiting labour and appropriating surplus value. However, this claim has not been backed by convincing evidence (e.g. Saks, 1983 cited in Caramanis 1996). Thus, the existence of such a grand social structure as capitalism in explaining unequal power distribution within society has been questioned.

2.2.3.3. The Foucauldian approach

Research on accounting and the accountancy profession has also embraced the perspective derived from the works of Michel Foucault, a French philosopher renowned for his work on the relationship between power and knowledge. He attempted to understand modern society without putting too much emphasis on social structures at the macro level. Hence, his work has been recognized as post-structuralist in nature. Unlike Marxist social theory, Foucault did not see the state as a purposeful actor. Instead, it is a collection of practice, institutions and discipline. Furthermore, Foucault attempts to understand the structure and evolution of human knowledge and its role in public administration and policy (Stewart, 1992). He emphasizes the importance of power to knowledge and vice versa. They are internal to each other: power has a constitutive element in the construction of knowledge while knowledge can also be a form of power in play or a 'power ritual' (Stewart, 1992 p. 62).

Foucauldian theorists, thus, did not see accounting as a product of grand social structure such as capitalism and industrialization. To them, social development is not linear in nature as the modern world is a complex phenomenon with many societal forces influencing the outcome of history. The modern society developed to its current state "accompanied by an epistemic shift from a 'classic' to a 'modern' form of knowledge, which is organized into 'disciplines' (Bakre, 2001). Accountancy, then, is not solely the product of either capitalism, industrialization, ownership or organizational structures (Stewart, 1992), but also power-knowledge relations and governmentality. Foucauldian notions of discipline, governmentality and surveillance within the dynamics of the modern society are important in interpreting what

accounting is. One can start from his emphasis on the centrality of language in establishing a power or knowledge synthesis for rendering the individual calculable (Fleischman and Radcliffe, 2000). Accounting in this framework is a 'language' that poses a disciplinary power that is capable of increasing control over various domains of human activity, increasing the organization of everything, and opening-up of new domains to surveillance (Hooper *et al.*, 2005). The professionalization of accounting can then be seen as a process through which domination over a body of knowledge (i.e. the accounting technology) is achieved in an organized way (Kosmala MacLullich, 2003 p.794), and much of this process involves the execution of power (Fogarty *et al.*, 1994).

The view is much criticized by the Marxists school of thought who challenged the view as being too reductive in seeing the relationship between the materiality bases of reality and under-theorizing the material, economic, and political realities (Fleischman and Radcliffe, 2005). The Foucauldian theorists' interpretation of power is also seen as monolithic as if it is "common to all disciplinary regimes, serving universally to enhance human capacities" (Armstrong, 1994 as cited in Fleischman and Radcliffe, 2005). According to Fleischman (2005), critiques on this view also come from traditional historians and economic rationalists. Similar to the Weberian approach, the applicability of the Foucauldian approach in analysing the development of accounting and the accountancy profession in the context of ex-colonized societies is yet to be proven.

In summary, the functionalist, interactionist and critical perspectives offer different and conflicting interpretations of what accounting is. They provide different answers

to the question of how and why accountancy has become a profession or, more fundamentally, whether its claim of professionalism is adequately justified. All three perspectives have contributed to our understanding of the nature and history of both accounting and the accountancy profession as argued by Willmott (1986):

> "The functionalist perspective usefully highlights the significance of the traits of professionalism in relation to the reproduction of complex social systems. The interactionist perspective helpfully recalls the socially constructed nature of these traits, setting them in the context of a negotiated interaction over the symbolic meaning and value of "professional" expertise. Finally, the critical approach deepens the insights of the interactionist approach by placing them in the wider economic and political context" (Wilmott, 1986 p. 559).

Over recent years, research on the development of the accountancy profession has shifted from the functionalist to the interactionist and the critical perspectives of the professions (see e.g. Uche, 2002 and Cooper and Robson, 2006). To some scholars, the functionalist perspective is regarded as 'primitive' and inadequate (Caramanis, 1996) in providing a realistic picture of the dynamics of the professional life as it generally ignores the influence of complex societal factors on the dynamics of the accountancy profession. The latter perspectives, on the other hand, are seen to offer a more realistic approach in investigating the history and contemporary dynamics of the accountancy profession as they interpret such history and dynamics amidst the complex and ever-changing social life.

2. 3. Studies on the development of the accountancy profession across different countries

As stated in Chapter 1, the objective of this study is to examine the birth and the development of the accountancy profession in Indonesia over the last 60 years. For this reason, the following sections review prior studies on the emergence and development of the accountancy profession across various countries using the critical

perspective as it provides a more contextualized approach in explaining the rise and dynamics of the accountancy profession in structured society such as in the former ex-colonized countries. Scholars have argued that due to the differences in historical and socio-political context, the theories used to explain the birth and development in the developed countries may not be applicable in the context of ex-colonized countries (e.g. Annisette, 1999, 2000; Bakre, 2001). The following sections will review prior studies in the context of the developed countries followed by similar studies in the context of the ex-colony countries.

2. 3. 1. Studies on the development of the accountancy profession in developed countries[5]

There have been numerous studies on the birth and development of the accountancy profession in developed countries covering various aspects of professional development within various settings across the developed world (for reviews see e.g. Cooper and Robson, 2006; Napier, 2006). Most of those works concentrated on investigating the historical development of the accountancy profession in the context of the Anglo-American countries (the UK, the US, and Australia), although other studies have also attempted to shed light on similar processes in the context of other developed countries such as Belgium and France (De Beelde, 2002; Ramirez, 2001).

Much of the works on the early development of the accountancy profession in the developed countries is concerned with the professionalization of accountancy. The term accounting professionalization refers to the process by which accountants achieve or try to achieve their professional status (e.g. West, 1996, 2003; Willmott,

[5] Without ignoring the possibility of the existence of other studies conducted in other languages, the review is limited to studies reported in the English language.

1986). The earliest movement of professionalization of accountants can perhaps be traced back to the United Kingdom (hereafter the UK) in the middle of the 19th century. This was marked by the formation of the first ever organization of accountants i.e. the Society of Accountants in Edinburgh (Scotland) in 1854. This was soon followed by the Glasgow Institute of Accountants and Actuaries in the following year (1855), and by the Institute of Chartered Accountants in England and Wales in 1880 (Walker, 1995). The movement of accountants to organize themselves was first interpreted as being purely the consequence of the rise of financial and economic complexity due to the industrial revolution at the time (Lee, 1995 p.49). A closer look at the process, however, shows that the organization of accountants into coordinated associations was part of their collective mobility in achieving social and market closure (see also MacDonald, 1985; Lee, 1995 p.49; Birkett and Evans, 2005). In this context, a more nuanced explanation of the process as well as the success and failure of the professionalization attempts were needed. Competition from other market forces, for example, was an important reason for accountants to organize themselves (Lee, 1995). Walker (1995) shows that accountants in Glasgow and Edinburgh formed professional organizations to defend their exclusive right over the market for their services which was under threat because of a campaign by a London-based merchant group who were proposing reforms to base Scottish insolvency practice on English legal provisions. The reform threatened accountant's existence as under English laws, unlike Scottish law, lawyers rather than accountants act as administrators of bankruptcy and insolvency.

A recurring theme of professionalization was the involvement of the state in shaping the trajectory of the professionalization process, either directly or indirectly. In the

Anglo-American countries (most notably the UK, US, and Australia), the state has been an important player in the professionalization of accountants despite the fact that accountants were responsible for initiating the movements in obtaining professional status. Chua and Poullaos (1993) went further and argued that 'professions' are outcomes of dynamic interactions and transformation of state and profession (p.691, p.724), especially in the context where there are different levels of states (imperial state versus colonial/commonwealth) and professions (imperial professional bodies versus local/colonial professionals). As a result, the professionalization process is neither a uniform attempt at market and social closure nor a deterministic coupling of action, interest, and outcome (p.691). In other words, the role of the state in the emergence and subsequent dynamics of the accountancy profession differs with different contexts of time and places (see e.g. Dyball et. al. 2006 p.418). The role of the state in the professionalization of the US accountants, for example, was different from the UK. The American state granted monopoly through accreditation in the name of protecting public interest (Lee, 1995 p.55). In Canada, Richardson, (1989) shows that the state, market, and community upheld the profession's hegemonic structure based on intellectual and moral leadership. State policies, in particular, helped in the continuation and reproduction of the hegemonic structure of the profession and/or upheld the profession's claim to certain types of work (also Richardson, 1987 cited in Dyball et. Al. 2006 p.418).

The state played an even more critical role in determining the success or failure of the professionalization of accounting in continental European countries (Ramirez, 2001; De Beelde, 2002). In the Belgian context, De Beelde (2002) argued that the professionalization of auditing was the outcome of the struggle between competing

models of the audit profession that stemmed from different interpretations of the function of audit: verifying financial data for work councils or verifying annual financial statements for shareholders. In this context, statutory audit legislation became the battlefield in which politicians, different accountant groups, labour unions and employers pursued their preferred professional model. Ramirez (2001) explains the vital role played by the state in determining the failure of French accountants to institutionalize and obtain public legitimacy over their professional status before World War II and after:

> "It was because of the state that they (the accountants) could not be recognised before the war. It was now because the state wanted to give birth to an economy and a society in which accountants could play a role, that they were now institutionalised" (p.414).

Other studies confirm that the political nature of the accountancy profession goes beyond the initial professionalization process. The contemporary position and the functioning of the accountancy profession in the context of developed countries are embedded in the capitalistic order as a combination of the organizing principles of the state, market and community (Willmott, 1986 and Puxty *et al.*, 1987). Professional bodies are political groups whose power originated from collegial solidarity of the accounting community (Willmott, 1986). The primary responsibility of these bodies is establishing and maintaining the economic and social value of the skills of their members i.e. "the right to control and regulate the supply of, and influence the demand for, accounting labour" (Willmott, 1986 p. 574). In the context of the power relationship of a capitalistic country, professionals need to influence and convince the most powerful social forces i.e. the consumers of their services (the market) and state official/agencies of "the strategic importance and effectiveness" of their professional

services and status by maintaining any social arrangement that granted them the privilege (Willmott, 1986 p.561).

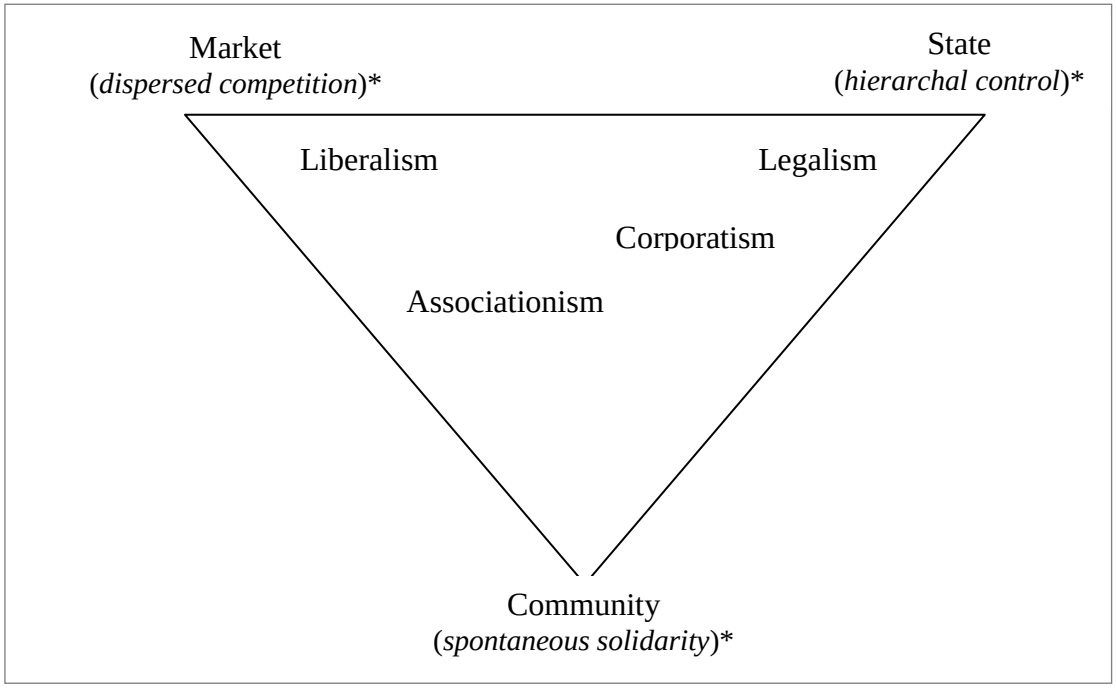
Puxty *et al.* (1987), thus, view the regulation of accountancy and its dynamic as:

> "… an outcome of interactions between parties (e.g. diverse state managers, agents of fractions of capital and representatives of interest groups) who are positioned within a structure of politico economic relations that is simultaneously united and divided by internal contradictions, tensions and struggles….. the reproduction/reform of the prevailing structure of politico-economic relations is seen as an (often unintended) consequence of these parties' efforts to mobilise material and ideological resource (including institutions) to negotiate policies and practices of regulations that are perceived, within the terms of their own reference, to safeguard or advance their own individualistic career interests as well as the class interests on whose behalf they act" (p.282).

Puxty *et al.* (1987) further argued that the market and the state are superior organizing principles compared to community in terms of regulatory power over accounting institutions and practice (p. 283). Based on this theoretical proposition, the authors outline a matrix of the accounting regulatory regimes, viz. liberalism, legalism, associationism, and corporatism, in the context of advanced capitalistic societies. In the liberal mode, accounting regulation comes from the market principles, while in the legalism regime they mainly serve the working of state principles. Corporatism and associationism modes of regulation lie in the middle of this spectrum (see Figure 2-2). In the corporatism model, the role of the professional community in influencing accounting regulation was less than that of the state. Finally, the market and community axis play a greater role than the state in the associationistic model. Based on this classification, Puxty et al. (1987) distinguish the regulation regimes of four advanced capitalist countries: Germany (legalism); the UK (associationism); Sweden (corporatism) and finally the USA (legalism – associationism). Although the study may no longer reflect the current conditions within these countries, it has provided a

conceptualization and evidence of how the accountancy profession is a function of particular politico-economic system.

Figure 2-2: Strategies of regulation situated in relation to social order



Adapted from Puxty *et al.*, 1987.
Note *: The guiding principle of coordination and allocation

In more pragmatic terms, the state, through its actions, often serves the interests of the accountancy profession or some of its members and plays an important part in resolving conflicts, be it intra- or inter-professional. In the US, for example, Mills and Young (1999) argued that the audit licensing agency, the licensing legislation and the courts interacted with each other and, over time, shaped the changing significance of the US CPA (Certified Public Accountant). Fogarty et. al. (1997) provide evidence in the case of the US where the state board of accountancy provides support to the profession's legitimacy claim and its own existence to the public despite the fact that this conduct conflicted with the board's initial mandate of assuring professional competence. Rollins and Bremser (1997) conclude that the Security and Exchange

Commission's disciplinary actions against particular members of the profession (largest audit firms) are different (less frequent and lighter) from the rest. Such symbiotic relationship is also suggested in the case of the UK. Sikka and Willmott (1995) stated that the UK accountancy profession has used the state as part of their attempt to defend jurisdiction and the right of self-regulation over the auditing service, often by exploiting the notion of serving the public interests (Sikka *et al.*, 1989). Time and again, the state often acts or chooses not to act in certain ways (e.g. choosing a case to be forwarded to the court) to protect the interest of some, if not all, members of the profession (see e.g. Sikka, 2001; Mitchell *et al.*, 1998; Mitchell and Sikka, 2004).

Over recent years, globalization has become a central theme in research on the development of the accountancy profession of the developed countries within their context as settler colonies[6] (particularly Canada and Australia). Cross-border transfer of accounting knowledge and professional structures had been thought of as a manifestation of imperialism at work, at least in the case of Anglo-American accountancy (Johnson, 1973 quoted in Chua and Poullaos, 1993; Lee, 1995; Dyball *et al.*, 2007). The fact that these developed countries were major imperialist powers had contributed to the spread of accounting all over the globe, creating "an imperial accountancy arena" across different colonies (Chua and Poullaos, 2002). For the imperialist countries, the end of colonialism was just another demand for restructuring the global order of wealth accumulation systems for some of their public (the

[6] The terms settler and non-settler colonies refer to two different types of European colonies. In settler colonies, a large number of Europeans (the 'settlers' or 'colons') migrated and resided permanently in the colonies (e.g. Argentina, the US, Canada and Australia). In non-settler colonies, on the other hand, the indigenous or other colonized people brought by the colonizers (e.g. as slaves) were still the majority residents but they were still subject of foreign rule (see e.g. Ashcroft *et al.*, 2000 p.211). As evident today, many (if not all) settlers colonies are now rich/developed countries.

capitalist class). In this sense, globalization is just another recent restructuring phase of capitalism in which accounting played a central role (Catchpowle *et al.*, 2004; Cooper *et al.*, 1998). Since the state, capital and accounting are socially related to each other (Catchpowle *et al.*, 2004), globalization has been useful in promoting Western accounting to become a global profession with enormous commercial significance (see e.g. Sikka, 2001; Hanlon, 1994; Dezalay, 1995; Dezalay, 1997; Hanlon, 1997; Willmott and Sikka, 1997). In earlier periods, accountancy spread through imperial links and connections. On the other hand, the more contemporary spread of accountancy takes the form of global convergence of accounting infrastructure through various intergovernmental institutions such as the IFAC, the WTO, the IMF, the World Bank (e.g. Arnold, 2005; Arnold and Sikka, 2001; Loft *et al.*, 2006; Loft and Jeppesen, 2003; Neu *et al.*, 2002; Willmott *et al.*, 1992).

In summary, studies on the development of the accountancy profession in the context of the developed countries have shown that the birth and development of the accountancy profession in these countries was a socio-political phenomenon involving various forces in the society. Accountants were able to achieve, maintain and expand economic and social rewards as professionals due to the perceived value of their expertise to both the market and the state. In a more contemporary context, the above studies also reveal that the functioning of the accountancy profession is inseparable from the capitalist economic system, framed within the corporatist political regimes. ‘Professional bodies’ are political vehicles that will always represent accountants’ interests (Willmott, 1986).

2. 3. 2. Studies on the development of the accountancy profession in the context of emerging/transitional economies

This section aims to review the development of the accountancy profession in the context of countries with emerging and/or transitional economies. Arguably, these countries are not developed countries but they are also not ex-colonized countries because of their closeness (geographical, historical, or cultural) to the more advanced countries, their economic status, or relative power in global politics. These countries include, for example, China, Russia, Greece, and the Czech Republic.

Among these countries, Greece was perhaps the country that has received considerable attention in the literature on the accountancy profession. In Greece, the government contributed significantly to the success of the consolidation of the Greek auditing profession as it perceived the profession as a political and economic instrument of social management and not as professionals serving market purposes (Ballas, 1998; Dedoulis and Caramanis, 2007). Ballas (1998) used the critical sociology of the professions while Dedoulis and Caramanis (2007) used the imperialism of influence and the state-profession axis in analyzing the emergence of the Greek auditing profession. According to both studies, the state established the profession to pursue its policy agenda. Thus, the Greek profession followed the corporatist rather than the Anglo-American associationist model, despite strong British and US influence at the time (Dedoulis and Caramanis, 2007). Other studies investigated the conflict between professional groups within Greek auditing using various theoretical lenses. Using the state-profession axis framework, Caramanis (1999) examines the liberalization of the Greek auditing market between 1990 and 1993. He concludes that the liberalization of the market was far beyond a technical,

rational and neutral phenomenon but was "the outcome of a political struggle between interested groups, against the background of contemporary socio-political conditions of the country, and specifically the advancement of neoliberal political and economic discourses" (p.190). In another study, Caramanis (2002) investigated the attempt of Greek local accounting firms to overturn the aforementioned liberalization of the Greek auditing market using the framework of globalization theory. However, such an attempt was deemed to have failed due to the advancing power of globalization (as represented by major nation-states (in this case the US) and major political-economic blocs (in this case the EU) that marginalized the role and importance of the Greek nation-state in advancing the interest of the local accountants. He concluded that:

> "…the politics of international accounting professionalism in the 'globalization' era are becoming more polycentric with (lesser) nation-states as merely one level (of diminishing importance) in a complex system of superimposed, overlapping and often competing national and international agencies of governance" (Caramanis, 2002 p.379).

Caramanis (2005) also re-tells the liberalization episode of the Greek auditing profession in the 1990s using Weberian concepts of class-status-party, charisma, and rationalization. He argued that the liberalization agenda was seen as an inevitable rationalization and a consequence of Greece's integration into the global free-market economy. However, the presence of a charismatic individual with an important party status position had made the efforts to overturn the liberalization of the Greek auditing market possible. As a result, the dynamics of the Greek accountancy profession during that period are seen as a fluid and open-ended historical process. A similar case of the role of powerful individuals in mediating the globalization of the accountancy profession was found in the Czech Republic. Examining the dynamics of the accountancy profession in the post-1989 Czech Republic, Seal *et al.* (1996)

reported that state legislations and transitions in Czech socio-politics and economics had accommodated the collective mobility of local accountants in creating the market for their services and securing statutory rights over it. However, such legitimacy was concurrently undermined by powerful political figures with libertarian ideology. As a result, reputable foreign/international accounting firms were given enormous opportunity to gain a stronghold in the country's accountancy market.

The globalization of Western accounting practices and institutional framework is also found in China and Russia. In these countries, however, the country's specific socio-political, institutional, and cultural context has to some extent compromised the advancing forces of the globalization of accounting and auditing. Hao (1999) studied the impact of transitions towards market economy on the development of the accountancy profession in post-1978 China and argued that steps towards establishing a Western-like profession did exist in post-1978 China. Unlike Western countries, however, the state initiated those steps (such as forming the professional association) and as a result, it still has firm control over the profession. Using a different theoretical framework, Yee (2009) confirmed Hao's result and reported the hegemonic relation between the state and the accountancy profession. She shows that the state's political and ideological leadership had profoundly determined the professionalization of accounting in China. Within this hegemonic environment, she argued that professional accountants have willingly aligned to the state's ideology and agenda. Due to this 'father-son relationship', she predicted that future development of the profession in China will continue "under the authoritative guiding hand of the state" (p. 89).

In the case of Russia, the state was only one of the important sources of moderation in the process of adopting an internationalized audit legislative framework. According to Samsonova (2009), other factors include the lag in accounting legislative framework and the revision or detection culture in local auditors' mindset. Most importantly, she argued that the Russian business environment (inter alia limited outsider ownership and prevalence of institutional shareholdings, an immature state of the capital market, limited number of professional investors, and strong tax-orientation of financial reporting practices) has made the internationalization of audit legislation only relevant to certain sectors of the economy, i.e. the internationally oriented businesses (p. 550).

Clearly, different social and politico-economic configurations between the developed and developing countries (ex-colony societies in particular) have profound effects on the dynamics of the accountancy profession in the respective countries. The next section will provide a review on the previous studies on the development of the accountancy profession in the context of ex-colonized societies.

2. 3. 3. Studies on the development of the accountancy profession in ex-colony countries

Studies investigating the development of the accountancy profession in the context of ex-colony countries have also increased in recent years. Some of those studies applied the theoretical frameworks used to analyze the history of the accountancy profession in the context of developed world. On the other hand, other studies argue the need to adopt different theoretical frameworks from those used to explain the development of the profession in the developed countries.

A number of studies have applied Weberian concepts of closure in understanding the birth and subsequent dynamics of the accountancy profession in the ex-colonies of Great Britain (Sian, 2006; Yapa, 2006). Sian (2006) examined the professionalization of accounting in Kenya and concluded that the process was nuanced by "the aspirations of the state to implement its Africanization policy in the profession" (p.371). As a result, the professionalization project did not merely involve exclusion of accountant groups but also indicated attempts by the state to include all indigenous accountants as a strategy to achieve its Africanization goals, amidst intra-professional struggle among different professional groups. A complex closure project was also found in Sri Lanka. Yapa (2006) argued that the professionalization of Sri Lankan accounting was characterized by competition between the various imperial (British) professional bodies to exert power in the country. He also contended that further development of the profession was also hampered by attempts of local accountants to close the accounting/auditing market by controlling the supply of public-practising accountants.

The political economy of accounting and auditing has also featured in research in the context of the ex-colony countries. Susela (1999) reported the existence of conflicting international and national interest in the process of setting accounting standards for goodwill in Malaysia. Amidst international pressures and intra-professional division, she argued that the state's policy and ideology determined the outcome of the struggle. Ali *et al.* (2006) examined a longer history of the Malaysian auditing saga using the political economy analysis of Malaysian society and concluded that the function of auditing in Malaysia has been determined by the dominant political

economy relationship in the country in a particular period. They observed that over different periods between 1957 and 1997, the development of auditing has generally responded to various pressures of politico-economic interest groups, both internal (accommodating ethnic relationship within the society) and external (the interests of Western investors), or both (strengthening the bonds between global and local elites). Yapa (1999), on the other hand, reported the influence of the specificity of Brunei Darussalam's politico-economic configurations on the development of the accountancy profession and contended that the prevalence of the Sultanate government in controlling the economy makes it difficult for the profession in fulfilling its responsibility of safeguarding public interests. Using the concept of the state–profession axis, Uche (2002) explored factors that significantly influence the development of the accountancy profession in Nigeria. He showed evidence of conflict between the professional bodies (the Institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountants of Nigeria (ANAN)) over the professional domain within the accountancy profession and that the conflict was partially sparked, and later resolved, by government actions. Therefore, he concluded that the development of the accountancy profession in Nigeria was not solely a function of "public expectations and professional competence" (p. 493) but also influenced by the nature of government in place (i.e. military or civilian) and the lobby of interest groups and personal relationships.

Over recent years, there have been studies that regard the fact that many of such countries are former colonies of the Western world as an important variable in understanding the development of the accountancy profession in these countries. This view has led to the rise of theories of global expansion of capitalism to become one of

the most compelling frameworks in understanding the history of the accountancy profession in the ex-colonized world. One of the strengths of this theory is its suitability for looking into the historical and socio-political context of those countries as ex-colonies of Western imperial powers. Studies on the development of the accountancy profession in countries such as Jamaica (Bakre, 2005, 2006), Trinidad and Tobago (Annisette, 1999, 2000), and the Philippines (Dyball, et al., 2006, 2007) reveal that any analysis of accounting development cannot ignore the history of colonization and the socio-political impacts it has inflicted on the colonized societies.

In these countries, the interactions between the colonial states and the newly independent states may influence the process and outcome of the professionalization (Annisette, 1999, 2000). Taking the early development of the accountancy profession in Trinidad and Tobago as a case study, Annisette (1999, 2000) used 'imperialism of influence' or 'informal imperialism' in explaining the early development of the accountancy profession in the context of ex-colony societies. De-colonization only ended imperialism as the means of capitalist expansion in its formal form and it had now moved to another stage of imperialism – 'true imperialism' that lies in trade and influence (Annisette, 2000). Informal imperialism influenced the professionalization of accounting in ex-colonized societies in two ways. First, the expanding economy of the imperial states require the integration of the weaker states in such a way that the strategic decisions governing both the direction and rate of growth of the latter are made and governed for the interests of the former (Girvan and Win cited in Annisette, 2000). Second, to spread the 'logic of capitalism' requires the support of an international or global state capable of exercising "its authority formally and informally across national boundaries in the service of the internationalization of

capital" (Petras and Morley, 1980, p. 44; Polychroniou and Targ, 1992, pp. 62-63 cited in Annisette, 2000).

The process of informal imperialism therefore suggests that the accountancy profession in less developed countries, especially in ex-colony states, was heavily influenced by the more developed countries, more specifically the colonizer. In the case of the new post-Second-World-War global order, the professionalization of accounting was influenced by two conditions: the newly formed states and the rise of the US as the new imperial power (Annisette, 2000). The former, due to both economic and political reasons, increased the need for accountants while the latter influenced important contours of the accountancy bodies that emerged in the new states. In other words, even in the absence of formal colonial relationships, informal imperialism theory is still deemed useful in explaining the emergence of the accountancy profession as it considers the centrality of the local collaborators in the process. It enables investigations of local indigenous accountants and institutions as "part of the wider network of collaborative systems that connect the internal/local with the external/metropolitan in the operation and maintenance of an informal Empire" (Annisette, 2000, p. 637). According to Annisette (1999), professionalization of accountants in Trinidad and Tobago was embedded in the context of internal disjuncture of a nation struggling for independence, whereby the state actively supported the profession because it saw the possibility of the profession acting as the social transformer to gain independence from the colonizers. The professionalization effort in Trinidad and Tobago was also initiated by state-employed, non-practitioner accountants and not by the public-practising accountant elites whereas the motivation was also not to achieve closure but instead to open up the profession to others (the

local accountants) who had previously been denied entrance to the profession. Annisette (2000) provided an account of how imperialism of influence became a major force in shaping the success and failure of local aspirations. She reported that despite the aforementioned aspirations, attempts at nationalizing the profession in Trinidad and Tobago were heavily subverted by the British-based professional bodies and its local collaborator elites, resulting in the continuation of the imperialist order.

Imperialism is indeed an important factor in the professionalization process as colonization had made it impossible for any colonized society to develop on its own any form of cultural and socio-technological advancement such as accounting. Dyball *et al.* (2007) argue that the accountancy profession in the ex-colonized world would not emerge and develop in a similar fashion to that of the developed world because there are leading conditions or circumstances ('precursors') to the emergence of the accountancy profession that were only evident in the developed countries. These conditions include the level of economic development, the self-organizing accountants and the presence of a modernist state (Dyball *et al.*, 2007). Hence, Dyball et al. (2007) linked the birth of the accountancy profession in the Philippines with the US imperial administration propaganda to undermine the capability of the indigenous Filipinos to manage public monies. Using cultural imperialism as the framework in understanding the consolidation of the Filipino accountancy profession, the authors viewed the emergence of the profession as a 'native-resistance' movement that was largely motivated by anti-imperialistic sentiment. The Filipinos felt the need to organize their own accountancy profession to deny imperialist accusations of backwardness and primitiveness (see also Dyball et al. 2006).

Conflict and resistance are inevitable themes in the early development of the accountancy profession in ex-colony countries. One such conflict in the context of the early development of the profession was reported by Bakre (2005, 2006) in his account of the early development of the Jamaican accountancy profession. He argued that there are always two elite groups in post-colonial societies: the global capitalist elites and the local collaborators (Bakre, 2005). These classes represent two conflicting interests: the former represent the global imperialist interest while the latter represent local interests. The local aspiration of the independent Jamaican accountancy profession culminated in the passing of the Public Accountancy Law in 1968. The law was originally designed to enable the localization of the profession through the setting-up of the Institute of Certified Accountants in Jamaica (ICAJ). However, the attempt failed because of resilient opposition from the 'global capitalist' elites within the Jamaican accounting society.

2. 3. 4. Previous studies on the development of the Indonesian accountancy profession

The previous section has highlighted the increasing interest in the development of the accountancy profession in many ex-colony societies. This section aims to review previous studies on the development of the Indonesian accountancy profession, both in the English language and in *Bahasa Indonesia* (Indonesian language).

Prior studies have examined the development of the accountancy profession in Indonesia across different periods in the country's history. Sukoharsono (1998) conducted a study to investigate if accountancy existed before the colonial period and he found the existence of some form of accountancy during the pre-colonial era due

to the existence of trade activities by Muslim as well as Hindu merchants from Persia, Arab, and India. Sukoharsono (1998) further suggests that the practice of state accountancy has existed in some Islamic kingdoms in Indonesia since the 14th century. As with any other colonized societies, Western accountancy was introduced by the colonial powers during the colonial era that succeeded the Islamic kingdoms era (Sapiie, 1980; Sukoharsono, 1995; Sukoharsono and Gaffikin, 1993a). However, as we will see later in Chapter 4, accountancy was largely carried out by and for the Dutch as part of the internal function of the colonial administration. As a result, there was no accountancy profession in the sense that there were no private accounting firms operating in Indonesia until the liberalization of colonial Indonesia's economy in the late 19th Century. Even then, there was only one Dutch accounting firm that had significant representation in Indonesia despite the close economic connections between the two countries (see Sluyterman, 1998 p.5).

One of the earliest studies on the development of the profession in post-independent Indonesia was conducted by Sapiie (1980). The study traced the development of the profession after Indonesia's independence until the late 1970s, besides also describing accounting practices during the colonial time. The study described chronologically the events that marked the advance of the profession from the enactment of Act 34/1954, the establishment of the professional association, and the influence of the US accountancy. Another study by Foo (1988) investigates the development of accounting and the accountancy profession in Indonesia and Singapore. The author attributed the underdevelopment (compared to that of the USA/UK) of the Indonesian accountancy profession to the outdated commercial code, undeveloped capital market, and lack of professional infrastructure, qualified accountants and accounting

education. He also reported the existence of dualism in the Indonesian accountancy system. The American system was prevalent in the bigger corporations while the Dutch accounting system was practised by smaller local companies. Similar to Sapiie (1980), the study did not take into account the issues of power relations and interests between states. Although both studies acknowledge the influence of the government in the development of the profession, they studies generally viewed such involvement as externalities to the development of the profession.

While Sapiie (1980) and Foo (1988) provide important documentations for the first three decades of the history of the profession, their studies are not without limitations. Apart from the obvious fact that both studies were conducted some time ago, one of their major limitations was that they did not problematize the history and role of the profession. They viewed the emergence and development of the profession as unproblematic for the development of Indonesian society as well as not taking into account the issues of power and interests as possible sources for historical changes of the profession. Sapiie (1980), for example, considered the influence of the USA as Indonesia's inevitable necessity:

> "The history of accounting development in Indonesia will always show that professors Dinman and Divine[7] have planted the seed and contribute greatly to the growth and development of the [accountancy] knowledge when Indonesia needs it most.
> ... the graduates of economics sciences [of the Indonesian universities] will bear the mission to spread the American system of accountancy for the purpose of developing the knowledge, which in turn will then be applied to organizations, from small entities to government affairs. ... These are the driving factors towards the application of the American (accountancy) model" (p.184 and 193, footnote is added).

[7] Carl L. Devine and R. Dinman are two American lecturers sent to teach accountancy in Indonesia in the late 1950s under the Ford Foundation's educational cooperation programme.

More recent studies on the development of the Indonesian accountancy profession include Bachtiar (2001), Tuannakotta (2007) and Kartikahadi (2007). Bachtiar (2001) provided an account of the history of the profession from early independence until the early years after the 1997 Asian financial crisis. He explains professionalization of accountants as motivated by nationalistic ideology but contends that recent development had revealed the true self-interested nature of the accountants. He further concluded that there had been no 'internal rivalry' between Indonesian accountants (p.15) since the profession emerged as part of nationalistic ideology, but there was increasing concern by local accountants at the threat of foreign accountants operating in Indonesia. Although the author has attempted to question the altruistic claim of the profession, he did not consider how the dynamics of the profession are embedded in the socio-political changes in Indonesia. Furthermore, the analysis was confined to one particular issue i.e. local versus foreign accountants.

Tuanakotta (2007) described the long history of the profession from the pre-colonial period until the post-1997 Asian financial crisis. The approach in this study is similar to Sapiie (1980) in that it traced chronologically the major events in the development of the profession. It considers the latest development of the profession until 2007 where there had been major changes to the statutory regulations following the 1997 Asian financial crisis, which include, among others, the introduction of mandatory audit rotation and penal code for audit negligence. He strongly argued against the government's initiative to change the regulation seeing it as a raw application of Sarbanes Oxley Act (p.403-404) and believed that the profession should be given the right of 'self-policing'. Similar to Sapiie (1980) and Foo (1988), the study adopted

the functionalist view of the profession and did not problematize the history of the profession.

Kartikahadi (2007) also conducted a study on the historical development of the profession. Specifically, the author described the regulation of the profession from 1954 until 2006 by dividing it into three periods: the blooming period (1954-1972), the growth period (1973–1996), and the challenging period (1997–2007). He believes that "in order to grow steadily and efficiently, a market economy needs to be supported by a reliable financial information system" (p.54) and that "an advanced economy needs big accounting firms" because they are the only ones capable of "serving big clients" (p. 56). Based on this view, the view is very critical of the new proposed public accountant law which introduced tougher regulations to the profession, viewing it as an unnecessary intervention to the profession. Although both Kartikahadi (2007) and Tuannakotta (2007) looked at the development of the accountancy profession, their studies present the normative views of the regulations in the profession from the practitioners' perspective[8]. Kartikahadi (2007); for example, they criticize the post-1997 regulations (which introduced, among others, audit rotation and penal codes for auditor negligence) but they praise the older law of the previous periods (which of course had not introduced the newer and tougher regulations) as being "prudent, compiled after considering the view of all stakeholders ('*to listen*, not just *to hear*'), and without any hidden agenda of any party whosoever" (p.62) and did not see them as the Government's intervention.

[8] Theodorus M. Tunanakotta and Hans Kartikahadi are not only accounting academics at the University of Indonesia (*Departemen Akuntansi FE UI, 2009*) but also amongst the earliest practicing accountants in Indonesia. Tuannakotta was the first chair of the practising accountant chapters of the Indonesian Institute of Accountants when it was set up in 1977. Both were also founders of the Indonesian affiliate firm of Deloitte Touche Tohmatsu (Deloitte Touche Tohmatsu, 2009) and Hans Kartikahadi is still listed as an active partner (IAPI, 2009a).

2. 4. Fostering the framework for understanding the development of the Indonesian accountancy profession

Previous studies on the emergence and development of the accountancy profession across different countries have contributed considerably to our understanding of the research area. There is, however, room for further research. First, prior studies have shown that there is no general explanation of the historical development of the profession across different country settings as such history is heavily influenced by the historical and socio-political context of each country. It is interesting to see how the case of Indonesia is similar or different to the previous studies, especially considering the fact that Indonesia is a former colony of the Dutch and very little is known about how Dutch colonialism affected the development of the accountancy profession in her colonies. Secondly, previous studies on the history of the Indonesian accountancy profession offer inadequate accounts of the history of the profession as they are dominated by the functionalist paradigm, which is deemed to provide a decontextualized history of the profession. This section therefore aims to evaluate the applicability of the methodological and theoretical frameworks used in previous research in the context of Indonesia. From the review of the previous studies, it can be seen that various theories have been utilized in explaining the emergence and dynamics of the accountancy profession across different country settings. As those studies may inform the theoretical and methodological framework suitable for this study, Table 2-1 presents a summary of the theoretical framework used and the results of those studies.

Table 2-1: Previous research on the emergence and development of the accountancy profession in different country settings

Country	Author(s) (Period)	Theoretical framework	Summary of results
Developed Countries (selection)			
UK	Willmott (1986)	State-market-community axis	The formation & advancement of the profession was a medium as well as outcome of the forces of the market and the power of the state. Professional bodies are thus seen as political vehicles for accountants to control both the supply and demand to their labour.
	Walker (1995)	Critical-conflict paradigm	Early professional formation in Glasgow and Edinburgh was a collective and organized movement against efforts of certain non-accountant groups to reform the (Scottish) law that threatened the accountants' interests.
USA	Lee (1995)	Political economy of accounting	Accountant professionalization in the US was a movement to pursue economic self-interest disguised in "public interest" discourse.
USA, UK, Germany, Sweden	Puxty *et al.*, (1987)	State-market-community axis	Regulation of accounting is a medium and outcome of contradictions within the organising principles of the advanced capitalism social order.
France	Ramirez (2001)	Bourdieu's concept of field	The state determined the success and failure of accounting professionalization. The newly created profession is only a field in which relationship between the state and profession was redefined.
Belgium	De Beelde (2002)	State-market-community axis	Different models of profession emerged simultaneously as various parties (the state, professional groups, unions and employers) defined the function of audit differently according to their interests.
Australia	Chua and Poullaos (1993)	State-profession axis	Professionalization (and subsequent dynamics of the accountancy profession) involved interactions and transformations of both state and profession.
Canada	Richardson (1989)	State-market-community axis	The state played a decisive role in reproducing the hegemonic structure of the profession when such structure was challenged.
Japan	Sakagami *et al.* (1999)	Political economy of accountancy	Due to differences in politics and business environment, the accountancy profession has not developed as in the UK, especially in the public and management accounting sector.

Country	Author(s) (Period)	Theoretical framework	Summary of results
Emerging/transitional economies			
Greece	Ballas (1998)	State-profession axis	The audit profession was created during 1940-1950 by the state to assist in fulfilling its socio-economic agenda.
	Caramanis (1999)	Critical sociology of profession	The liberalization of the auditing market (early 1990s) was the result of lobby by foreign affiliated accountants. The process itself involved a struggle between two groups in the profession and the interaction of various social forces and interests.
	Caramanis (2002)	Globalization theory	Forces of globalization (major state, politico-economic blocs) had undermined efforts of local auditors to overturn the liberalization of the auditing market during 1993 – 1997.
	Caramanis, 2005)	Weber's concepts of class-status-party, charisma, and rationalization	Liberalization was seen as rationalization towards free-market economic regime. A charismatic individual played an important role in the local auditors' attempt to regain monopoly over audit market (1993 – 2001).
	Dedoulis and Caramanis (2007)	Imperialism of influence and state-profession axis	The socio-economic agenda of the state played an important role in shaping the formation of Greek audit profession; hence, its arrangement did not fully follow the US/UK model (1940s – 1950s).
Czech Republic	Seal et al. (1996)	State-market-community axis	Collective mobility of accountants was supported by the state but undermined by the ambivalent position of key political figures.
China	Hao (1999)	State-market-community axis	The professionalization of accounting has been largely determined by the state (1978-1980s).
	Yee (2009)	Gramsci's theory of hegemony	Strong political and ideological leadership of the state determined the history of the profession as well as its future development (1978 – 1980s).
Russia	Samsonova (2009)	The concepts of transnational communication	The internationalization of the auditing legislative framework in Russia was a result of various cross-border activities of national and international actors. However, such process had also been shaped by the legacies of previous system of economy and business environment.

Country	Author(s) (Period)	Theoretical framework	Summary of results
Ex-colonized countries			
Trinidad & Tobago	Annisette (1999)	Imperialism of influence/ informal imperialism	The state actively supported the profession as it saw the possibility of the profession to act as the social transformer to gain independence from the colonizers. Local accountant movement was motivated to open up the profession for indigenous accountants.
	Anisette (2000)	Imperialism of influence/ informal imperialism	Attempts at nationalizing professional education were heavily subverted by the British-based professional bodies and its local collaborator elites, resulting in the continuation of the imperialist order.
Jamaica	Bakre (2005)	Cultural imperialism & globalization	Attempts to localize Jamaican accountancy profession (1950s – 1970s) involved a struggle between local-oriented elites and global-oriented elites and the interference of British professional bodies. As a result, the aspiration to localize the profession was seriously constrained.
	Bakre (2006)	Cultural imperialism & globalization	The failure of the second attempt of localization of the profession (1975–1986) was due to the existence of global-oriented capitalist elites, the colonial relationship with and interest of the imperial accountancy body (ACCA).
Sri Lanka	Yapa (2006)	Weberian concept of closure	The profession failed to grow because of cross border competition between ex-colonizers (British) professional bodies and attempts at market closure by local accountants.
Philippines	Dyball and Valcarcel (1999)	Weber's concept of modern/ traditional society	Familial/traditional values served as a mediating factor to the rational/corporatist regulatory framework. This has questioned the "professional" status of the Filipino accountants.
	Dyball *et al.* (2007)	Cultural imperialism	Accounting professionalization (1898–1929) was a form of native resistance of the Filipinos to the imperial/colonial power of the USA.
Brunei Darussalam	Yapa (1999)	Insights from functionalist, interpretive and critical (Willmott, 1986)	The dominant role of the Sultanate in the Bruneian economy has cast doubts over the profession's ability in serving public interests.
Kenya	Sian (2006)	Weberian concept of	The professionalization of accounting in Kenya involved inclusion by the state

Country	Author(s) (Period)	Theoretical framework	Summary of results
		closure	amidst intra-professional struggle over closure.
Malaysia	Susela (1999)	Political economy of accounting	Global and local interests created struggle over accounting standard setting and can only be resolved by the state.
	Ali et al. (2006)	Political economy of accounting	Function of auditing has been shaped by politico-economic pressures existing in Malaysian society.
Nigeria	Uche (2002)	Critical view on state-profession axis	The dynamics of the profession in Nigeria were heavily influenced by the type of government in place (military or civilian).
Saudi Arabia	Aba Al-Khail (2001)	Cultural imperialism and globalization	Forces of globalization, facilitated by the state and local intellectuals, have prominently influenced the formulation of the Saudis' auditing standards.
Indonesia			
Indonesia	Sapiie (1980)	Functionalist perspective	The study described and traced the major events in the history of accounting and the accountancy profession from 1870 to 1980. However, it did not problematize the emergence and development of the profession and/or take into account the issues of power and interests in the development of the profession.
Indonesia and Singapore	Foo (1988)	Functionalist	The study described and traced major events in the history of accounting and the accountancy profession (1954 to 1988). Like Sapiie (1980), it also did not incorporate the wider issues of power relations and interests between states. The study concluded that accounting and the accountancy profession in Indonesia is underdeveloped due to the obsolete commercial code and capital market.
Indonesia	Bachtiar (2001)	Critical sociology of profession	The analysis of the dynamics of the profession (1945 to 1999) has shown that the profession had revealed its true motives over time. The study argues that nationalism was the main motive for the birth of the profession, whereas in later stages the profession seemed more active in protecting and pursuing its economic interests.
Indonesia	Tuannakotta (2007)	Functionalist view on profession	The study described the major events in the development of the profession since colonial time (1870) until 2007. The author focuses on the new changes in regulations on Indonesian accountants, sees them as a raw

Country	Author(s) (Period)	Theoretical framework	Summary of results
			application of the Sarbanes Oxley and calls for the profession to be given the full right of responsible self-regulation.
Indonesia	Kartikahadi (2007)	Functionalist view on profession	The study traced and described changes in relationship between the government and the profession between 1954 and 2007. The author views statutory regulations of the profession as a form of intervention.

Previous studies have revealed that the development of the accountancy profession in ex-colonized countries should be viewed differently from that in the developed countries. In the context of developed countries, the rise of the profession has been linked to accountants' social mobility to gain monopoly over the market for accounting services. On the other hand, studies on the professionalization and development of accounting in ex-colonized countries have incorporated the historical and socio-political context of these countries within the discourse of global expansion of capitalism. These studies have shown that the accountancy profession in these societies did not emerge from within. Instead, it was introduced as part of economic expansion by the imperialist power and, as such, the theoretical tradition of the global capitalist expansion provides a more powerful explanation of the contemporary dynamics of the accountancy profession across both the colonizer and colonized countries. However, the working and impacts of global expansion of capitalism on the profession in the context of ex-colonized/weaker countries would be different from that in the context of the developed/strong countries.

While prior studies have provided considerable evidence on the development of the accountancy profession in different countries, they also provided encouragement for further research. First, there is a call for continuous research in understanding the

operations of accounting in different time and space contexts (e.g. Walker and Shackleton, 1998) by exploring and investigating the development of the profession in different country settings across various periods. While previous studies have provided good evidence that global expansion of capitalism has been the main force in driving the dynamic of the accountancy profession in the ex-colonized world, how the global forces work in different societies would be best understood by taking into account the socio-political, economic and historical specificity of given societies (Bakre, 2001). Such a call is still relevant today given the fact that much of the previous work was conducted in the context of ex-colonized countries with direct links with the UK or the USA. On the other hand, works in the context of former colonies of other colonial or imperialistic powers such as the Netherlands, France and Spain have been rather limited. Secondly, previous studies put greater emphasis on the internal dialectic contradictions of capitalism as the source of change in the accountancy profession in ex-colonized countries. On the other hand, recent literature on the relationship between globalization and the ex-colonized countries has introduced methodologies that appreciate the role of rivalling structures as the possible external sources of the dialectic progress of global expansion of capitalism (see e.g. Hoogvelt, 2001). Indonesia may offer a different historical and contemporary socio-political context that potentially provides the basis for alternative social structures to Western capitalism, which in turn shaped the development of the profession. There have been limited studies that offer a theoretical and methodological framework that recognizes such specificities and how they might have shaped the trajectory of the development of the accountancy profession in the ex-colonized countries, especially Indonesia. Thirdly, previous research has generally focused on a particular episode or story in the history of the accountancy profession.

It would be intriguing to explore how the global forces of capitalism have worked in shaping and influencing the profession to suit the need of the capitalist global order throughout the different and changing modes of relationship between strong and weak nation-states across different periods. The work of Ali *et al.* (2006) was one such study, exploring the macro-development of auditing in Malaysia over a period of 60 years. However, the study did not explore the issue and effects of globalization and the 1997 Asian financial crisis on the profession (Haniffa, 2006 p. 678).

In the context of Indonesia, further research is needed to help tell a more comprehensive story of development of the Indonesian accountancy profession for the following reasons. First, the majority of the previous works on the history of the Indonesian accountancy profession (Foo, 1988; Kartikahadi, 2007; Sapiie, 1980; Tuanakotta, 2007) were founded on the functionalist perspective of the profession and regarded the emergence and development of the accountancy profession in Indonesia as being purely due to the needs of a growing society (e.g. Sapiie, 1980). They failed to consider the historical and socio-political specificities of Indonesia. Bachtiar (2001) attempted to adopt an alternative perspective by attributing the historical development of the profession, especially the formation of IAI, as motivated by the accountants' nationalist ideology. The proposition, however, failed to explain why the country resorted to altering its accounting orientation from the Dutch to the US (see e.g. Hadibroto, 1990). In effect, most of the above studies partially or completely ignored the wider social, political, and economic context surrounding the major events that marked the development of the profession. Furthermore, most of those studies do not provide a comprehensive account of the development of the profession following the 1997 Asian financial crisis except for Tuanakotta (2007) and

Kartikahadi (2007). However, both studies took the practitioners' perspective in viewing the dynamics of the profession and generally viewed the government's initiatives as an intervention to the development of an independent profession (see e.g. Tuanakotta, 2007 p.399-401).

This study aims to address the various gaps in the literature, using Indonesia as a case study. The objective of this study is to examine the historical development of the Indonesian accountancy profession during its 50-year history from 1954 to 2008. In particular, the study seeks to:

(a) understand how the accountancy profession emerged in Indonesia as well as how and why it has achieved its current state; and

(b) investigate how and to what extent the 1997 Asian financial crisis affected the profession.

To facilitate analysis, the long history of the profession is divided into three periods. The first period is between the early 1950s and 1966; the second period is between 1967 and 1996; and the final period is between 1997 until the present time. In order to achieve its objective, there is a need to develop a theoretical and methodological framework that could help make sense of the dynamics of the profession within the changes in Indonesia's socio-political and economic constellation for the period in question. First, such a framework should consider Indonesia's position within the international political economic relations. As indicated in previous studies, the end of formal colonialism did not mean total freedom for ex-colonies countries, including Indonesia. The power structure that exists between states in the international arena exerts considerable pressures on newly independent states (such as Indonesia) in terms of political and economic choices, even decades after their formal

independence. The pressure of how to manage the country's economy is of particular importance to this study as such choices will in turn have considerable effects on the development of the accountancy profession. Secondly, the framework should also recognize and appreciate the possibility of the existence of social structure in Indonesia that may compromise or otherwise catalyse the working of the aforementioned global pressure. In short, this study attempts to provide support for the previous studies which assert that the emergence and development of the accountancy profession in Indonesia is a consequence of the pressures from and changes of the global capitalist relation between states. However, how and to what extent such pressures operate in shaping the history of the profession may also be influenced by other alternative structures existing at the global level and/or emanating from the specificities of the Indonesian society.

2. 5. Summary and conclusion

This chapter has provided a review of the prior literature on the emergence and development of the accountancy profession across different countries. This branch of accounting research attempts to understand the history and functioning of the accountancy profession within modern society. Over recent decades, it is evident that this field of study has witnessed the rise of a more critical approach in understanding the history of the accountancy profession. Under this approach, the rise, development and position of the accountancy profession is understood in the context of wider economic and socio-political factors. The professionalization process (i.e. the process by which accountants attempted to gain professional status) has been seen as an outcome of the accountants' strategy to gain exclusive control over the market for accounting services. This approach also stresses the importance of structural

relationships between the profession and other members of the society, particularly the state, in understanding the function and position of the accountancy profession within modern society.

It has been argued that the reasons for and trajectories of the development of the accountancy profession in the ex-colonized world are different from those in the countries from which they originated. Nevertheless, the critical approach has influenced similar studies that attempted to examine the professionalization and dynamics of the accountancy profession across different countries within the ex-colonized world. Insights from the Marxist tradition as a critique of the global expansion of capitalism have become one of the strongest theoretical frameworks in understanding the historical development of the accountancy profession in those countries. The theory links the rise of the accountancy profession in these countries to the expansion of Western accountancy, embedded in the imperialism and globalization as the process of global expansion of capitalism. In these countries, the emergence of the accountancy profession has largely been related to the transition of global economic domination modes from formal imperialism to informal imperialism (Annisette, 1999, 2000). Most of these studies have therefore reported the closeness or 'continuation' of the model and pattern of professional arrangement between the colonized and the colonizer (Annisette, 1999). Recent studies have also revealed that the birth and subsequent development of the profession in these countries are far more complex involving various internal socio-political factors within the ex-colonized societies. These factors may serve as either mediating or accommodating factors in response to the pressures of the globalization of the accountancy profession.

Given the rather limited studies in the context of former colonies of non-British/American colonies, the history of the Indonesian accountancy profession may be an interesting case as there are questions that need answers. For example, how and why has the US accounting model had pervasive influence on the country's accountancy profession despite the fact that Indonesia is a former Dutch colony? This condition amplifies the call from recent studies that highlighted the need to pay attention to the internal conditions as factors that may accelerate, compromise, or even hinder the force of globalization to fully shape the development of the accountancy profession in a given ex-colony society. Indeed, the methodological framework proposed in this study, which will be elaborated in the next chapter, takes into account both external and internal factors in understanding the history of the Indonesian accountancy profession over its 50 years of existence.

Chapter 3

Theoretical and Methodological Framework

3. 1. Introduction

The literature review presented in the last chapter shows accounting research to be influenced by "theoretical, methodological, and even philosophical choices" (Ryan *et al.*, 2002 p.7). The division of "researchers into the political and philosophical camps brings world views into sharp conflict and is tied to the paradoxes of our uncertain social and value systems" (Ryan *et al.*, 2002 p.1). The literature review further suggests that the theoretical explanations of the emergence and development of accounting as a profession vary across different national settings. It also shows an increasing attention to the global expansion of capitalism as a possible explanation of the emergence and development of the accountancy profession in developing and ex-colony countries. This chapter is dedicated to describing the research methodology used in addressing the research question in this thesis and will justify the choice of methodological positions adopted in this study.

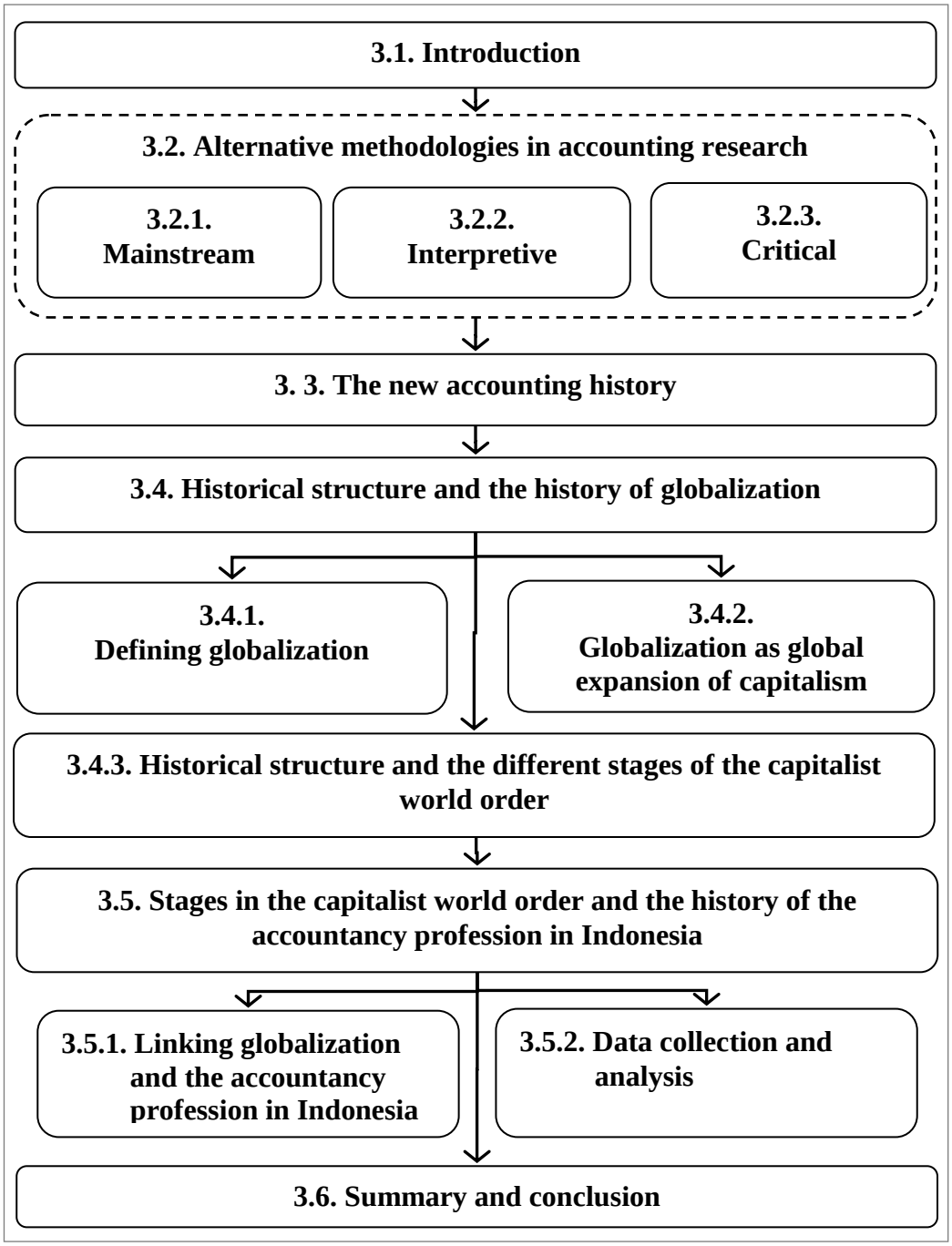
The chapter is arranged as follows. The next section reviews the alternative methodologies in accounting research that are particularly relevant to examining the history of the accountancy profession. It is argued that the functionalist, interactionist and critical perspectives on the accountancy profession are products of different epistemological and methodological assumptions[9], and the section concludes with an

[9] Differences in viewing the nature of the accountancy profession are shown as the result of fundamental differences in assumptions about what is considered as knowledge and how to achieve such knowledge.

observation that the literature on the accountancy profession in recent years has paid significant attention to both critical and interpretive approaches. Section 3.3 further argues how the various approaches influenced the methodology in researching the history of the accountancy profession and concludes that there is a need to frame history with a particular theoretical lens. Section 3.4 elaborates on globalization theory as the process of global expansion of capitalism, and the concept of historical structure, to map the history of the accountancy profession in Indonesia in the last five decades. Section 3.4.1 starts by presenting the competing conceptions of globalization, followed by an explanation as to how globalization is perceived as a process of the expansion of capitalism in the world economic order. Section 3.4.3 describes how the concept of historical structure, which views each stage in the history of capitalist expansion as having its own set of material, institutional and ideological structures, may be applied in viewing the different stages in the history of the expansion of capitalism. Section 3.4.4 elaborates the periodization in the history of the capitalist world order in which different economic relationships between developed and less-developed countries thrived using Robert Cox's[10] concept of "historical structure". Section 3.5 links the stages of capitalist expansion as a possible way to understand the different developmental processes of the accountancy profession in Indonesia. The chapter ends with a summary and conclusion. The following diagram summarizes the structure of this chapter.

[10] Robert Cox (1926 - present) is a Canadian scholar in International Relations and International Political Economy (IPE). He is known as one of the pioneer scholars who adopted critical theory into the field of International Relations. He is also regarded as the founder of modern-day IPE (quoted in Schechter, 2002 p.2).

Figure 3-1: The structure of Chapter 3



3. 2. Alternative methodologies in research on the accountancy profession

Accounting is an interdisciplinary discipline in the sense that it "draws its theory and methodology from other disciplines" (Roslender and Dillard, 2003). As such, it includes positivism as well as post-positivist approaches that include, among others,

social constructionism, interactionism, political economy, radical humanism, interpretivism and critical theory (Chua, 1986; Roslender and Dillard, 2003). Nevertheless, the term "interdisciplinary" usually refers to the work of accounting researchers that adopt their theoretical lens from disciplines other than economics, such as history, philosophy and political sciences (Roslender and Dillard, 2003 p.327). There is a close link between theory and methodological choices in accounting research (Laughlin, 1995). The extant accounting literature over the last few decades has shown different and often conflicting choices of theories, methodologies, and research traditions. Each research tradition has its own assumptions about the nature of truth and knowledge, reality or the empirical world, and the relationship between theory and practice (Chua, 1986; Ryan *et al.*, 2002). Research on the development of the accountancy profession is no exception. Different epistemological and methodological assumptions gave birth to different explanations of the nature and position of the accountancy profession offered by the functionalist, interactionist and critical perspectives. The next section will describe differences in each perspective.

3. 2. 1. Mainstream accounting research

As described in Chapter 2, the earliest attempt at understanding the development of the accountancy profession includes the functional and trait theories of profession. The functionalists view accounting as an inevitable necessity for society. Public legitimacy is therefore essential for the accountancy profession (e.g. Lee, 1994). One way of creating this is through intellectual work that produces accounting and auditing knowledge (Gendron and Bedard, 2001), as they are the very foundation of the professional claims of accounting and auditing (Hines, 1989). Research based on

the functionalist perspective may offer such legitimacy. This is done by either presenting the work that may induce the perception of the scientifically logical character of auditing work, or not presenting the weaknesses of the auditing process (Gendron and Bedard, 2001 p.345). Accounting or auditing failure is not necessarily viewed as the failure of the profession (see e.g. DeFond and Francis, 2005). In other words, research based on the functionalist perspectives would arguably be aimed at finding ways of enhancing accounting and auditing practices and, thus, enhancing the legitimacy of the accountancy profession in society.

These early works on the profession were thus part of the larger agenda in accounting research which built upon various theories and concepts from the field of economics, especially those of neoclassical economics (Roslender and Dillard, 2003). This 'economics wing' of accounting research is often regarded as the mainstream paradigm in accounting research (Chua, 1986; Laughlin, 1995; Roslender and Dillard, 2003). Its 'scientific' methodology is perhaps the most celebrated characteristic of mainstream accounting research as it is based on the ontological belief that there is "a world of objective reality" that "exists independently of human beings" and has a knowable determinate nature or essence (Chua, 1986 p. 606). In other words, it separates accounting researchers from their 'object' of research. Individuals are often analyzed as entities that may be "passively described in objective ways" (Chua, 1986 p.606; Henderson *et al.*, 1992 p.363). In capital-market-based accounting research, for example, the human (investor) is often described as an information processor who has a certain attitude towards risk (risk adverse, bearer, or neutral). Secondly, mainstream accounting research adopts hypothetical deductivism as the means for achieving knowledge (Chua, 1986 p.607). Consequently, quantitative statistical

techniques have been the primary research methods used to test or provide 'scientific explanation'. Thirdly, mainstream accounting researchers believe that human behaviour (individually or collectively) is purposive and, thus, social order is (implicitly) assumed to be controllable (Chua, 1986 p.608-609). Conflict is always seen as a dysfunctional, yet manageable, disturbance to the social order at any level. Accounting research then aims to find the procedures or solutions to correct the dysfunctions. Table 3-1 summarizes the underlying assumptions of mainstream accounting research.

Table 3-1: Philosophical assumptions of mainstream accounting research

Beliefs about knowledge: Theory and observation are independent of each other. Quantitative methods of data collection are favoured to provide a basis for generalizations.
Beliefs about physical & social reality: ▪ Empirical reality is objective and external to the subject (and the researcher). ▪ Human actors are essentially passive objects who rationally pursue their assumed goals. ▪ Society and organizations are basically stable and dysfunctional behaviour can be managed through the design of control systems.
Relationship between accounting theory & practice: Accounting is concerned with means, not ends – it is value neutral and existing institutional structures are taken for granted.

Adapted from Chua (1986) and Ryan et al. (2002)

The most profound advantage of this approach is that it provides clear and structured procedures. It also emphasizes rigorous research processes. These characteristics offer a high level of objectivity and are open to public scrutiny regarding validity. However, there are also major limitations attached to this tradition. First, it does not encourage researchers to question the role of accounting in the wider socio-political context. It tends to see accounting merely in its technical sense by assuming that the

environment in which accounting operates is in its best order and, thus, does not necessitate evaluation and change (Chua, 1986 p.610). Secondly, translating social phenomena such as human purpose, attitude, and behaviour into reality and sets of models has never been simple. They also require many qualifying assumptions before they can be derived as theoretical constructs. Finally, the explanations and models offered by this stream of research are also fallible propositions that are theory-dependent and thus cannot be used to test competing theories (Chua, 1986 p.612; Ryan et. al. 2002, p.23).

Useful and generalizable knowledge that can explain, control, and predict empirical phenomena is perhaps an ideal goal of any research. Mainstream accounting research, as Chua (1986) argued, has contributed to this effort by insisting on certain standards of validity and objectivity in conducting such research. Accountancy, nonetheless, is not a mere technical phenomenon. Its implementation may shape and be shaped by humans, autonomous agents capable of changing their purpose, attitude, and behaviour. Mainstream accounting research, unfortunately, tends to ignore the basic question of whether accounting is actually implemented as it is intended: as a value-free technology. This is where alternative research philosophies, most notably the interpretive and the critical approach, make their way into the accounting literature.

3. 2. 2. Interpretive accounting research

Interpretive accounting research is built upon the notion that social structure is produced (and reproduced) from the interchange of meanings between individuals. Social reality is then the product of continuous social interactions. It is constructed rather than discovered (Ryan *et al.*, 2002, p.15). Therefore, interpretive researchers

emphasize the importance of understanding an individual's behaviour and how others interpret her/his behaviour, as well as how he/she interprets others'. Observation is encouraged as the main research technique to obtain the objects' opinions, beliefs or behaviours. Interpretive researchers also believe that it is necessary to confirm the researcher's analysis or interpretation of the data with the object in order to get the consensus explanation of the event being studied. Finally, interpretive research usually does not aim at generalization; hence, it has no practical or technical implications. Instead, it attempts to "enrich people's understanding of the meanings of their actions, thus increasing the possibility of mutual communication and influence" (Chua, 1986 p.615). Table 3-2 summarizes the underlying philosophical assumptions of interpretive accounting research.

Table 3-2: Philosophical assumptions of interpretive accounting research

Beliefs about knowledge: Theory is used to provide explanations of human actions. Its adequacy is evaluated via logical consistency, subjective interpretation and agreement with the actor's common-sense interpretation.
Beliefs about physical & social reality: ▪ Reality is socially constructed and objectified through human interactions. ▪ Human action is intentional and has meaning grounded in the social and historical context. ▪ Social order is assumed and conflict is mediated through social meanings.
Relationship between accounting theory & practice: Accounting theory seeks to explain action and to understand how social order is produced and reproduced.

Adapted from Chua (1986) and Ryan et al. (2002)

While mainstream accounting research takes for granted what accounting should do, interpretive accounting research has enriched the understanding of what function accounting actually performs in its contextual environment. This research tradition is

however not without limitations. First, as analysis and interpretation have to be in consensus between the researcher and the actors, there are difficulties in settling major differences and choosing competing theories for explanation purposes (Chua 1986). In addition, from the perspectives of those who believe that knowledge must promote social change, interpretive accounting research lacks the evaluation dimension. It also tends to emphasize more investigation of the micro level of social life and neglect the conflict at higher levels of social interaction, such as clashes between different members of society. Recent development in the field has witnessed the emergence of critical accounting research.

3. 2. 3. Critical accounting research

Over the last two decades, there has been increasing interest in accounting research and its relation to the societal environment. Such works often offer a critique of the function of accounting in society and are based on the spirit of critical social theory which forms the tradition of critical accounting research. While mainstream accounting research claims to be value neutral, and interpretive research admits the value bias of both researchers and the researched, critical accounting research admits its ideological nature. This tradition is based on the belief that both individuals and societies have historical potentialities that are not fulfilled and are restricted by external dominating systems (Chua, 1986 p.619). There is also an underlying belief about the totality of the relationship between a society and its elements (individuals, groups, and organizations). According to this belief, accountants and auditors exist in society within the context of their occupational groups. Accountants and auditors are also subject to external societal powers such as the users of their services, their fellow accountants, the regulators of their services and so on. As such, critical accounting

research emphasizes the importance of historical examinations as part of its core methodology. Quantitative methods are usually used at the minimum level since generalization is not the primary objective. Table 3-3 summarizes the underlying philosophical assumptions of the critical tradition.

Table 3-3: Philosophical assumptions of critical accounting research

Beliefs about knowledge: Criteria for judging theories are always temporal and context bound. Social objects can only be understood through a study of their historical development and change within the totality of relations.
Beliefs about physical & social reality: ▪ Empirical reality is characterized by objective, real relations, but is transformed and reproduced through subjective interpretation. ▪ Human intention and rationality are accepted but have to be critically analyzed because human potential is alienated through false consciousness and ideology. ▪ Fundamental conflict is endemic in society because of social injustice.
Relationship between accounting theory & practice: Theory has a critical imperative; in particular, the identification and removal of domination and ideological practice.

Adapted from Chua (1986) and Ryan et al. (2002)

The merits of critical accounting research are then obvious, given the history of its development. First and foremost, it treats accounting beyond its technical aspects. It opens a new and rich interpretation of accounting works in the real world and within different social and political settings. It also accommodates various perspectives that received scarce attention from mainstream accounting research.

Having discussed the more fundamental differences in the methodology of accounting research, the following section discusses specifically the influence of the critical perspective of accounting methodologies on research related to the history of the accountancy profession. While the functionalist and the interpretive methodologies

have their own merits, critical accounting research may perhaps be the most suitable approach to examine the history of the accountancy profession in Indonesia over the past 50 years. As explained above, and in Chapter 2, the approach has the potential to give a more realistic account of such history as it does not isolate the development of the accountancy profession from the wider economic and socio-political factors.

3. 3. The new accounting history

The rise of critical and interpretive approaches is important to this study, which is concerned with the historical development of the accountancy profession in Indonesia. Together with the interpretive approach, critical accounting research has contributed significantly to the way we understand accounting by introducing the importance of embedding the influence of social and environmental factors into the analysis. They enlivened the field by opening so many possibilities for new ways of seeing accounting as both a technology and human activity. Both approaches have enabled:

> ".. a proliferation of methodologies, a questioning of received notions such as progress and evolution, a widening of scope, a new attentiveness to the language and rationales that give significance to accounting practices, and a shift of focus away from invariant characters such as the book keeper and the decision maker towards a concern with broad transformations in accounting knowledge. New ways of posing questions about the past of accounting have become possible as a result. Taken together, these interrelated shifts are of such an order as to entitle us to speak of "the new accounting history" (Miller *et al.*, 1991, p.395).

What is implicit in the above quote is that the term 'new accounting history' is an open research paradigm that embraces various alternatives to the conventional accounting history. It does not signify a certain research agenda with a "definitive theoretical framework", instead it is "a loose assemblage of often quite disparate research questions and issues" (Miller *et al.*, 1991 p. 396). In addition, this research

paradigm attempts to provide an alternative history to the mainstream-functionalist view on the history of accounting. Such a conclusion is apparent in how it hosts various theories and methodologies that view accounting history as anything but linear. These theories and methodologies problematize the history of accounting by bringing back its human and social aspects. As Miller et al. (1991) continues to argue:

> "Rather than viewing the history of accounting as a natural evolution of administrative technologies, it is coming increasingly to be viewed as the formation of one complex of rationalities and modes of intervention among many, a complex that has itself been formed out of diverse material and in relation to a heterogeneous range of issues and events. Attention has been directed to a variety of agents and agencies, ranging from the accounting profession through the diverse bodies of experts claiming a legitimate knowledge of this and that area of economic or social life" (p. 396).

In relation to the history of the development of the accountancy profession, 'new accounting history' has brought a wave of reinterpretation both in the context of ex-colony countries and developed countries. Unlike conventional historical research, one of the significant features of historical research under the critical perspective tradition is that it uses theory as the framework for interpreting and understanding historical events. As a result, theories from the fields of social science such as political science, international political economy, sociology and so forth were introduced to tell the history of the accountancy profession across countries. These theories were utilized to capture the influence of various social forces that may have shaped the development of the profession. The ultimate expectation is that they can help provide a richer and more realistic picture of how accounting has come to be what it is today.

Chapter 2 has shown that a particular set of theoretical traditions has gained increasing popularity as the lens used in framing and interpreting the historical events

surrounding the emergence and development of the accountancy profession in the context of the ex-colonized world. These studies attributed the development of the accountancy profession in these countries to the processes of social, political and economic interconnectedness of the world during the colonial and postcolonial era. Hence, they fall into the tradition of globalization theory, despite different labels such as 'imperialism of influence' (Annisette, 1999, 2000; Annisette and Neu, 2004) or 'cultural imperialism' (Bakre, 2001, 2005, 2006; Dyball *et al.*, 2006; Dyball *et al.*, 2007) being used. These studies have provided more nuanced stories of the dynamics of the accountancy profession. Those theoretical frameworks have enabled the incorporation of the social and political complexity of developing and ex-colony societies, which is not present in the developed world. Hence, the tradition of globalization theory, interpreted as the process of the global expansion of capitalism, may provide substantial insights into the development of the Indonesian accountancy profession during its 50-year history. As reviewed in Chapter 2, previous research on the topic in the Indonesian context has neither considered such an approach nor covered the entire period considered in this study. The next section discusses the theoretical framework that may capture not only the influence of global expansion of capitalism but also the existing social structures that have shaped the process.

3. 4. Historical structure and the history of globalization

Globalization is a term encompassing various meanings of great diversity. Since the terminology has been the focal point of various disciplines, its meaning is thus dependent upon the viewpoint of the discipline in question. It is therefore necessary to start the discussion by establishing which conception of globalization the study adopts.

3. 4. 1. Defining globalization

The term globalization refers to the phenomenon of the increasing global interconnectedness of people and places in which exchanges of materials and ideas are no longer restricted by time and distance. As a social process, it has been regarded as denoting a social, cultural and political, as well as an economic, phenomenon. Hence, defining globalization is not a straightforward task as it can be interpreted in numerous ways. Scholte (2000) sums up the complication:

> "Regarding definition, for example, some people equate 'global' relations with 'international' relations, while others emphasize the difference between the two notions. In respect of scale, some analysts see globalization as pervasive and overriding fact of contemporary society, while others dismiss globalization as a fantasy. Concerning chronology, some say that globalization is a recent development, while others date its beginning far back in history. On the questions of social change, some assessments affirm that globalization is transforming our lives, while others assert that old social structures persist intact. In normative terms, some evaluations champion globalization, while others denounce its consequence. With regards to policy, people have promoted competing neoliberal, reformist and radical courses of actions" (p.2).

In other words, the definition of globalization depends on the discipline and the approaches used by the person studying the phenomenon. There are, however, four main approaches to globalization (e.g. Sklair, 1999): the world-system, global culture, global society and global capitalism perspectives.

The *world-system* approach to globalization is largely attributed to the work of Immanuel Wallerstein[11]. This theoretical tradition looks at globalization as a system in which nation-states across the globe are connected to each other. Under this model, states are categorized as core, semi-periphery and periphery based on the roles that

[11] Immanuel Wallerstein is an American sociologist at Yale University whose book, titled "The Modern World-system" (first published in 1974), is considered as having founded the world-system theoretical tradition as a critique of global capitalism.

each of those countries performs in the context of the capitalist world system. Core countries are the focal point of the world capitalist system in that they receive most of the world's wealth. These countries are usually the fully industrialized countries that have strong nation-state institutions, and great military and political forces. Most commentators would include countries like the US, the UK, Germany, and Japan as core countries. Semi-periphery countries are countries that have achieved some degree of industrialization but still lack power and economic dominance, as well as still suffering from inequality and poverty (e.g. China and Russia). Finally, periphery countries refer to those that are not only the least wealthy and developed but also institutionally weak and, hence, are dependent on or perhaps exploited by the core and the semi-periphery nations. In other words, the world system model regards globalization as inter-nation connectedness under the capitalistic mode of production operating on a global scale.

The second conceptualization of globalization springs from the tradition of cultural studies. Its basic view is that globalization is a worldwide process of the emergence of a *global culture*. From this perspective, globalization is seen as the process of homogenization of identities of people across culture and nations. In this process, mass media play a very important role as they are vehicles in which images of identities are transferred between people. With the invention of recent technologies (such as television, internet and mobile phone), the process accelerated as, through such mediums, cultural identities can reach across vast distances and across boundaries in virtually no time. In other words, the extensive reach of mass media has enabled people across the globe to be contemporaneously exposed to the same images of identity. Based on this perspective, discussions revolve around issues such as

whether there will be a single *global culture* or what will happen when different people and their cultural identities meet and interact with each other.

In a similar tone, the third theoretical model of globalization argues that globalization is the creation of a *global society*. The model was based on the belief that the combined processes of integration in economics, technology, socio-cultural issues and politics on a global scale is leading to the increasing awareness or consciousness of 'world oneness'. In this process, the difficulty in communicating and exchanging ideas and systems of belief caused by time and distance is reduced. The space-time compression has been an enormous catalyst in shaping social interactions amongst people across different territories. The advancement of communication technology, in particular, has accelerated the process and virtually influenced every aspect of human life, be it politics, economics or culture. The result is an unprecedented world order based on the supra-territorial relationship between people (Scholte, 2000).

The final conception of globalization regards it as the process of establishing *global capitalism*. However, unlike the *world system* approach, this approach does not emphasize the relation between states but instead views globalization as a process of consolidation of capitalistic class structure on a global scale that transcends borders. For instance, Sklair (1995) argues that the *global capitalism* expansion takes place in three major spheres: economic, political and cultural-ideological (Sklair, 1995). Each of these spheres has its own key institutions: transnational corporations for the economic, the transnational capitalistic class for the political, and the cultural-ideology of consumerism for the cultural-ideological sphere. The three spheres are complementing elements that support the working of the capitalistic mode of

production on a global scale. Table 3-4 summarizes the three spheres of global capitalism.

Table 3-4: The process of global capitalism

TRANSNATIONAL PRACTICES	LEADING INSTITUTIONS	INTEGRATING AGENTS
Economic sphere	***Economic forces***	
Transnational capital	Global TNCs	Global Business Elite
International capital	World Bank, IMF, BIS State TNCs	
State capital		
Political sphere	***Political forces***	
TNC executives	Global business organization	Global Political Elite
Globalizing bureaucrats, politicians and professionals	Open-door agencies, WTO, Parties and lobbies	
Regional blocs	EU, NAFTA, ASEAN	
Emerging transnational states	UN, NGOs	
Cultural-ideology sphere	***Cultural-ideology forces***	
Consumerism	Shops, media	Global Cultural Elite
Transnational neo-liberalism	Think tanks, elite social movements	

Source: Sklair (1995)

The above descriptions shows that globalization is a process of transformation that transcends space and time borders (Scholte, 1997) and affects every aspect of human life, be it economic, political, or socio-cultural. The concepts of globalization as the process of integration of the world economy under the capitalistic mode of production (whether interpreted as the inter-states order under the *world system* theory or as the process of formation of global capitalist class under the *global capitalism* theory) is of particular importance to this study. Since previous studies have shown that modern

accountancy is an ideological product of capitalism, the spread of accountancy as both a practice and a profession has been an integral part and consequence of globalization. Consequently, the analysis of the relationship between countries within the capitalist world order is an important step in understanding the historical development of the accountancy profession in ex-colony countries. Such analysis is important in understanding how globalization affects the politico-economic conditions of those countries, which in turn served as the structural framework within which the accountancy profession developed. The next section further elaborates on the concept of globalization as global expansion of capitalism.

3. 4. 2. Globalization as global expansion of capitalism

As the previous section indicates, consideration of globalization in its economic sense requires discussion of the expansion of capitalism as the prevailing global system of political economy (Hoogvelt, 2001). A political economy or a mode of production is a system by which a particular society produces, accumulates and distributes wealth. In this regard, capitalism is a system of political economy in which society comprises two major groups: owners of productive capital (money and land) and owners of productive skill (labourers). In a capitalistic system, owners of capital are central to the production and distribution of wealth and they are the primary decision makers regarding the type, amount and timing of production of commodities. The labourers, on the other hand, have to sell their productive skill to the capitalist. The profit from the sale of the commodities generates wealth, all of which goes to the owners of capital. The wealth accumulation cycle takes place when the owner of capital reinvests the profit to produce even more profit.

The endless pursuit of profit maximization is an important explanation of why capitalism is not a system of nation-states but a world system (Wallerstein, 1989) with a globalizing attribute (Amin, 2001). Capitalism "involves outward expansion, gradually encompassing ever-larger areas of the globe in a network of material exchanges" (Hoogvelt, 2001 p. 14). The source of this ever-expanding nature of capitalism is the contradiction inherent in capitalists' pursue of ever-bigger profits. Immanuel Wallerstein (1989) summarizes two fundamental contradictions of capitalism as a world system. First, there is contradiction between short-term and long-term profit maximization:

> "... whereas in the short run the maximization of profit requires maximizing the withdrawal of surplus from immediate consumption of the majority, in the long run the continued production of the surplus requires a mass demand which can only be created by redistributing the surplus withdrawn" (p.35).

The concerns related to very short-term profit maximization and long-term profit sustainability are in opposite directions and would eventually lead to crisis. Wallerstein (1989) continues to point out that the second fundamental contradiction of capitalism is competition, the capitalist mechanism of selection:

> "... whenever the tenants of privilege seek to coopt an oppositional movement by including them in a minor share of the privilege, they may no doubt eliminate opponents in the short run; but they also up the ante for the next oppositional movement created in the next crisis of the world economy. Thus the cost of 'cooption' rises ever higher and the advantages of cooption seem ever less worthwhile" (p.35).

In the end, the two main driving forces of capitalism (i.e. profit maximization and free competition) become the main source of change of capitalist expansion. They create recurring crises to which capitalism has to adjust. Every time a crisis is over, a new stable capitalist order emerges with its own contradictions, which would then lead to another crisis. Throughout time, this cycle creates different capitalist orders.

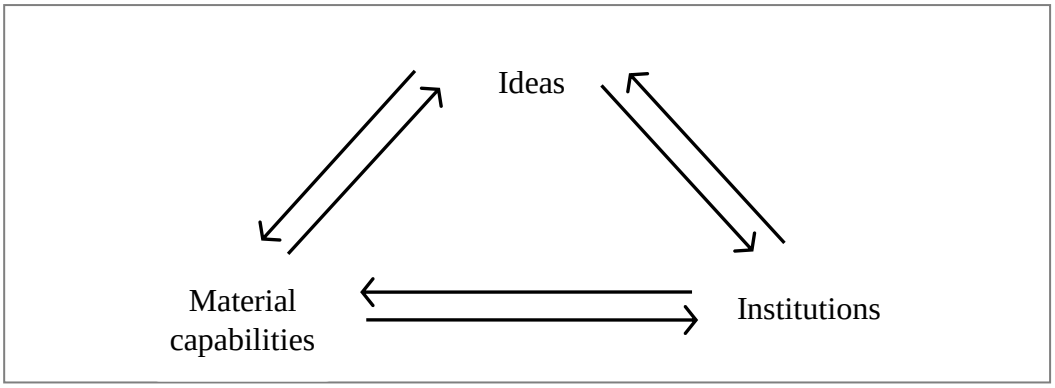
At the global level, each of these orders denotes a particular stage in the history of capitalist expansion, which in turn, dictates the relationship between nation-states.

In other words, the inherent contradiction of capitalism constitutes the expanding nature of capitalism. This nature is traceable to its early birth in 16th-century western Europe (Hoogvelt, 2001). The world system theory explains how capitalism works at the global level and, more specifically, it analyses global capitalism at work through power relations between states. The theory starts by explaining the power structure amongst different states as encapsulated in two different groups of countries: core and periphery countries. The core countries are at the centre of the capitalist world system and they have undergone social evolution that enabled them to successfully implement a capitalistic mode of production. The principle of free competition, inherent within the capitalist system, means that a producer would have to find better ways of production. This is necessary, not only to win the competition but, more importantly, to get the maximum profit possible. This characteristic of capitalism is inherently expansive in nature. When core countries could no longer sustain expansion within their heartland, the core countries' capitalist class turned their attention to other territories. Such expansion initially took the form of the exploration of new production input, which resulted in the subjugation of other territories by the core countries, i.e. creating the periphery and semi-periphery countries. Over five centuries of historical development, capitalism has taken various modes of expansion encapsulating intricate relationships between rich and poor countries. In the next section, the nature and causes of such modes or stages of capitalist expansion are described in more detail using the concept of historical structure introduced by Robert Cox.

3. 4. 3. Historical structure and the different stages of capitalist world order

The concept of historical structure introduced by Robert Cox enriches our understanding of the historical change of capitalist expansion. Robert Cox (1981) argues that social structures, such as the capitalistic world order, are a result of the interactions of three forces: *material capabilities*, *institutions* and *ideas*. According to Cox, *material capabilities* represent the productive and destructive capabilities in the dynamic form of technological and organizational capabilities and in the accumulated form of natural resources, stock of equipments and wealth. *Ideas* comprise inter-subjective meanings and collective images of social order. Inter-subjective meanings are "shared notions of the nature of social relations which tend to perpetuate habits and expectations of behaviour" (Cox, 1996 p.98). Collective images of social order are perceptions of fundamental social values (such as views on the prevailing power relations, the meaning of justice and public goods, and so forth) which vary across different groups of people (p. 99). Finally, the notion of *institutions* represents a "means of maintaining, stabilising and perpetuating a particular (social) order" (p.99). Figure 3-2 depicts the relationship between the three forces of historical structure.

Figure 3-2: Three underlying forces in a social structure



Source: Cox, 1996 p. 98

The three forces interact with each other and create a particular configuration of forces at a particular time and place. There are no definitive relationships between the three forces as they are related to each other in a fluid and reciprocal relationship. *Institutions* are amalgams of *ideas* and *material power* but they can also equally influence the development of *ideas* and *material capabilities* (Cox, 1996). The three forces are interrelated, exerting pressures and constraints on individuals in their choice of social action. People may resist the pressures or constraints of the prevailing social structure but in doing so, they reinforce their actions with an alternative or rivalling structure (Cox, 1981 p.135). In other words, social structures provide the "framework of action which constitutes the context of habits, pressures, expectations and constraints within which actions take place, but which does not determine actions in any direct, mechanical way" (Hoogvelt, 2001 p.11).

Consequently, history is seen as an open-ended process because there is no deterministic relationship between the three forces constituting a structure. In any given time in history, there exist different structures, be they dominant or recessive structures, and a stable order comprises a hegemonic set of *ideas*, *institutions*, and *material forces* (a "hegemonic structure"). Each historical structure is a limited totality, a representation of "a sphere of human activity in its historically located totality" (Sinclair, 1996 p.11, Cox 1996 p. 100). The interactions between opposing social structures serve as the sources of changes in social order. Such dialectic progress of history should be explained by recognizing the prevailing particular structure and any potential rivalling structures in any given time and place. In other words, understanding historical changes is rather an empiric than a normative question, which should be achieved:

> " ... first, by deriving the definition of a particular structure, not from some abstract model of a social system or a mode of production, but from a study of the historical situation to which it relates; and second, by looking for the emergences of rival structures expressing alternative possibilities of development" (Cox, 1996 p. 100).

Therefore, the historical structure concept is not a predictive set of rules. Rather, it is a heuristic device applicable at three levels of human activities: *social forces, forms of state* and *world order* (Cox, 1996 p. 100). In his analysis, Cox explained the concept of *social forces* as engendered by any particular organization of production. Production is indeed of central importance to Cox as he believes that "production creates material basis for all forms of social existence and the way in which human efforts are combined in productive processes affect all other aspects of social life, including the polity" (Cox, 1987 p.1). However, Cox's idea of production was not limited to the process of producing physical goods but also covers the creation and re-creation of "knowledge, social relations, morals and institutions that are prerequisites to the production of physical goods" (Cox, 1989 p.39 cited in Bieler and Morton, 2003). Forms of the state are representations of the complexity of states/societies while world order denotes the configurations of power in the world which, in turn, define the problematic of war and peace between states (Cox 1996, p. 101). The three levels of human activities are interrelated but not in a linear fashion. According to Cox (1996, p.100), they are interrelated to each other in that transformations in the prevailing mode of production generates and/or requires new social forces. Changes in the configurations of social forces in turn cause changes in the structure of states. Finally, the generalization of the structure of states alters the problematic of world order. The process, however, also goes the other way around. Global forces influence

individual states through a particular world power configuration whereas the type and power of state in place shape the development of social forces (p.101).

The Coxian approach to international political economy (IPE) has received both praise and criticism (for a review and dialogue between Cox and his commentators see e.g. Berry, 2007; Cox and Schechter, 2002; Schechter, 2002). Criticism towards Cox's works ranges from epistemological weaknesses of his approach to his political stand of changes. The epistemological criticism rests heavily on the argument that Cox emphasizes too much on the structural analysis and undermining the role of social agents in fostering social changes (see e.g. Rosamond, 2003). Another criticism is that his work focused on the global and not the local (Phillips, 2005). Finally, his approach has also been accused as being too descriptive and lacking details of the agenda for social change (Schechter, 2002). Despite the criticisms, there is little doubt that Robert Cox's thinking offers significant merits. His theorization on the relations between states has earned him the recognition as the founder of the Critical IPE (see e.g. Berry, 2007). The historical structure concept offers an alternative explanation to the story of global expansion of capitalism as it enables the capture of external sources of capitalism's dialectical progress. Not only does it fit well in explaining social changes that span a long period, but it also offers insights to alternative forms of historical, contemporary and future development of the social order. In the context of this study, it offers the analytical tool in recognizing the existence and role of alternative sets of material, ideological and institutional forces in the "structural level of capitalist historical development" (Ross and Trachte, 1990 as cited in Sklair, 1999) i.e. the formation and the demise of each stage in the capitalist expansion.

Over the previous five centuries, the expansion of capitalism has embarked on different structural stages encapsulating different states of capitalism in the core countries and their mode of relationship with the peripheral countries (Hoogvelt, 2001 p. 16). Different authors have introduced different periodizations of the expansion of capitalism. However, authors from the Marxist traditions in general divide such expansion into at least four stages: the mercantilist era (1500s – 1800s); the competitive stage of capitalism (1800s – 1880s); the capitalist imperialism era (1880s – 1968) and the late capitalist imperialism era (1968 – present). As mentioned in the previous section, the Marxist tradition attributed the creation and changes of these stages to the contradictions inherent in capitalism. On the other hand, Ankie Hoogvelt (2001), a scholar in the field of developmental studies in the ex-colony countries, used historical structure to explain the different phases in the relationship between rich and poor countries within the framework of the capitalist world order. Using the historical structure concept, she proposed that one stage in capitalist expansion is a period during which a particular fit of material conditions, institutions and ideology (including any 'theories' of social, economic, or political development) created "a momentary stability in the process of international capital accumulation" (p.13). Globalization moves to a new stage when "structural contradictions engendered by new developments in material production or by rivalling ideologies forced a process of crisis and change" to the previous stage (Hoogvelt, 2001 p.13). Based on this proposition, Hoogvelt (2001), thus, proposed five periods as an alternative periodization: the mercantile mode of expansion (1500 – 1800); the colonialism era (1800 – 1950); the neo-colonialism era (1950 – 1970); and finally the debt peonage era (1970 until present). The following sections discuss each of these periods.

3.4.3.1. The mercantilist era

During the early mercantilist era (the 16th century), capitalist expansion was characterized by the exploration of new geographical areas of the world by traders and merchants of the core countries. These merchants were in search of trading commodities of high value at the time, such as spices, land and labourers. In this era, new areas such as Africa, Latin America, and Asia were 'discovered' by the European merchants and explorers. These merchants often set out with the blessing of the state or empire, hence had coercive capacity, such as imposing rules as well as maintaining security through military power. Such arrangements enabled the growth of the British East India Companies and the Dutch *Vereenigde Oost-Indische Compagnie* or the United East Indian Company. These companies were perhaps the first multinational corporations with enormous size and power (Ames, 2008). All of the trading activities of valuable commodities were conducted using the terms and rules set out by the merchants. People under their rule were forced to produce certain commodities, which would then be bought at the price set by these merchants. Surplus was then created to the maximum level by forcing the production of highly valued commodities and then buying them at the lowest price possible. In effect, during the mercantilist era these merchants transferred wealth from the periphery to the core through "looting and plundering disguised as trade" (Hoogvelt, 2001 p.17).

By the end of the 18th century, the mercantilist mode of wealth extraction could no longer sustain the increasing expansion of European capital. Unjustifiable looting and plundering activities had enabled countries in Europe to extract enormous wealth to finance industrial revolution, which consequently fuelled further the quest for expansion. On the other side of the story, this mode of wealth extraction had left the

peripheral countries underdeveloped and exhausted. In addition, the approach of forceful and draconian actions had also ignited hostility towards the merchants. Over the years, peripheral areas became less 'profitable' as they could no longer provide sufficient surplus to satisfy the new desire for wealth and profit arising from the aforementioned industrial and technological advancement. This was the contradiction created by the capitalist expansion under the mercantilist system at the turn of the 19th century. The mercantilist era enabled Europe to enjoy unprecedented progress in technological and industrial innovation. However, the very same progress also proved difficult for the mercantilism arrangement to sustain. In the words of Hoogvelt:

> ".. Europe embarked decisively on a path of mass industrialization and it was looking for market outlets as well as secure supplies of raw materials and foodstuffs on a scale, and requiring a degree of predictability and regularity, that simply defied the arbitrary looting and plunder of the mercantile arrangement (Hoogvelt, 2001 p.18)."

The change in the mode of relationship between core and peripheral countries was thus inevitable. From the early 19th century, European relationships with the peripheral countries were no longer that of aggressive pillaging and marauding but were replaced by direct control over people and resources though formal occupation and administration. This marked the beginning of the colonial era in which core countries such as Britain, France, and the Netherlands expanded their power over wide territories, capturing around two-thirds of the globe (see Magdoff, 1978).

3.4.3.2. The colonization era

Initially, the link between capitalism and colonialism was theorized as direct and causative. Formal occupation and direct control was deemed necessary to accommodate capitalist finance and market expansion due to the inability of the core countries' domestic markets to absorb their own production as well as excess capital.

In other words, new geographical areas were designed to open new markets for Europe's manufacturing products as well as for channelling excess savings from the core countries (see e.g. Hobson, 1902). Hence, the 19th century witnessed the most enormous financial flows across countries in history, as well as vast development in infrastructures such as railways and roads in the colonized territories. Imperialism and colonialism were inevitable as the core countries had reached the stage of 'monopolistic capitalism' by the end of the 19th century (Hoogvelt, 2001 p.23). Once the domestic market had been controlled, new markets were needed but they could not be found in neighbouring European countries as they were just as powerful and had similar national aspirations. As such, new markets could only be created by conquering other geographical areas. The need for formal and direct control could also be seen from the perspective of production process stability. Since a sustainable supply of raw materials is crucial, the new core-periphery relationship could not rely on just a 'take-and-go' approach as did the mercantilist methods. It needed to have a more effective means of surplus creation and wealth extraction, and colonialism gave exactly this stability. In other words, capitalism encouraged colonialism, to say the very least.

On the other hand, there have been stronger arguments that do not identify capitalism as the primary cause of imperialism and colonialism. Political factors, especially European nationalism and internal political rhetoric, have been tipped as the more defining factor (Hoogvelt, 2001). Imperialism and colonialism were needed as they were the only way to achieve the required sustainable national, social and economic development. Economically, opening and annexing new areas was vital as it gave these countries a share in world trade. This drive had been exacerbated by political

rivalry amongst European nations during the 19th century. Politically, controlling certain areas gave strategic advantages amidst the race of power and influence pertaining during the early 20th century. As Cecil Rhodes, a prominent proponent of colonialism, famously declared:

> "We must find new lands from which we can easily obtain raw materials and at the same time exploit the cheap slave labour that is available from the natives of the colonies. The colonies would also provide a dumping ground for the surplus goods produced in our factories" (quoted in Buckman, 2004 p.7).

Therefore, the development of the colonized areas by the colonizers was triggered by the need to enable the colonies to perform their role as integrated parts of the empires and by the recognition of the critical importance of embedding the periphery into their advanced civilization. In other words, the combination of international politics amongst strong countries and the underdevelopment of the periphery served as a stronger motivation for direct control and occupation than the expansion of capital. It was necessary to build these periphery areas to get the best out of the colonized territories through modernization and introduction of advanced infrastructure and institutions (Hoogvelt, 2001). Unsurprisingly, an important characteristic during colonial times was the dissemination of the colonizer's style of "law, order, justice, education, peace, and prosperity", enabling the colonized societies to participate in "modern commerce and industry" (Hoogvelt 2001 p.20).

The link between capitalism and colonialism cannot therefore be totally dismissed. First and foremost, the link between capitalism and colonialism was more fundamental and far reaching beyond the period in which formal occupation and direct control took place. The investments in infrastructure and production facilities

made during the colonial period proved to give profits in later periods in the form of export of producer goods. A more crucial legacy was the installation of fundamental capitalist values and institutions such as international law and the recognition of private ownership. These would prove critical in establishing the next mode of relationship between the core and the periphery countries. Secondly, there is congruence between the nationalistic interest and the commercial motives of at least certain members of society of the core countries. Although the colonial trade and investments seemed not to be a sound business venture for the colonizer states, they have certainly benefited some members of the core societies. Hence, despite the cliché of intending to help the indigenous people, colonial investments were largely profit-seeking activities, at least to certain groups of the core countries' society as further argued by Hobson (1902):

> "Although the new Imperialism has been bad business for the nation, it has been good business for certain classes and certain trades within the nation. The vast expenditure on armaments, the costly wars, the grave risks and embarrassments of foreign policy, the stoppage of political and social reforms within Great Britain, though fraught with great injury to the nation, have served well the present business interests of certain industries and professions" (Hobson, 1902).

Like the mercantilist era, the colonial arrangement eventually developed contradictions that led to its demise. First, the inclusion of the periphery into the world production system and the installation of capitalist institutions, to a certain extent, transformed the society of the periphery. Economic injustice and political oppression heightened nationalist sentiments amongst colonized societies and acted as catalyst that brought the wave of an independence movement and unity amongst the colonized countries. Independence campaigns throughout the periphery took the form of both armed resistance and diplomatic struggles. This made colonialism

increasingly expensive financially as well as socially. Colonialism was no longer a politically popular choice, even within core countries.

Secondly, the successes of colonialism in integrating the periphery into the world system made direct and formal occupation obsolete and inefficient. As described earlier, colonialism embedded most peripheral countries into the world production system. This was done through massive investments in tangible infrastructure and facilities and, most importantly, the more intangible infrastructures in terms of international law and capitalist institutions. One of the most important institutions was the spread and recognition of foreign private property ownership (Hoogvelt, 2001 p.30). Such institutions promised a similar level of resource supply as well as ownership protection, but without direct presence and administration, which was getting more and more costly, both financially and socially. Colonialism had thus become economically unprofitable.

Finally, the colonial world order had the unintended effect of changing the geopolitics configuration, which in turn led to a power struggle amongst the core countries with different aspirations. One of the 'success stories' of the colonial era was the creation of a new economic and political power i.e. the US. Since the turn of the 20th century, the US surged forward in promoting her aspiration of world domination but the colonial presence of Britain, France and the Netherlands acted as a formidable barrier to the US's aspiration of a new, "non-discriminating international economic system" in which "self-determination and national sovereignty" are prerequisites (Hoogvelt, 2001 p.33). The rise of the rivalling forces in the form of German, Italian and Japanese chauvinistic fascism became the turning point for US hegemony. Following

victory in the Second World War against those powers, the US established a new world order through several agreements on international economics and financial systems. The change in the geopolitical landscape had thus changed the mode of world domination from colonialism to informal hegemony and domination under the US.

3.4.3.3. The neo-colonialism era

Following the dissolution of the colonial world system, the world embarked on yet another regime of political economy relationship: the neo-colonial period. The early neo-colonial period was largely characterized by two important features. First, despite the political independence of many, the colonial era had established strong economic links between peripheral and core countries. These economic links took the form of resource bondage and technological dependency. Through various established capitalist institutions and law at the international level, core countries could still impose considerable control over the resources of the peripheral countries. On the other hand, technological advancement during the industrial revolution had enabled the core countries to shift their imports from consumer to producer products in the periphery areas. The second characteristic of the early neo-colonial period is the establishment of the US hegemony. The inability of European capitalist countries to resist the threat of the German–Italian–Japanese alliance provided the opportunity for the US to establish its domination through 'informal imperialism' (see e.g. Ikkenberry 2007).

Informal imperialism, under the international monetary and financial management regime established at the Bretton Woods conference in July 1944, was a new political

economic order largely for the benefit of the US. One crucial outcome from the signing of the Bretton Woods agreement was the establishment of the International Monetary Fund (the IMF) and the International Bank for Reconstruction and Development (IDRB). Both IMF and IDRB (which later became part of the World Bank) were established for the purpose of coordinating and governing monetary relations across the world's independent states (Hoogvelt, 2001). One of the most crucial features of the Bretton Woods system was the use of the US Dollar as the formal currency for every nation in the IMF, making it the most important currency internationally. The signing of various agreements to integrate the economies of various countries, such as the Marshall Plan for Europe, further strengthened the US Dollar and provided stability to the US economy, as well as help in establishing the US hegemony in the world economy (see e.g. Ikenberry, 2007). Hence, US imperialism and neo-colonialism was built by subtle strategies of dominance, although this was also made possible by the strength of its military power. In fact, on many occasions, military intervention was used if the more elusive methods of infiltration and intervention were not effective (Hoogvelt, 2001 p.34).

The neo-colonial period was also a period of ideological battle between the ideas of modernization/developmental of the ex-colonies and the dependency theory. The modernization/developmental ideologies were adopted by many advanced countries, especially the US, as the basis for their foreign policies and efforts to spread their influence on the socio-cultural front. The ideologies suggest various ways of boosting the economic status of ex-colonized countries, and an essential part of building the socio-economic welfare of the underdeveloped nations is via promoting consistent social, political and cultural changes. The latter camp (dependency theory) is based

on the view that richer countries depend on poorer countries to develop and sustain their wealth. It argues that developmental and modernization policies merely "served to mask the continuing imperialist nature" of the unequal relationship (Hoogvelt, 2001 p.35). The modernization and development of the ex-colonized countries was no more than the Westernization of the poorer countries in which Western political, cultural, and social models were promoted as the 'logical requirements' for economic development. In reality, both the modernization/developmental and the dependency ideologies influenced the social and political view of the ex-colonized world. During this era (1945-1970), for example, the US actively promoted their version of economic development through various technical aids, grants, and cooperation. On the other hand, the dependency theory caused ex-colony societies to be aware of the inequality and imbalance of the world economic order and inspired the leaders of the peripheral countries to demand equal terms in international trade (Hoogvelt, 2001)

The neo-colonial regime, during which the US emerged as one of the dominating world powers, lasted for about 20 years. Similar to previous core-periphery relationships, this period inevitably developed its own contradictions. The first contradiction was the socio-political transformation that took place in the core countries. As described earlier, wealth injections from the mercantilist and neo-colonial era brought about the general improvement of standards of living in the core countries. Together with innovations in manufacturing technology as well as increasing political and social consciousness, it became increasingly difficult to manage the production of consumer goods in core countries. Secondly, the increasing need to expand the market for neo-colonial products was faced with the lack of new and unexploited geographical areas. The pre-1970s neo-colonial trade caused stark

inequality within the Third World. Hence, the only way to expand was by transforming the core-periphery relationships. The third contradiction took the form of the economic nationalism of the Third World whereby formal recognition of political independence and self-government also meant the increasing consciousness and aspirations of the right of self-determination amongst the Third World nations. The exposure of some of the Third-world leaders to socio-political thinking, such as the ideological battle between modernization/development and the dependency theory, is partly responsible for such aspiration. The final contradiction emerged from the weakening domination of the US's hegemony. The US's success in lobbying an international system that favoured its currency had aided its capital expansion enormously. However, such expansion put massive pressure on the US Dollar, which led to the collapse of the Bretton Woods system[12]. In addition, the crisis in the US hegemony in terms of the size of economy was accompanied by the increasing power of other strong nations, in particular the Soviet Union. The combination of the weakening of the US hegemony and the rise of the Soviet Union as a rival world superpower meant the improved bargaining position of the Third World nations vis-a-vis their government over the negotiation of various issues of bilateral economic relationships with the core countries.

[12] The Bretton Woods system established the US Dollar as the world currency reserve by requiring countries to peg their currencies against either gold or US Dollar, which at the time was the only currency directly convertible to gold due to the US's enormous gold reserve. During the first half period of the system (until ca 1958), the US would literally print dollars and run her economy on a deficit balance of payment. However, as the deficits became significantly greater, countries started to demand direct conversion to gold, putting heavy pressure on the Dollar. Eventually, the Bretton Woods system collapsed when the US unilaterally abandoned its pegged rate to gold at US$35/ounce.

3.4.3.4. The global financial era (debt peonage era)

The need for a new world order seemed inevitable. Since 1970, the capitalist world order has taken the form of post-imperialism, a period in which, to some writers, the process of globalization without single state domination started (see e.g. Scholte, 1997, 2000; Sklair, 1999). In this era, globalization denotes the process of the creation of a *global economy* through economic relationship that transcends and highly interconnects territorial national borders in which changes and events cannot be isolated by both geographical and time differences. The world has become, according to the sociologist Manuel Castells, a single economy capable of "operat[ing] as a unit in real time on a planetary basis" (cited in Hoogvelt, 2001 p. 112). Through the catalysts of breakthroughs in information technology as well as continuing innovation driven by pressures of competition, the *global economy* featured the *global factory*, *global consumer market* and *global financial market*. *Global factory* denotes the transformation in manufacturing technology, which enables goods to be produced across dispersed geographical locations while still being highly flexible and coordinated. Enormous investment in coordinated global production demands a *global consumer market* comprised of cross-border individuals with similar lifestyle and consumption habits. *Global financial markets* enable the free flow of capital in various derivative forms across countries.

Unlike previous periods, one of the main characteristics of this period was that the process of expansion was social rather than geographical. In other words, this era witnessed the intensification and consolidation of a global capitalist class across nations. Such consolidation requires the assurance of coordinated governance at the global level. This has meant that the significance of territorial and political

boundaries has had to be compromised by the need for regularity and flexibility of global markets and flow of capital. To necessitate the process, the role of nation-states had to be transformed. States and governments, especially those of the less powerful countries, have constantly been under enormous pressure to synchronize their respective internal economic policies in accordance with the global mode of regulation. Such 'convergence' was in many occasions organized by the global and regional inter-governmental organizations such as the World Bank, the Asian Development Bank and the International Monetary Fund.

According to the world-system theory, the process of globalization is the expansion of capitalism as the system for organizing the political economic relationship between states across the globe. Framed under the core–periphery dichotomy, such expansion took various stages, each of which has its own regime with its own material, institutional and ideological configurations. As shown by prior studies, there is little doubt that the capitalist relationship between the core countries and the ex-colony countries had profound effects on the development of the accountancy profession of the latter. However, borrowing the historical structure concept, this study also adheres to the notion that the historical development of the accountancy profession in ex-colony countries, including Indonesia, is the result of the interaction between the influence of global expansion of capitalism and the rivalling social structures existing during the period in question.

3. 5. Theoretical and methodological frameworks

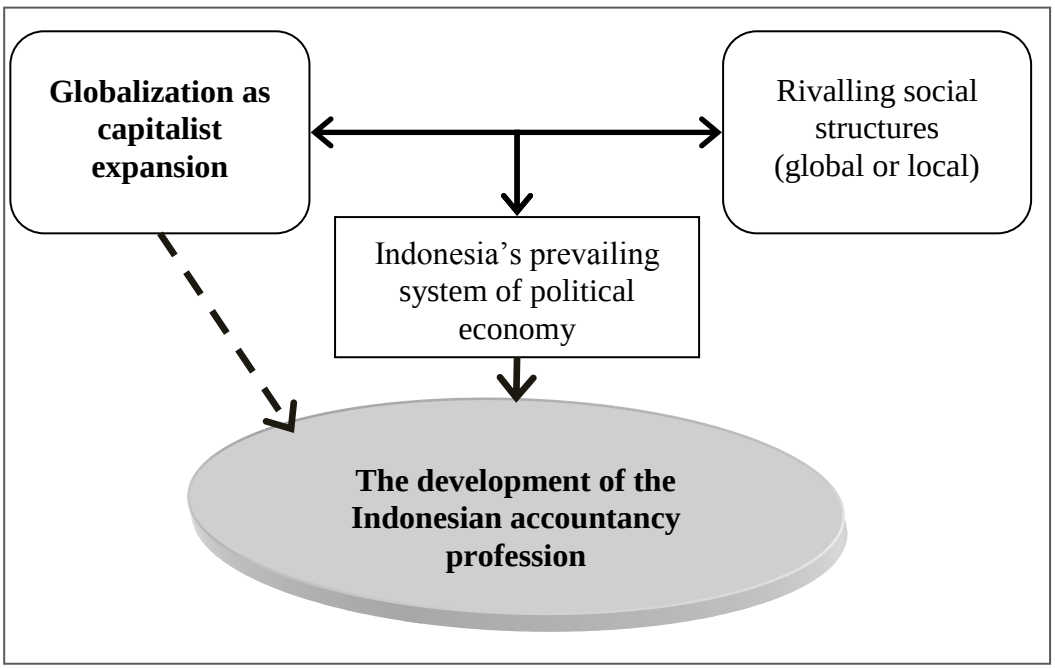
Having described the different mode of relationship between the rich-strong and poor-weak countries throughout the different stages of global capitalist expansion,

this section explains the theoretical and methodological frameworks of this study. First, the how the different stages of globalization may influence the development of the Indonesian accountancy profession is explained. This is followed by a description of the data collection and analysis.

3. 5. 1. Linking globalization and the accountancy profession in Indonesia

The research questions of this study are addressed using several theoretical and methodological pillars. In essence, this study argues that the development of the Indonesian accountancy profession throughout its history is profoundly influenced by Indonesia's wider socio-political conditions, which in turn are shaped by the interaction between the forces of global expansion of capitalism and any rivalling social structure existing in the period in question. Figure 3-3 presents the theoretical and methodological framework of this study.

Figure 3-3: The methodological framework of the current study



As can be seen from the figure, the first methodological pillar of this study rests on the contention that the model of the accountancy profession depends on the wider and more fundamental capitalist system of political economy (among others Willmott, 1986, Puxty *et al.*, 1987; Robson *et al.*, 1994). This means that an associationist model of the accountancy profession requires a higher degree of liberal capitalistic institutions and ideals (such as private ownership, separation of agents and principals) than that required by the corporatist mode of regulation.

Secondly, the study adopts the view that the emergence and development of the accountancy profession in the context of ex-colony countries is both the outcome and medium of the global expansion of capitalism (Annisette, 1999, 2000; Bakre, 2005, 2006; Dyball *et al.*, 2006; Dyball *et al.*, 2007). This means that the emergence and the development of the Indonesian accountancy profession cannot be attributed solely to the internal social dynamics of the Indonesian society. As in any other colonized societies, the oppressive nature during the colonial era, which lasted for more than 300 years, had destroyed the possibility of any technological advancement or development of institutions such as the accountancy profession. However, the influence of globalization does not occur in a direct and deterministic way but is channelled through Indonesia's prevailing political-economic regime, which was in a relatively weak state within the world's geopolitical and economic constellation. In other words, the development of a Western-style accountancy profession depends on the implantation of the wider and more fundamental capitalist system of political economy. A fully globalized, Western-like Indonesian accountancy profession could only occur if the capitalist economic system arrangement prevails in Indonesia (hence the dotted line in Figure 3-3).

Third, the study also argues the needs to recognize the existence of alternative structures that served as rivalling forces to globalization as theorized by Cox's historical structure concept. The political economy of ex-colony countries such as Indonesia is an outcome of the interaction between the structural forces of global capitalism with any rivalling structures. Given the position of Indonesia in the world's geopolitics and economic order, globalization is a pervasive factor in shaping Indonesia's choices of socio-economic arrangement. However, this study believes that this influence had constantly faced alternative ideological, institutional, and material forces emanating either from rivalling global forces (e.g. the Soviet bloc) or local conditions (i.e. Indonesia's historical and socio-political background).

The theoretical and methodological frameworks of the study therefore require that the first step in understanding the development of the accountancy profession is the analysis of the political economic system that prevailed in any given period of Indonesian history. In this regard, the world system theory of globalization and Robert Cox's historical structure can shed light on how the system of political economy adopted by Indonesia evolved within the context of the capitalist world order. Globalization theory captures the modes and means of how the forces of global capitalism exert their influence on Indonesia's system of political economy in any given period. On the other hand, the concept of historical structure requires the recognition of any alternative social structures existing at the global level and/or emanating from the complexities of the Indonesian society in the corresponding period. The outcome of the interaction is the prevailing system of political economy

in Indonesia, which in turn provides the context for understanding the development of the Indonesian accountancy profession across different periods in its history.

3. 5. 2. Data collection and analysis

The role of theoretical and methodological frameworks is to provide the "skeleton" by which social events are interpreted and understood (Laughlin, 1995). The frameworks need empirics to substantiate their explanatory value in telling how and why the Indonesian accountancy profession has developed the way it did. The study uses document analysis to provide a contextual narrative of the history of the Indonesian accountancy profession. Together with interviews, archival or document analysis is a common historical research method (Fleischman *et al.*, 2003). It particularly fits the purpose of this study, which seeks to describe and analyse macro-structural historical changes. A major advantage of document analysis is its accuracy in providing clear and tangible records, and most documents are less likely to be manipulated compared to interviews and observations which "can be coloured by the desires by the subjects to portray themselves in certain ways" (Grady, 1995, p.24). Grady (1998) also argued that in the context of historical research, document analysis may provide valuable sources when the actual actors are no longer available and/or difficult to interview or observe. Finally, a combination of documents can offer more information than the written information contained in each document amongst them. In addition, the different sources of documents may contain information about "the historical circumstances of their production", "their circulation and reception", as well as any social functions, interpretations, effects, and uses associated with them (Jupp, 2006 p.79).

Although some unstructured interviews have been conducted, the study does not draw significantly on interview as source of evidence for a number of reasons. First, interviews may not be suitable with the primary objective of the study, which attempts to map the macro-structural and institutional changes in the profession. Given Indonesia's strong ties to the US in terms of economic and business thinking, interviewees may have been captured by certain conception of what a profession is. Second, the research was conducted during the time of tension between the Indonesian Ministry of Finance and the profession. Considering the researcher's position as an employee of the Indonesian Ministry of Finance, interviewees may be reluctant to reveal much information. Finally, the documents have revealed much of the information on the history of the profession to the extent that interviews may only provide confirmatory information. Several informal unstructured interviews were conducted with three officials from the Ministry of Finance but later stopped because they did not provide significant additional information.

The documents were mostly obtained during data collection stage in Indonesia between August and November 2007. Most of the documents were obtained from the Indonesian Ministry of Finance, which gave unrestricted access to their archives. The Ministry's position as the regulator of the profession has meant access to documents not only from within the Ministry but also from other institutions such as the World Bank, the ADB, the professional associations as well as other related pressure groups. These include a wide array of primary and secondary documents such as confidential correspondences (e.g. letters and internal memos of the professional regulatory institution), official documents (e.g. minutes of meeting and internal drafts of statutory regulation, confidential evaluation reports), statutory legislations (e.g. acts

or drafts of acts), legal documents (e.g. loan agreements between the Government of Indonesia with the IMF, the World Bank and the ADB), newspaper and magazine articles; and, last but not least, books and previous research on the topic. Other sources of documents include the University of Indonesia, the Indonesian Institute of Accountants, the Indonesian National Library and the internet.

The documents are analysed to provide explanation of the historical development of the accountancy profession in post-independent Indonesia between 1954 and 2008. The analysis is conducted in the following steps. First, the theoretical framework requires the recognition of Indonesia's politico-economic configurations (as well as the global and local factors influencing them) during the last five decades. This is done by reviewing the literature on Indonesia's political economy. Three major periods in Indonesia's political-economic history are followed in this study: the first period is from the early 1950s until 1966; the second period is between 1967 and 1997; and the final period is from 1997 until the present time. The three cut-off points represent major and fundamental changes in Indonesian social as well as political conditions. By locating the development of the profession within the Indonesia's across different period will "sharpen or awareness cross-national differences in accounting development" and "shed light on accounting's relevance, including its consequences, in more general economic and social context" (Carnegie and Napier, 2002 p.698). Following this step, the major events in the development of the profession are identified by reviewing documents such as the association's accounts of the history of the profession and previous studies on the development of the profession. Finally, the events that marked the development of the profession in a particular period are linked back to the wider social and political context of the

corresponding period. Here, the globalization theory and Cox historical structure help the analysis by identifying the social and politico-economic actors inside and outside Indonesia that may have influenced the direction of the history of the profession. This step requires analysing closely related documents that may provide explanation as to why a particular development took place (such as statutory regulations on the profession and any accountancy development projects) as well as documents that provide information on the specific direction of the country's political economic system such as the government business laws and regulations. Figure **1-2** presents the periodization used in this study, summarizing major events and socio-political and economic structures that exist at both global and local levels.

Figure 3-4: The periodization in the development of the Indonesian accountancy profession

Early independence and the Old Order era (1949 – mid-1960s)	The New Order (1967 – 1997)	Post 1997 Asian Financial crisis
External/global: The rise of the US as a new world superpower, end of colonialism **Internal/local**: Early independence, the period of social, political and economic instability	**Global**: The cold war, start of global financial era **Local**: Soeharto came into power, the beginning of the New Order Political stability and economic growth under the New Order's crony/oligarchic capitalism	**Global**: The intensifying of global financial era **Local**: The Asian financial crisis, acceleration toward integration of global economy following the fall of the New Order regime
1949 — 1966 Independence The New Order came into power	1997/1998 The Asian financial crisis/ the fall of the New Order	2008
Western-like accounting and its professional infrastructure are necessary and imperative.	Partial Westernization of the profession exists but was later heavily hindered by the New Order's politico-economic coalitions.	Pressure to have trans-border convergence of accounting rules and regulations.

Figure 3-4 only exhibits the details for post-independence Indonesia as the development of the profession in the previous periods is not within the scope of this study. As can be seen from the timeline, the first period is the period of the emergence and early development of the profession, covering the years between the early 1950s and the mid-1960s. According to Hoogvelt's (2001) periodization, as explained earlier in this chapter, this was the neo-colonial period, marked by the ending of direct control over the colonies and the rise of the US and the Soviet Union as the world superpowers. In this period, indirect control over overseas resources and investment required the presence of the accountancy profession to provide mechanisms of accountability similar to that of the home country. This influence was curtailed by economic instability and political turbulence and ideological division amongst political elites in the newly independent state of Indonesia. The second period, covering the years between the mid-1960s and 1998, is the period of the development under the New Order political regime. From the perspective of Hoogvelt's periodization, it was the beginning of the globalization stage of capitalist expansion in which the US's power started to decline and was replaced by the consolidation of political and economic power in both Western and Eastern blocs. In this period, pressures to modernize the accountancy profession came from inter-governmental institutions in line with the agenda of constructing a free-flow financial market across borders. Such pressures, however, have to be understood in the context of the New Order's choice of system of political economy. The New Order was a political regime under President Soeharto who came into power in 1966/7, allegedly with the backing of Western powers. Finally, the last period of analysis is from the 1997 Asian financial crisis till the present time. In this period, the globalization of financial systems requires coordinated governance, including the convergence of

accounting rules and regulations. In this period, global coordination of production, market, and financial systems has intensified. As a result, further integration and convergence of rules and regulations has been the central theme as part of the wider attempt to provide a global regulatory regime to accommodate the intensifying trans-border capital traffic. As in the first two periods, analysing the impacts of those global transformations must take into consideration the impacts of the 1997 Asian financial crisis on Indonesia's socio-political and economic power configuration.

3. 6. Summary and conclusion

This chapter elaborates upon the methodological framework of this study. The discussion starts by reviewing the alternative methodologies associated with the functional, interpretive and critical perspectives on the accountancy profession. In line with the previous chapter, this chapter also acknowledged the merit of the critical and interpretive methodologies in accounting research and continued the discussion of the influence of such methodologies on research into the history of the accountancy profession. This discussion was in line with the nature of this study, which is primarily an historical research. One primary difference between conventional research on accounting history and the 'new accounting history' is the use of theory as a framework for interpreting and understanding historical events.

This study therefore supports the contention that the development of the accountancy profession cannot be separated from the process of globalization as an exercise of global expansion of capitalism. This chapter supports the argument that historical structure and the theories of the stages of global expansion of capitalism can provide fruitful insights in renewing our understanding of the development of the accountancy

profession in ex-colony countries, particularly Indonesia. It proposes that the development of the accountancy profession in Indonesia moved in tandem with the changes in the country's political economic system, which was influenced by Indonesia's historical and contemporary position in the world geopolitics and economic order. As Indonesia is a weak country, the capitalist relationship between the advanced countries (the core) and the less developed countries (the peripheries) has a telling influence on Indonesia's socio-political and economic life, including its choice of political economic system. Since accountancy is an inherent part of capitalism, this study therefore argues that the various phases in the development of accounting in ex-colony countries follow the stages of capitalist expansion. However, based on the notion of 'historical structure' proposed by Robert Cox, such a process is not linear because in each of the historical periods, the force of capitalist expansion has always been met by competing social structures. In other words, while the study accepts that the Indonesian accountancy profession developed in accordance with the changes in the structural level of capitalism as the world's prevailing socio-economic order, this influence should also be understood in the context of any contending social structures existing at domestic as well as global level in any given period.

As a result, it is argued that the history of the accountancy profession in Indonesia does not tell a linear story and any attempts at answering questions of how the Indonesian accountancy profession has developed during the three major periods in its history should be made with reference to the country's prevailing political economy system of the given period. In the next chapter, the study starts the analysis by focusing on the early development of the Indonesian accountancy profession, covering the period between the early 1950s and the mid-1960s.

Chapter 4

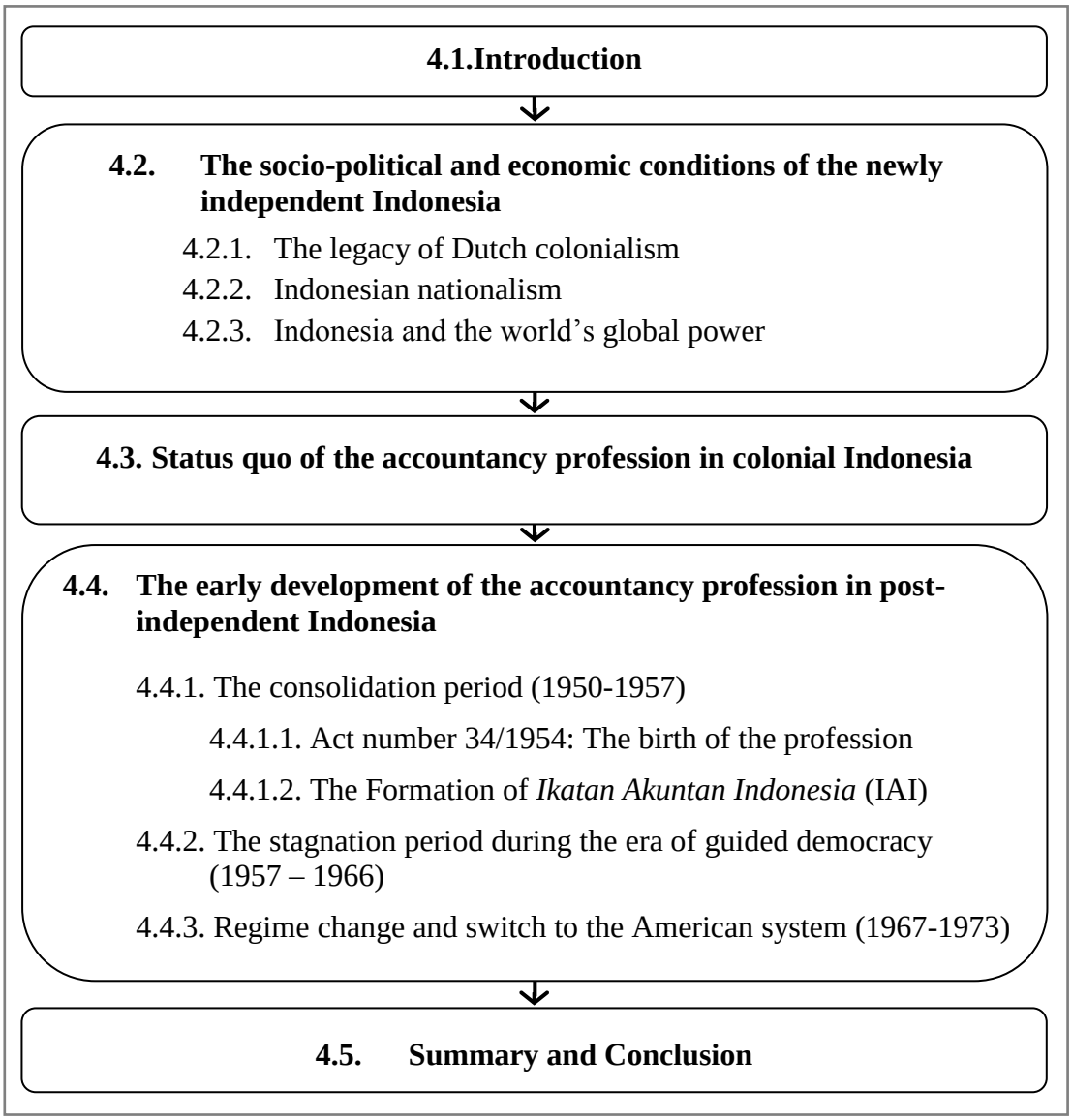
Globalization and the Early Development of the Indonesian Accountancy Profession

4. 1. Introduction

As mentioned in Chapter 3, the study covers three main periods in the development of the profession. The objective of this chapter is to provide the historical narrative as well as contextual analysis of the birth and early development of the Indonesian accountancy profession between the early 1950s and mid-1960s. Specifically, it seeks to illustrate how the Indonesian accountancy profession emerged as well as explaining how and why the profession is inclined more towards the US model than the Dutch model.

The remainder of Chapter 4 is structured as follows. Based on the methodological framework presented in the last chapter, the story of the emergence and early development of the Indonesian accountancy profession is presented in two parts. To provide the context for making sense of how and why the profession had emerged in Indonesia, it is necessary to first understand the socio-political and economic systems prevailing at the time, and these are presented in Section 4.2. The second part traces the major events in the early development of the profession. Section 4.3 describes the status quo of the accountancy profession in Indonesia during colonial times. Section 4.4 presents the analysis of the developments in the early years post-independence by identifying three major themes for the period considered: the birth and consolidation period; the stagnation period; and the change in orientation period. Section 4.5 presents the summary. Figure 4-1 illustrates the structure of Chapter 4.

Figure 4-1: The structure of Chapter 4



4. 2. The socio-political and economic conditions of the newly independent Indonesia

The Indonesian accountancy profession was established in the early 1950s.[13] In order to fully make sense of the process, it is imperative to consider the socio-political and economic context leading up to, as well as during, the early years of the state's

[13] In the context of this study, the accountancy profession refers to its institutional and structural sense and not its broadest sense which includes all accounting activities (see Section 1.1. in Chapter 1). In addition, accounting practices prior to independence were solely conducted by the Dutch with very little or no involvement of the indigenous population. Hence, unlike British colonies, there was virtually little or no inheritance and continuance of professional infrastructure from the Dutch. In this context, the professional infrastructure of accountancy is said to have only emerged in 1950s since the country had to start from the scratch.

independence. In this section, three conditions that contributed to the professionalization of accounting in Indonesia will be elaborated. It starts by describing the impact of the Dutch colonial administration on the development of the accountancy profession in Indonesia. Next, the nature and origin of Indonesian nationalism, which is an important factor in the story of professionalization, will be presented. Finally, world geopolitics during the 1950s, which played a major role in determining the political and economic policy of Third World countries including Indonesia, will be discussed.

4. 2. 1. The legacy of Dutch colonialism

The presence of foreign powers in Indonesia's history may be attributed to its strategic location and fertile soil for crops and spices, which were vital factors during the ancient trade and mercantile eras. Indonesia, an archipelago located in the south part of the Silk Trade Route, strategically links Asia and Australia as well as the Indian Ocean and the Pacific Ocean. The country covered an area of almost 2,000,000 km. square, spanning 5000 km. west to east and almost 2000 km. from north to south. Although more than 60% of its area is ocean, the tropical Indonesian islands contained some of the richest soil on earth producing crops and spices that were vital commodities during the era. Hence, it is not surprising that the country had been under the grip of foreign powers through traders from India, China, Middle East and finally Europe. Table 4-1 summarizes the history of foreign powers in Indonesia.

Table 4-1: History of foreign influence during pre-independence Indonesia

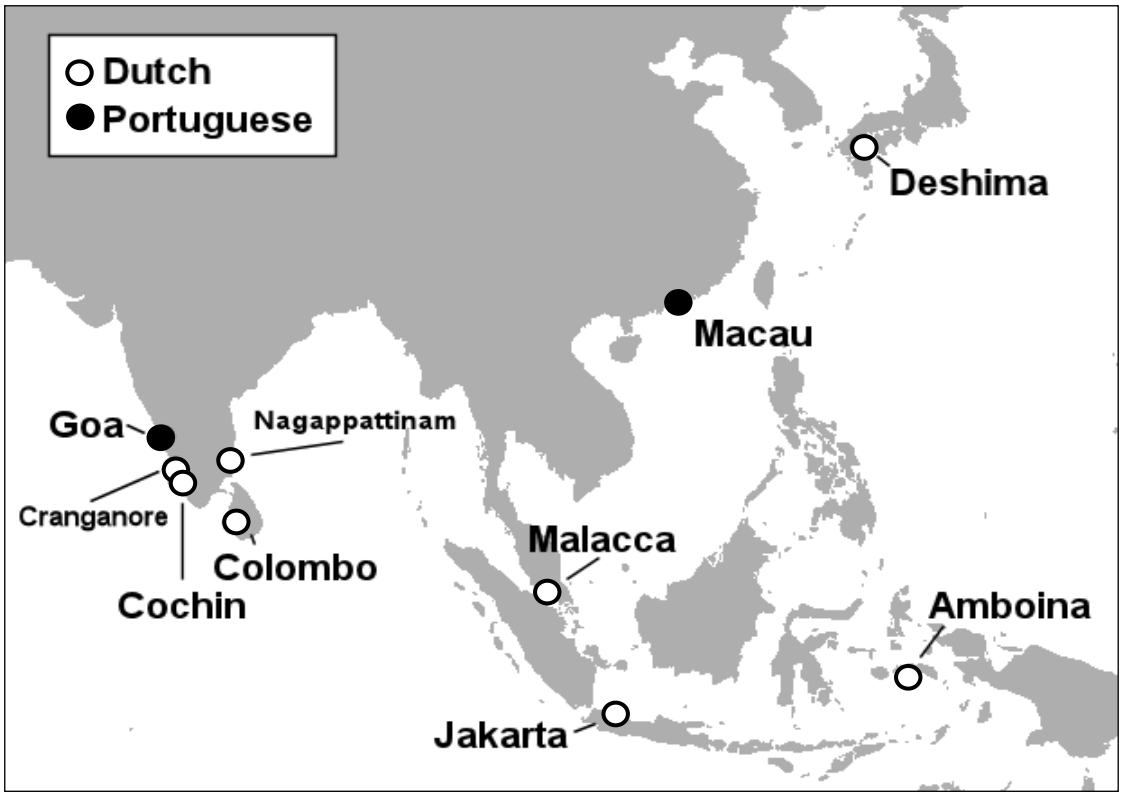
Periods	Major foreign power in control
Pre- 700 AD	Chinese and Hindu traders
Ca. 700 - 1300	Shri Vidjaja (Local Kingdom with Hindu Mahayanist influence)
1300 - 1400	Madjapahit (Local Kingdom with Hindu-Brahmanism influence.
1400 – 1522	Moslem kingdoms
1522 – 1600	Portuguese rule
1600 – 1795	First phase of Dutch rule through *Verenegigde Oost-Indieche Compagnie* (VOC; the United East Indies Companies). VOC held monopolistic right on trade and business in Indonesia.
1795 – 1811	French rule; no significant difference from the Dutch. VOC was dissolved.
1811 – 1830	British rule; the intention was to create textile market and land reform in Indonesia.
1830 – 1942	Second Dutch rule, direct administration by Dutch government.
1942 - 1945	Japanese occupation.
1945 - 1949	Independence declaration followed by war of independence.
1949	Dutch recognition of independence

Adapted from Furnival, 1944; Grant, 1967; Legge, 1964; Palmier, 1965 and Ricklefs, 2007

As can be seen in the table, Indonesia was under various European imperialists and colonialists for over 350 years. The Portuguese were the first European power that came to the country in the early 16th century. After conquering the Sultanate of Malacca in 1511, the Portuguese arrived at the port of Banten at the western tip of Java Island in 1522 in their attempt to extend their trade networks southward. With the help of their navy armada, they were successful in extending their power as far as Amboina, Ternate and Tidore in Maluku, which are important producers of spices in the eastern part of Indonesia. The Dutch arrived in the port of Banten in 1596 under the leadership of Cornelius de Houtman, which triggered competition between the Portuguese and the Dutch for control in Indonesia during the early years of colonial power. The Portuguese ruled in the eastern part of the country (Amboina) while the

Dutch controlled the west part of the country (Jakarta). However, Portuguese rule in Indonesia was very short due to local resistance throughout its occupancy and the Dutch had effectively become the dominant colonial power in the archipelago by 1665 (see Figure 4-2).

Figure 4-2: Dutch and Portuguese power in Asia ca. 1665



Source: Boxer, 1969, p.24

The Dutch became the colonial power having the longest and firmest grip on the country. They ruled for more than three centuries with only short stints by the French, the British and the Japanese. The periods of rule of the French and British were merely a consequence of the political turbulence in Europe during the late 18th century. When France conquered the Netherlands in 1795, they also indirectly took control over all Dutch colonies. For example, they appointed a Dutch governor, Herman Daendells, to rule Indonesia during the French rule in 1795-1811. Although the French tried to exert direct control over the colony in 1811, they had to surrender

to the British whose administration lasted for less than 15 years (circa 1815–1830). The Dutch gained control of the archipelago again in 1830 and ruled for another more than a century until Indonesia's declaration of independence in 1945, only being interrupted by the Japanese for three and a half years during World War II (1942-1945).

In terms of administrating the colony's economy, the Dutch colonial era can be divided into two major periods. The first period covered the VOC administration (1596-1796) and the second period was after the British administration until the independence of Indonesia (1830–1942). The first period was an era of monopolistic economy under *Verenegigde Oost-Indieche Compagnie* (VOC: the United East Indies Companies). Established in the early 17th Century, VOC was a trading company that acted as the ruler of the colony. The company was a state-backed unification of colonial traders that landed in port of Banten in 1596 (e.g. Neill, 1973). In a sense, VOC was both a multinational corporation and a quasi-government. It adopted a 'forced delivery system' for spices and agricultural products to extract the colony's wealth and it had power similar to a state to enforce this system. One observer explained:

> "... although its directors, the *Heeren Zeventien* (Seventeen Gentlemen), were motivated solely by profit, the VOC was not simply a trading company in the modern sense of the word. It had authority to build fortresses, wage war, conclude treaties with indigenous rulers, and administer justice to subject populations" (Frederick and Worden, 1993, online).

The second era started at the turn of the 19th Century. Following the liquidation of VOC in 1796, the French and the British took control of the administration (see e.g. Furnival, 1944; Legge, 1964). Different policies of land reform and the abolition of

land tax were introduced. However, the effects of such policies were short-lived as the Dutch government took control of the colony in 1830. During the last century of Dutch administration, Indonesia experienced repeated radical changes in its political and economic system, something unprecedented in previous periods of its colonization. When the Dutch government took over control from the British, it reinstated the 'forced delivery system' but renamed it 'the culture system' (Legge, 1964). Indonesians were forced to produce export commodities, such as indigo, sugar, coffee, tea, tobacco, cotton, cinnamon, etc. for the benefit of the Dutch government who imposed either 20 per cent of the land or of compulsory labour for the landless, to be dedicated to those export commodities (Geertz, 1963).

The 'culture system' did not last very long and was abandoned in 1850 for a number of reasons (Higgins and Higgins, 1963). Firstly, it was proving unsustainable to provide support to the colony's population growth. Secondly, there had been ethical protest in the Netherlands against its inhumane nature. Thirdly, there was mounting pressure from Dutch private capitalists who saw the opportunity in the colony but could not do anything due to government monopoly. Shortly after the capital class took control over the Dutch state, the 'culture system' was phased out and replaced by the 'liberal system' (Geertz, 1963, Higgins and Higgins, 1963). Under the new system, private businesses were allowed to invest in the profitable areas of industrial agriculture such as sugar cane and tobacco. After several decades of the so-called 'liberal economic system', problems of falling living standards afflicted the colony because the system was just as exploitative as the 'culture system.' Criticism of the 'liberal economic system' mounted in the Netherlands, leading to the introduction of a policy of compensation known as the 'ethical system'. Sympathetic officials

introduced programmes aimed at improving living standards in the country and Indonesians were given more educational opportunities, albeit ones limited in numbers. The reforms being introduced were too late. With a long history of exploitation, Indonesia was left by the Dutch upon independence with a very small economy in disarray:

> "After 350 years of Dutch colonialism, Indonesians had been drawn into the modern sector of the economy to an astonishingly small degree. In 1940, less than 10% of labour force was employed in that sector. Only about 5% of the Indonesian labour force was engaged in trade of any kind, and still a smaller percentage were smallholders producing export products. At least 80% of the population still gained its livelihood in the traditional sector. Soemitro has estimated that 0.5% of the population (the Europeans) received 60% of the taxable national income, while the Chinese, constituting a mere 2% of the population, received 20% of taxable national income. If these figures are correct, it would mean that *pribumi*, constituting 97% of the population, received only 20% of the taxable income (Higgins and Higgins, 1963 p.65).

The impact of the Dutch style of administration did not just stop at economic matters. A longer-lasting legacy was the division of Indonesian society in almost every respect. The Dutch adopted a divisive style of governance known as *divide at impera* – divide and conquer (e.g. Gouda, 1995). Citizens were classified based on their ethnicity. The European descendants were first class citizens and eastern foreigners such as the Chinese, Arabs, and Indians were second class citizens. Various indigenous ethnic groups, more popularly called *pribumi or irlander*, were only considered third class citizens. The segregation was not only in terms of social status but also in terms of economic activities. *Pribumis* were forced to be farmers and during the period of the 'culture system'; they were forced to cultivate export crops and spices. During the period of the 'liberal system', private colonial companies leased land from the *pribumis* through their village feudal leaders. These owners were given no option as their rights to cultivate were only safe if they continue to rent their

lands to these companies (Legge, 1964). On the other hand, Asian foreigners – most notably the Chinese who were just a minority group in society – were granted the right to be involved in trading activities (Legge, 1964).

Such discrimination had caused bitter consequences for the *pribumis* and had certainly created and preserved economic classes in society. This division was so embedded in the economy that J. H. Boeke, a well-known Dutch economist, referred to Indonesia as having a 'dual' economy since the 'modern' economic activities of trading and industrial manufacturing by the European and Chinese never mixed with the more traditional activities of the *pribumis* (see e.g. Boeke, 1953). The indirect implication of this economic duality was the lack of entrepreneurship skills among indigenous Indonesians (Higgins & Higgins, 1963) and administrative skills among Indonesian leaders (Legge, 1964) in the post-independence period. Another immediate implication of the colonial policy, especially with regards to the 'ethical system', was the introduction of higher education for some Indonesians (Legge, 1964). The policy had originally been aimed at preparing a group of educated local citizens to become local collaborators. Despite the success of the policy in creating a group of educated Indonesians, they later became the elite group that steered the sentiment of nationalism to its highest point.

4. 2. 2. Indonesian nationalism

The sense of economic injustice unsurprisingly aroused nationalist sentiment in Indonesia, but it was not the sole contributor. The seeds of the nationalist movement could be traced back to the wars of resistance to the early European infiltration during the 16th century when they arrived initially as traders (Palmier, 1965). The fight for

resistance continued until the 19th century for reasons that were not simply economic. Some resistance movements were religious in nature, led by the '*ulama'* (Islamic scholars). Islamic teachings, adopted by 90% of Indonesians, had always been a strong motivation for resisting colonialism (Palmier, 1965). Another group was the aristocrats who were concerned about the increase in foreign power. The fact that these resistances had been mobilized by local figures did not alter the nationalistic nature of the resistance movement and Indonesians still regard these figures as national heroes until the present time.[14]

The impact of the 'ethical policy', introduced in the second part of the 19th century, on the Indonesian national uprising cannot be ignored. Firstly, there had been some delegation of power as a reaction to demand for democracy and representation. Partially motivated by the need to accommodate private business expansion (Palmier, 1965, p 91), the Dutch passed the Decentralization Law in 1903 that opened the political sphere to Indonesians for the first time. During 1903–1908, local *Volksraad* (People's Councils) were set up and press regulations were relaxed (Palmier, 1965). In 1916, national *Volksraad* were established. Secondly, as mentioned earlier, the 'ethical policy' had given Indonesians the opportunity to receive Western education. Although this opportunity was very limited, it raised the nationalist consciousness amongst intellectuals who were 'fortunate' enough to have Western education. Many of these intellectuals later became political elites of Indonesia.

[14] In fact, many of these local aristocrats were also influenced by both their Islamic beliefs and the local *ulama* (Islamic scholars). They are, among others, Pangeran (Prince) Diponegoro, Tjoet Nyak Dien, Teuku Umar, Sultan Ageng Tirtayasa, Sultan Agung, Tuanku Imam Bonjol, and Sultan Hasanuddin (e.g. Sudarmanto, 2007).

When ‘modern’ Indonesian nationalism emerged in the early 20th century, it took a more colourful form. The combination of Western education introduced by the Dutch through its ‘ethical policy’, and the long-existing legacy of traditional aristocracy and Islamic teachings, created two shades of Indonesian nationalism: ‘religious nationalism’ and ‘secular-traditional nationalism’. This was evident from the early modern national movement organizations as described by Palmier (1965). *Boedi Oetomo* (High Endeavour), formed by Dutch-educated intellectuals, was a secular nationalist group. Nationalist organizations with Islamic influence followed shortly with the establishment of the *Muhammadiyah* in 1909 and the more business- and economic-oriented *Sarekat Islam* in 1912. Another non-political nationalist movement was influenced by European socialist thinking. The earliest movement was the Marxist-oriented Social Democratic Association of the Indies (ISDV), which was formed in 1913. Some of those early non-political nationalist organizations were later transformed to political organizations: *Sarekat Islam* transformed into a political party in 1917; and, ISDV changed its name to *Perserikatan Komunis di India* (PKI or the Communist Association of the Indies) in 1920, and later became known as *Partai Komunis Indonesia* (the Communist Party of Indonesia). A new political party, the secular *Partai Nasional Indonesia* (PNI; National Indies Party), was founded in 1913.

The nationalist movements were suppressed during the 1930s but regained momentum during the Japanese occupation (since they were too occupied with their Second World War campaign). The Japanese’s gradual defeat gave Indonesia the opportunity to proclaim its independence on 17 August 1945, despite some hesitation from the national leaders. However, the Dutch did not easily accept the independence claim and attempted to reinstate its power by diplomatically denying Indonesian a

temporary government. It took another four long and bitter years of independence struggle, both at war and on the diplomatic table, before the country was finally able to set up its own administration. This was symbolized by Dutch recognition in 1949 with the signing of The Hague Treaty (see e.g. Osmańczyk, 2003).

Since Indonesian independence was established by neither the Japanese nor the Dutch, the newly born state faced many serious problems. First, it was a challenge to keep the unity of nearly 100 million people, inhibiting 17,000 islands, spreading across 2,000,000 square kilometres of land and sea. A large proportion of its traditional citizens were culturally and geographically diverse. Socio-economic dualism persisted as the 'modern' sector of the economy enjoyed by the Dutch and the Chinese minority never became integrated with the traditional economy of the *pribumis*. Finally, and more crucially, the political leadership realized that managing all those problems was indeed challenging for a number of reasons (Legge, 1964 p.11). Firstly, the potential leaders of the country were very small in number and they lacked the experience and technical and administrative skills necessary for the running of a modern state. What was even more challenging was the differences in nationalist aspirations held by the political leaders and there was no single and unifying ideology amongst them. As Legge (1964) summarized:

> "… the elite itself was not a single and unified group, and the division within it operated to produce a diffusion rather than a concentration of power. The balance between Moslem, nationalist, and Communist political leadership, between all of them and the power of the army, the personal power of President Soekarno himself with his revolutionary prestige and mesmeric oratory, combined to make it difficult for strong leadership to emerge" (p.12).

Indonesian politics was marked by a new drama in 1957. The failure by the elected parliamentary members to draft a new constitution as mandated in the 1955 general

election plunged the country into further political turbulence. Soekarno, the incumbent president then, declared the re-enactment of the 1945 constitution that gave greater political power to the presidential institution. With the support of the traditional Islamic faction, the military (most notably the air force) and the communist party, he pursued his ideological vision of Indonesia. He led the country into what he called 'true Indonesian democracy', one that is capable of accommodating the three most powerful ideological forces in Indonesian society at the time: Islam, Nationalism, and Communism. Soekarno's inclination towards socialist thinking[15] led him to take a series of drastic actions in the following years. He abandoned The Hague Treaty, nationalised all Dutch companies operating in Indonesia, and expelled all Dutch citizens from the country by 1958 (e.g. Bresnan, 2006).

4. 2. 3. Indonesia and the world's global power (1950 – 1970)

Immediately after its independence, foreign powers competed to establish control over Indonesia and its abundant natural resources. The US attempted to penetrate the country for its wealth of natural resources from the turn of the 20th century (Griswold, 1998) and it was not the only foreign power interested in Indonesia. In the 1950s, Indonesia was already a financing battlefield between two superpower blocs. The Western bloc, represented by the US, started dispensing its money into the country from 1950 and by 1962, the amount of US financial interest in Indonesia was as much as US$710 million (Grant, 1967). The Eastern bloc's financial influence was led by

[15] Despite admitting that his political aspirations were similar to that of the then popular PKI (Indonesian Communist Party), he insisted that his political aspirations were "... not the result of any communist principles". Instead, they were born out of the necessity of the Indonesian community who were mostly *kromo* and *marhaen* (roughly meaning peasant or worker) "just as European society makes it necessary for European socialists to adhere to proletarianism" (Soekarno as cited in Mintz, 1965 p. 57). This is why he called his political thinking '*Marhaenism'*.

East Germany in 1955 through a US$9 million loan, rivalling the aid schemes provided by the US, which were around US$643.7 million (Grant, 1967 p.109). By early 1960s, Indonesia's financial relationship with the Eastern bloc increased significantly to around US$1,6 billion, which include Indonesia's post-1960 purchase of arms and military equipments from the Soviet Union totalling US$1,000 million and financial aids from other communist countries i.e. China and Yugoslavia. This amount surpassed the total financial aids and grants from the Western countries (including Japan) of around US$1.1 billion (Grant, 1967). Table 4-2 summarizes the amount of foreign aid to Indonesia at the height of political and ideological division in early 1960s.

Table 4-2: Foreign aid to Indonesia 1950 – 1961/1962 (in US$ million)

Donor	Grants	Sales of Foodstuff	Loans	Credits	Arms	Total
United States	70.3	304.6	205.4	-	?	580.3
Other Western Countries	20.8	-	226.4	55.0	-	302.2
Japan	177.0	-	100.0	-	-	277.0
USSR and East Europe*	-	-	593.7	-	1,000.0	1,593.7
China	-	-	50.0	15.0	-	65.0
Yugoslavia	-	-	25.0	-	-	25.0
United Nations	9.6	-	-	-	-	9.6
Total	**277.7**	**304.6**	**1200.5**	**70.0**	**1,000.0**	**2,852.8**
Indonesian GDP (1960)						**8,700.0****

Adapted from Palmier, 1965.
Note: *Started in 1956 (Grant, 1967) ** The GDP figure as of 1960; Rp 390 billion (Booth, 1998) converted at the rate of Rp. 45 per US$ (Mackie, 1971/2007).

Despite their publicly stated objectives of trying to help the newly independent state, there was little doubt that the aid, loans and grants were not without political and economic interest to the donor countries, both in the short and long term (see e.g.

Hindley, 1963). The struggle was amplified during the time of President John F. Kennedy:

> "... The President regarded Indonesia, this country of a hundred million people, so rich in oil, tin and rubber, as one of the potentially significant nations of Asia. He was anxious to slow up its drift toward the communist bloc; he knew that Soekarno was already turning to Moscow to get the military equipment necessary for invasion. And he was also anxious to strengthen the anti-communist forces, especially in the army" (Schlesinger, 1967 p.533).

In summary, during the first two decades after independence, Indonesia was a country facing disorder, instability and uncertainty. The Dutch, like most colonizers, left the legacy of a socially and economically divided country. Economically, the Dutch left Indonesia with a dual economy in which economic activities were divided along racial lines. Indonesia remained as a paternalistic society with a small and politically divided elite group (Legge, 1964). As a result, the newly independent country was in a state of chaos as the leaders lacked both leadership and administrative skills. In addition, the nature of Indonesian nationalism and the geopolitical conditions also enormously contributed to the chaotic situation. Indonesian nationalism was initiated and orchestrated by various elite groups who held different ideologies. This caused a rift amongst the country's leaders which in turn led to political instability. This was exacerbated by the geopolitical situation, which at the time witnessed a power struggle between two superpowers (the US and the Soviet Union) competing to be the world's *hegemon*. The combination of those factors made Indonesia one of the most intense political and ideological battlefields for the world's superpowers during the Cold War (Mintz, 1965). Amidst these circumstances, the Indonesian accountancy profession was developed.

4. 3. Status quo of the accountancy profession in colonial Indonesia (1870–1949)

As in any colonized society, the Dutch brought Western accounting and auditing into Indonesia. Accounting was practiced during the VOC era, as the company held monopolistic rights on trade in business in the colony and acted as its quasi-government (Sukoharsono, 1995; Sukoharsono and Gaffikin, 1993a). However, VOC only practiced simple accounting and there was no evidence of the existence of a sophisticated accountancy profession until VOC was dissolved in the late 18th century (see e.g. Sukoharsono and Gaffikin, 1993a). The brief transfer of control from the Dutch to the French (1795), and later to the British (1811), did not create significant influence on the country's accounting development. The French conquest of the Netherlands did not have significant impact on Indonesia, other than the liquidation of the VOC. British rule (1811-1830) was too short to leave any significant impact despite its colonial style being significantly different from the Dutch.[16] According to prior studies, it was only after the British period that accounting and auditing in Indonesia entered a stage of development that mimicked its Western origin. However, such development did not happen immediately after the Dutch took power from the British in 1830. This was because the Dutch decided to directly control and monopolize the colony's production of agricultural commodities between 1830 and 1870 (see e.g. Higgins and Higgins, 1963 and Furnival, 1944). As in the VOC's era, there was no need for accounting and the accountancy profession since the colonial ruler controlled production centrally.

[16] "The British style is different from the Dutch in that it tried to make Indonesia not only a producer base of crops but also a market for British manufacturing products. Under the administration of Sir Stamford Raffles, the British tried to change the Dutch system of 'forced deliveries' with a system of 'land taxes' and 'feudal aristocracy' with more modern colonial rule to help liberalize the administration and monetize the economy" (Higgins & Higgins, 1963 p.53, also Ali, 2009).

The introduction of accounting as a professional service to Indonesia corresponded with changes in the colony's mode of production. As described earlier in this chapter, the Dutch government's decision to adopt the liberal economic system in 1870 ended its monopolistic power on the colony. Direct investments by Dutch companies in Indonesia at that time created a demand for such infrastructure. In the early 19th century, the Dutch established two big financial institutions: *Netherlandsche Handel-maatschappij* (NHM) on 7 February 1825 and the *Javasche Bank* on 24 January 1828. These financial institutions financed most of the trading and agricultural activities until 1850. The availability of financing sources stimulated commercial and business activities which eventually created greater demand for accounting knowledge (Sukoharsono and Gaffikin, 1993b).

Accounting development under Dutch direct administration intensified during the first half of the 20th century. It developed in an institutionalized manner during 1900-1940, parallel with the increase in governmental, industrial, commercial and financial activities. During this period, a colonial state accounting agency was established to maintain proper records of the Dutch government's financial flow into the colony (Sukoharsono and Gaffikin, 1993; Bachtiar, 2001)[17]. The First World War also played a part in accounting development during this era as it pushed the Dutch to maximize their tax revenue, thus creating more demand for accounting services (Bachtiar, 2001). As the colonial government opened its economy to private investment, private

[17] Different authors give different accounts of this. Bachtiar (2001) reports the agency's name as *Belasting Accountantdienst*, translated as the State Accountant Bureau. Sukoharsono and Gaffikin (1993), on the other hand, report the establishment as the State Audit Agency. It is possible that the difference was only due to the difference in the translation of the agency's name in the Dutch language.

accounting firms also flourished in Indonesia. The first firm was co-founded by Frese and Hogeweg in the second part of the 1910s (Sapiie, 1980). No fewer than six firms offered their services in several cities in Indonesia in the period between 1915 and 1941. All of these firms were Dutch accounting firms. Table 4-3 presents the names of the accounting firms operating in Indonesia during that period.

Table 4-3: List of accounting firms operating in Indonesia during 1915-1941

Firm	Years of operation	Cities in which offices and branches operated
1. Frese & Hogeweg	1918–1941	Jakarta, Bandung, Medan, Semarang, Surabaya, Palembang
2. H.J Voorns	1920–1921	Surabaya
3. E.F Jahn	1935–1940	Jakarta
4. H. Grevers	1938–1941	Malang
5. J.P van Marle	1941	Surabaya
6. Mej. G. Segall	1941	Surabaya

Source: Adopted from Sapiie (1980)

The development of the profession took a twist during the Second World War when the Japanese occupied Indonesia. They embarked on a mission to destroy Western influence amongst Indonesians and introduced 'Japanised' policies. This brought the development of accounting in Indonesia to a new stage. The use of Western language was banned and replaced with Japanese. The Japanese took over all Western businesses, took hostage of all non-allied Europeans as well as allowing for the first time the *pribumis* (Indonesian term for indigenous Indonesians) to take on governmental positions such as in the Ministry of Finance (Ricklefs, 2007). Courses in bookkeeping and accounting were offered to train these new officers. The training was Japanese-based, and four different levels of accounting were introduced (Foo, 1988). Thus, one of the important legacies of the Japanese occupation was that they introduced *pribumis* to various courses in accountancy in the governmental

accountancy, although their true intention was to organize and smooth Indonesia's administration as Japan's economic machine during the Second World War (Ricklefs, 2007).

The narrative in this section shows that during the period of formal control and occupation, the introduction and development of the profession in Indonesia can be divided into two phases. In the first phase of VOC administration, accounting was only practised to meet the VOC's internal needs and as such, there was no demand for the services of the accountancy profession. The accountancy profession started to flourish when the VOC's monopolistic right was abolished and the Dutch government adopted the liberal economic system in Indonesia (ca. 1870). The liberal system opened up the colony's economy to Dutch private companies whose operations were separated from their owners back in the Netherlands, which created demand for accounting services in Indonesia. In short, the link between free-market capitalist economic systems with the development of the accountancy profession was evident in colonial Indonesia.

Despite the above development, the accountancy profession in colonial Indonesia was run by, and for, the Dutch. In fact, the level of integration of accounting with the indigenous people had been very low, even when compared with the standard of involvement of local indigenous people in other colonies. This was due to the Dutch style of colonial administration, among which was the distinct segregation of economic activities amongst Indonesian society. The impact of this on the emergence and early development of the accountancy profession in Indonesia following her independence is explored in the next section.

4. 4. The early development of the accountancy profession in post-independence Indonesia

The early development of accounting in Indonesia can be divided into three sub-periods. The first period (1950–1964) was the birth and consolidation period, which saw the beginning of the US influence on the country's model of the accountancy profession. For half a decade, the country seemed ready to fully adopt the Western model of the accountancy profession. This period was succeeded by the second sub-period (1957–1967) where both political and ideological battles resulted in a change in political direction, and hampered the full adoption of the US model. The third period (1967-1973) saw the resumption of the switch to the US accounting system following the radical swing in the country's political and economic orientation that took place in 1966–1967. Table 4-4 illustrates the significant events in the process of professionalization during the three periods which will be discussed in more detail in the following sections.

Table 4-4: Significant milestones in the early development of accounting and the accountancy profession in Indonesia

Periods	Milestone
Accounting in colonial Indonesia	
1602–1795	The formation of *Verenegigde Oost-Indieche Compagnie* (VOC; the United East Indies Companies). VOC held a monopolistic right on trade and business in Indonesia.
1795–1811	French rule; no significant difference from the Dutch. VOC surrendered its monopolistic right.
1811–1830	British rule; the intention was to create textile market and land reform in Indonesia.
1830–1942	Second Dutch Rule: • 1824: The establishment of financial institutions in Indonesia: *Netherlandsche Handel- maatschappij* (NHM) and the *Javasche Bank* • 1848: The first commercial law was enacted. This law was based on the Dutch commercial law of 1838 which was influenced heavily by

Periods	Milestone
	the French law. • 1907: The establishment of the State Audit Agency.
1942–1945	Japanese occupation. Dutch and European accountants were expelled from Indonesia. Indonesians were given the opportunity to receive clerical bookkeeping training.
1945 - 1949	War of independence; • 17 August 1945: Proclamation of independence. • 2 November 1949: The Hague treaty, Indonesia was not to nationalize Dutch businesses. • 27 December 1949: Transfer of sovereignty.
Sub-period 1: the consolidation period (1949–1957)	
1959–1957	An era of liberal democracy politics
• 1949	With liaison by the US and Australia, the Dutch recognized Indonesia's independence.
• 1952	The passing of Foreign Investment Act
• 1954	The passing of Act 34/54 concerning the Use of Accountant Designation.
• 1957	The establishment of the Indonesian Institute of Accountants (IIA).
Sub-period 2: the stagnation period (1957–1966)	
1957–1964	The guided democracy period
• 1957	Unilateral breach of The Hague Treaty; all foreign companies were nationalized.
• 1962	A PhD dissertation by S. Hadibroto proposed Indonesia adopt the American accounting system
• 1963	the first IIA Congress
Sub-period 3: Regime change and full switch to the US system	
• 1966/67	The fall of Soekarno's Old Order and the instalment of the New Order
• 1967	Act number 1 concerning Foreign Investment passed. The Finance Minister allowed Arthur Young (US) to form joint partnership with an Indonesian local accounting firm (KAP Santoso Harsokumo).
1969–1977	The transition to the US accounting system:
• 1971	Revocation of local – foreign accounting firms joint partnership rulings
• 1972b	Preparation for Indonesian capital market. The IIA published *Prinsip Akuntansi Indonesia* and *Norma Pemeriksaan Akuntan* (the Indonesian Accounting and Auditing standards)

Adapted from Foo (1988) and The Asian Development Bank, 2003

4. 4. 1. The consolidation period (1949–1957)

The Dutch colonial style and policy of preventing *pribumis* from participating in modern economic activities, coupled with the restriction of access to education, resulted in only one Indonesian, Abutari, holding an accounting qualification from the Dutch in 1945 (Ikatan Akuntan Indonesia (The Indonesian Institute of Accountants, hereafter IAI), 2007b). There was also no accounting firm owned or led by an Indonesian (Tuanakotta, 2007). Foo (1988) reported the state of accountants in Indonesia at that time:

> "Before the Japanese Occupation in 1942, Indonesians were excluded from participating in business activities as covered by the Commercial and Civil Codes, which applied almost exclusively to the Dutch and Europeans. Except for some non-Dutch foreign enterprises, such as English, American, French and Belgian, which employed their own nationals as accountants for their Indonesian operations, nearly all accountants were Dutch" (p. 109).

The exclusion of the *pribumis* from accounting practice was extreme compared to other former colonies, especially British colonies. Table **4-5** illustrates the difference in the number of accountants relative to the level of population at the time of the establishment of the profession in three different ex-colony countries.

Table 4-5: Comparison in the number of indigenous accountants during the establishment of the accountancy profession

	Indonesia[1]	**Jamaica**[2]	**The Philippines**[3]
Number of indigenous accountants	1	25	57
Population[4]	73.2 million	1.7 millions	11.2 million

Note:
1. As of 1950, source IAI, 2007b
2. As of 1962, source Bakre (2001)
3. As of 1923, source Dyball *et al.* (2007)
4. Source: Indonesia and Jamaica from The United Nations, 2008; the Philippines from Lahmeyer, 2006.

Despite the government achieving stability only in 1950 following the Dutch formal recognition of its independence in 1945 and accounting being 'alien' to the *pribumi*, it is surprising to note that the state was very keen in establishing the accountancy profession. Two major events that occurred during this period established and consolidated the accountancy profession of the new independent Indonesia. The first is the enactment of Act Number 34 year 1954, titled "The Use of the Accountant Designation", and the second event was the formation of the first association of accountants in 1957. The following sections explain both events in turn.

4.4.1.1. Act number 34/1954: The birth of the profession

In 1954, the government issued *Undang-undang nomor 34 tahun 1954 tentang Pemakaian Gelar Akuntan* (Act of Republik Indonesia number 34 year 1954 concerning the use of 'accountant' designation). This Act is a vital milestone in the history of the Indonesian accountancy profession as it is considered as the legal foundation of the Indonesian accountancy profession. Amongst its seven sections, the most crucial sections were the ones relating to Articles 1, 2, and 4. Article 1 established the credential mechanism in determining who has the right to claim professional status. It stated that:

> "…… the right to use the '*akuntan'* ('accountant') designation – with or without further explanation or extension – is only to be granted to those who hold '*ijazah akuntan'* (accountant diploma) in accordance to the rules based on this Act" (Act number 34 year 1954, Article 4).

Article 2 explains that the Act only recognized accounting certificates from two sources. First, a certificate of successful and satisfactory completion of education in accountancy issued by a public university or other higher education institution established by certain act/law or recognized by the government (Article 2 point 1.a). Alternatively, the Act recognizes accounting certificates that are received after

passing an examination to render accounting services endorsed by an "Expert Committee". The Act further stated that the structure and the operating procedures of the "Expert Committee" were to be jointly decided by the Finance Minister and the Minister for Education, Teaching, and Culture.

On the other hand, Article 4 established the boundaries on the supply side of the market for accounting services. It specifically declared that only accountants can provide accounting services by stating that:

> "Offering accounting services using such names as '*kantor akuntan'* (*accountantskantoor*)[18], '*biro akuntan'* (*Accountants-bureau*) or any other names that bear the '*akuntan*' (accountant) or '*akuntansi*' (accountancy) terminology is only permissible if such office or bureau is led by one or more accountants" (Act number 34 year 1954, footnote is added).

The setting up of the boundaries of the accountancy profession through this Act was considered timely and reasonable because prior to 1954, no one really knew the type of expertise the accountants offered and the type of training that was needed to be an accountant. As a result:

> "... all sorts of people can call themselves accountant without getting any legal consequences despite their lack of accounting knowledge. Often we see these people are offering services that are unacceptable to accountants' ethic such as brokerage, commission-based job, and property agency" (Sapiie, 1980 p. 137).

Some authors argued that the closure of the accountancy profession by Act number 34/1954 was in the government's interest. Bachtiar (2001, citing Sukoharsono and Gaffikin, 1993b) stated that the Act was intended to accommodate Indonesians' aspiration to attain professionalism without having to obtain qualifications abroad

[18] This is the Dutch term for "accounting office".

while Sapiie (1980) believed that it was due to the government's need for accountants to protect its tax revenues. In the Act's official explanatory document, it was implied that the motive of the government was to fulfil market demand. In the memorandum of explanation of the Act, it was stated that:

> "During the last decade, the importance of the work of accountants has increased. This was due to increasing economic difficulty, increasing competition, and the increase in taxes for trading and industry. Hence, there has been an increase in the need of opinion and advice of experts to achieve improvement in the administration of companies, more accurate '*kostprijsberekening'* (cost calculation), and the implementation of principles of business economics. Certainly, the business community will use the service of one who studied these matters based on knowledge and had practical experience in it, that is the accountant. …However, this increasing need for accountants' services will probably become the motivation for the general public to claim themselves as accountants, without the required knowledge and experience" (Memori Penjelasan Mengenai Usul Undang-undang number 34 tahun 1954 (Memorandum of Explanation Concerning the Proposal of Act number 34 year 1954)).

Despite the government's statement of market rationale in justifying the stipulation of the Act, there was scepticism about the urgent need for accountants and accounting services for a five-year-old economy that was still gasping for political stability. Soemardjo Tjitrosidojo, one of the first few Indonesian accountants, provided an account of the limited accounting market at that time:

> "Companies that belong to *pribumi* or *non-pribumi* but without Dutch ownership rarely used the service of public accountants... and before 1954, there were only a few accounting firms operating in Indonesia" (cited in Sapiie, 1980).

Given the state of affairs then, it can thus be speculated that foreign interests may have influenced the government's decision. The direction of the Act was clearly influenced by the fact that during the early 1950s, Indonesia was politically leaning towards the US. This fact was unsurprising as the country's independence was to a

degree helped by the US's political pressure on the Dutch (Ransom, 1975). Furthermore, as described earlier, foreign interest in the country was evident from the large flow of funds from abroad (Grant, 1967). To the donor and creditor countries, Indonesia must be ready for foreign capitals. The timing of the enactment of the Act revealed that prior to Act 34/1954, the government had already stipulated Undang-undang Darurat (Emergency Act) number 13 year 1951 (later reinforced as Act number 15 year1952); an Act intended to prepare for the establishment of the security exchange market in Indonesia.

Besides foreign direct financial interest, Western-educated elites also played a significant part in the enactment of the Act. Despite strong nationalist sentiments, there were factions amongst the elite groups who favoured the Western economic system. One of those Western-educated elite individuals was Sumitro Djojohadikusumo, the first Indonesian to hold a PhD in Economics from a university in the Netherlands. At that time, he held two important positions: Finance Minister and Dean of the Department of Economic Studies at the University of Indonesia.[19] Ransom (1975) provided an account of the elites favouring the west:

> "Distressed by the spectre of Soekarno and the strong left wing of the Indonesian independence forces, the American establishment found the bland nationalism offered by Soedjatmoko and Sumitro a most comfortable alternative. The Marshall Plan strategy for Europe depended on the 'availability of the resources of Asia', Soedjatmoko told a New York audience, and he offered them an Indonesia open to 'fruitful cooperation with the West.' At the Ford Foundation-funded School of Advanced International Studies in Washington in early 1949, Sumitro explained that his kind of socialism included 'free access' to Indonesian resources and 'sufficient incentives' for foreign corporate investment" (p. 93).

[19] During his tenure in the cabinet, he was in fact involved in a rebellion movement against the then ruling socialist Old Order Regime. The rebellion was supported by the modern wing of Indonesian Muslims. Some believed that this movement was backed by the US, after all he was indeed the leading partner of Ford Foundation projects in Indonesia (e.g. Ransom, 1975).

The promulgation of Act 34/1954 was clearly intended to prepare the foundation for the establishment of the Indonesian accountancy profession. The country seemed to have been prepared to embark on the Western-style accounting infrastructure. An event immediately following the stipulation of the Act provided a stronger indication of this conclusion. In 1957, *Ikatan Akuntan Indonesia* was formed.

4.4.1.2. The formation of *Ikatan Akuntan Indonesia* (IAI)

As described in the previous section, the Dutch style of colonial administration left Indonesia in an impotent state. Not only was the country without sound administrative infrastructure in place, but it also lacked both qualified personnel and administrative skills. Consequently, it was forced to send its citizens abroad to gain much needed skills and experience especially in economic-related disciplines. The country turned to the US and Australia for academic and technical assistance as they were the ones helping Indonesia in its diplomatic struggle to gain international recognition. During the 1950s, the government (including education institutions) sent many students abroad to study economics, public finance and accounting in the US, the UK and the Netherlands. Most of these students were officers and lecturers from different governmental agencies and universities. One of these students was Soemardjo Tjitrosidojo, who later became the first Indonesian professor of accounting (Gade, 2002 p.41).

One of the most important educational cooperation programmes was through the Ford Foundation. This cooperation was introduced in 1952, enabling Indonesia to send students abroad, mostly to the US. The cooperation covered research and educational

projects in economics (through the MIT and later the University of California in Berkeley, UC Berkeley) as well as social politics through the Cornell Modern Indonesia Project (see e.g. Ransom, 1975 and Kahin, 1989). The immediate impact of the cooperation between UC Berkeley and the University of Indonesia was the establishment of the country's first higher education accounting programme in 1953 (Foo, 1988). UC Berkeley sent some of their accounting and economic lecturers to teach in Indonesia and some Indonesian students were sent to study accountancy in various US universities. The first person to graduate from such a programme was Suhadji Hadibroto, the second accounting PhD holder in Indonesia who was sent to the University of Michigan and completed his doctoral thesis at the University of Indonesia (PDAT, 2009a; Gade, 2002).

The opportunity given to Indonesians to study abroad created a small network of Western-educated elites who were supportive of the US's accounting system. Although few in numbers, this did not stop them in shaping the early foundation of the Indonesian accountancy profession. There were seven Indonesians who had accounting qualifications at the beginning of 1957: Abutari, Soemardjo, Tan Eng Oen, Teng Sioe Tjhan, Tio Poo Tjiang, Liem Koei Liang, The Tik Hie (Akuntansi dan Administrasi, 1966; IAI, 2007a). They were all Dutch-educated accountants under the VAGA (*Vereniging Academisch Gevormde Accountants*) scheme except for Abutari who was educated via NIVA (*Nederlands Institute Van Accountants*) short courses (Institut Akuntan Publik Indonesia (The Indonesian Institute of Public Accountants, herefater IAPI), 2009b; Bachtiar, 2001). At the time, there were two groups of accountants based on their accounting education paths. NIVA was the association for accountants who graduated from a university-based accounting

education. VAGA, on the other hand, is the association for accountants who had previous practitioner experience and were educated under the professional accounting short courses. By the end of 1957, the number of accountants grew to 11 when the University of Indonesia's accounting programme produced its first batch of locally educated accountants: B. Siddharta, H. Darmawan, Tan Tong Yoe, and Go Tie Sien (IAI, 2007a; Tuanakotta, 2007).

The key actors in the early organization of the Indonesian accountancy profession, who were responsible for the establishment of IAI, were Soemardjo and the four newly graduated local accountants. They were determined to establish an organization for Indonesian accountants and one of the primary reasons was because these accountants were not accepted into the two Dutch accounting organizations: the NIVA and VAGA (IAPI, 2009b).[20] On 17 October 1957, they held the first gathering of accountants with the motive of establishing an organization of Indonesian accountants. The objectives of the organization were: (1) to help in the enactment of Act number 54/1954; (2) to help in monitoring (public) adherence to Act number 54/1954; (3) to help in maintaining the quality of accounting education; and (4) to facilitate the gathering of accountants for sharing of theoretical and/or practical knowledge (IAI, 2007b). Those at the meeting also agreed to form a steering committee for the establishment of what was temporarily called the '*Perkumpulan Akuntan Indonesia (*the Union of Indonesian Accountants)' (IAI, 2007a; IAI, 2007b).

[20] There is no clear account as to why these accountants were not accepted as members of NIVA and VAGA. However, one of the strongest reasons was the fact that these new accountants were not educated under the Dutch system, hence their qualification was not recognized by the Dutch accountant community. The second reason was that political hostility towards the Dutch has started to escalate by the time these accountants graduated from the University of Indonesia (see the last paragraph of Section 4.2.3 and Section 4.4.2).

The first task of the steering committee was to contact the other six accountants who were not present at the meeting and on 20 October 1957, letters were sent asking their opinion on the establishment of PAI, to which they responded positively. The second gathering was on 5 December 1957, and the main agenda was related to the setting up of the organization including deciding and agreeing on basic terms such as the objectives, charters, membership and fees. There were also discussions about the possibility of foreign accountants becoming members of the newly formed organization in an effort to eradicate 'bogus accountants'. In the third meeting on 23 December 1957, the organization was formally established, the executive committee elected and the organizational charter discussed. In May 1958, the organizational charter was agreed and finalized. On 19 October 1958, IAI applied for state recognition and on 11 February 1959, it was formally acknowledged by the Ministry of Justice (IAI, 2007b).

The narrative in this section shows that the birth of the Indonesian accountancy profession had been mainly the outcome of external factors. Following the Second World War, as a new rising world superpower, the US started pursuing a hegemonic world order which linked political dominance with an open world economy (Ikenberry, 2007). A hegemonic world order is a pattern of inter-state relationship in which the hegemon or the leading state, "opens its domestic market, constructs institutions and uphold rules, and seeks to manage crises and imbalances in the system as well as provides security and stability" (Ikenberry, 2007 p.43). The rest of the world in return has to operate within this system and provide the hegemon with resources and logistics. The open, integrated and stable system of the world market is vital to the hegemon in various ways (Ikenberry, 2007). Firstly, it provides the

hegemon with access to domestic markets across the world, and also to technology and other resources needed for domestic economic security and growth. The stable hegemonic order also minimizes the cost of enforcing orders and rules since the less powerful states have already willingly agreed to uphold them. Secondly, it gives the hegemon the opportunity to influence other states' political and economic orientation through the creation of close-knit economic ties to balance power and hinder strategic rivalry. Finally, it promotes the evolution of political systems amongst other states that are more conducive to the hegemon's security and interests.

With the increasing consciousness in the ex-colonies of their right of equality amongst nations, the US had to undertake less confrontational ways to achieve its purpose.[21] Less powerful states were dragged into this order through so-called 'modernization' and 'developmental' ideology, aimed at promoting social change and economic development in 'underdeveloped areas' Hoogvelt (2001). As Hoogvelt (2001) argued further, the aim was not purely altruistic as such but was designed as a strategic campaign amidst the hegemonic race of the Cold War:

> "... it was soon realized that the transplantation of capital and technology to the Third World would not bear fruit unless it was accompanied by wider and consistent social, cultural and political changes" (Hoogvelt, 2001 p. 35).

During this period, modernization becomes not just a theory but a logic that is prescriptive and normative (Hoogvelt, 2001). Third World countries have to develop socially and economically in the way the stronger countries (especially the US and

[21] Nevertheless, direct military action was not altogether abandoned as proven in some cases (see e.g. Hoogvelt, 2001 p.34).

Western Europe) have developed to fit the latter's purpose, ignoring cultural and social differences:

> "... the compatibility or 'correspondence' between certain advanced economic institutions (money, markets, occupational specialization, and profit maximization) on the one hand and certain 'modern' political, cultural and social forms on the other, thereby turning the latter into necessary pre-requisites or 'logical requirements' for the former" (Hoogvelt, 2001 p. 35).

The step taken in enacting an Act to establish the accountancy profession despite the absence of an accountant community or accounting market, despite an infant economy, and only four years after having a stable government during the consolidation period, may be attributed to the so-called process of modernization. If Indonesia was to be successfully upgraded from a mere raw material and commodity production centre to both production centre and market for industrial products, it needed to have an accountancy profession that is similar to that of the West. Powerful states, especially the US, invested enormously in 'modernization' and 'development' aid programmes and as early as 1952, through the Ford Foundation, the US established research and education cooperation with leading Indonesian universities, most notably the University of Indonesia.

Following the above sequence of events, the country was set to fully accept Western direction of its accountancy profession. However, the establishment of a Western-oriented profession encountered a serious challenge during the second half of the 1950s. The full influence of the US system was disrupted following the country's radical political swing in orientation towards the eastern bloc (the Moscow–Peking axis). To a large extent, this change of ideological orientation was a combination of the perceived failure of Western-style liberal democracy and the political thinking of

President Soekarno. The next section describes this turmoil and its effect on the trajectory of the early history of the Indonesian accountancy profession.

4. 4. 2. The stagnation period during the era of guided democracy (1957 – 1966)

The inclination of Indonesian leaders towards the Communist bloc had affected the development of the profession in at least two ways. First, the market for accounting services was reduced because users of accounting services had been the Dutch and other Western companies. Following the shrinking of the market, Dutch and other foreign accounting firms ceased their operations. By 1958, as a consequence of Soekarno's political thinking that radically changed Indonesia's political orientation, there were eventually no foreign accounting firms operating in Indonesia. The existing local accounting firms on the other hand had to rely on works offered by the government. However, the public sector was far from adequate to sustain the growth of the profession for two reasons. First, the government was reluctant to offer accounting jobs to external accountants. A government official from the state audit agency was quoted as having said to an accountant: "all sectors in which there is even a cent of public money are solely government affairs and are closed to public accountants" (quoted in Sapiie, 1980). Furthermore, the fee for these government engagements was very low (Sapiie, 1980). The small audit and accounting market and the government's reluctance to provide accounting work to public accountants had by and large distorted the development of the professional infrastructure of the newly born profession for approximately a decade following its formation.

The second impact on the profession was more fundamental in changing the early development of the profession. The nationalization policy led to the exodus of Dutch

accounting lecturers out of the country. This proved to be a critical aspect shaping the future of accounting and the accountancy profession in Indonesia. With the Dutch accounting lecturers leaving the country, Indonesia had to look for their replacements. The US, realising that economic and political intervention would not work, quickly seized the opportunity to help the country overcome the shortage in accounting lecturers. Through the existing cooperation agreement between the University of Indonesia and UC Berkeley, the latter agreed to send some of their accounting and economic lecturers to Indonesia. The cooperation also provided scholarships to Indonesian students to study accounting in the US as well as supplying all the academic materials to the University of Indonesia. The cooperation resulted in the presence of two streams of accounting education in the country (Bresnan, 2006; Kahin, 1989): the old Dutch accounting system continued to be taught for non-degree courses and the US accounting curriculum was used for higher degree education. The dualism lasted for a decade. From its inception in 1953, the accounting programme at the University of Indonesia taught both the Dutch and the American systems and by 1959, it produced accountants who were fully educated under the US system:

> "The curriculum of the Accounting Department of the University of Indonesia started with a Dutch program. But after a period from 1956 – 1958 of a mixed pattern between the American and the Dutch system, since 1958 the curriculum has been changed largely to an American style" (Hadibroto, 1990 p. 129).

In the mid 1960s, despite the country's exacerbating relationship with the Western bloc,[22] the US accounting influence continued to exist especially in the area of

22 By the end of the 1950s, Soekarno started his political propaganda claiming Malaysia, Singapore and West Papua (*Irian Barat*, Indonesian) as part of Indonesia. This campaign was supported by the Soviet Union but fiercely opposed by the US and the UK. Following this campaign, Indonesia chose to quit the United Nations, the International Monetary Fund, and the World Bank. As the US threatened to stop its aid to Indonesia, Soekarno fired back with his famous "Go to hell with your aid!" slogan (e.g. Bresnan, 2006, Mortimer, 2006).

accountancy higher education. One of the enabling factors was the ongoing Ford Foundation projects of education cooperation which produced US educated elites in the country. One of the key players in the country's adoption of the US accounting system was Suhadji Hadibroto, who graduated from the University of Michigan. His PhD thesis in 1962 was a comparative study of the Dutch and the US accounting system. The comparison covered topics such as the construction of accounting theory, theory of accounting principles, theory on profession, and accounting and auditing practice. His thesis generally implied the superiority of the US system over the Dutch, hence recommended its adoption in his thesis. The following are some excerpts from his thesis:

> "The pragmatic approach to accounting theory formation is more appropriate for Indonesia.
>
> ... Indonesia which is still in the early stage of economic development needs more workable theories and should not spend too much time constructing scientific theories which do not contribute directly to the overall development of the country. ...
>
> Broad principles such as 'good business practice' in Dutch accounting theory is non-operational and gives no definitive rules of what is assumed to be good practice. The notion 'generally accepted accounting principles' with their clear and detailed guiding standards advanced by American theorists is more useful for the profession. ...
>
> A corollary recommendation in connection with accounting theory is that the provision of a set of guiding standards such as those issued by the AICPA would also be appropriate. The 'Ikatan Akuntan Indonesia' (Indonesian Accountants' Institute) should take the initiative for issuing guiding standards which should then be endorsed by the Department of Finance" (Hadibroto, 1990 p.153-154).

This section has shown that the professionalization process between 1957 and 1966 has gone through a period of stagnation and disruption of the full Americanization of the Indonesian accountancy profession. Two factors contributed to this: first, the Dutch colonial legacy that left virtually no accounting infrastructure to build the profession, and second, the strong challenges posed by both the world polity as well

as the condition of Indonesian politics during the late 1950s. The political turbulence brought by the liberal democracy system during 1949–1955 gave the opportunity to President Soekarno and his anti-Western political thinking to seize power. His political ideology was concurrent with the rise of the Eastern political bloc led by the Soviet Union and the People's Republic of China during the late 1950s until the late 1960s. This political swing resulted in the nationalization of foreign (mainly Dutch) companies and the adoption of a closed and centralized economic system, thus reducing the need for the accountancy profession. Consequently, the professionalization of accounting progressed very little.

The section also shows that ideological investment through scholarships and educational cooperation proved to be a vital factor in overcoming and resolving challenges and obstacles to the Westernization of the accountancy profession in Indonesia. This turn of events had forced the US to adopt a more subtle strategy through educational cooperation. Realizing that political and economic strategies would not work, the US insisted on maintaining educational cooperation with Indonesia (Bresnan, 2006). The next section will show how the nurturing of a group of elites was vital in determining the history of not only the profession but also the country in general.

4. 4. 3. Regime change and the switch to the American system (1965-1973)

The aspiration for full adoption of the US accounting system finally became a reality during the second half of the 1960s. In 1966, Soekarno's Old Order regime collapsed following a failed bloody *coup d'etat*, allegedly by the communist faction of the

military.[23] The succeeding regime was under the leadership of Soeharto, the head of KOSTRAD (the Indonesian Army Strategic Command). Some writers believed that the Ford Foundation students had played an indirect yet essential role in this political drama. They are believed to have successfully indoctrinated high-ranking officers within the Army with Western economic thinking (e.g. Ransom, 1975). Under Soeharto's leadership, the country made a "U-turn" in its political orientation towards the Western bloc. It instantly opened its economy by allowing the flow of foreign investments into the country with the enactment of Act number 1/1967 concerning Foreign Investment. A year later, the country was already preparing to establish its own capital market. A special task force was set up by Keputusan Direksi Bank Indonesia (Decree of the Board of Directors of Bank of Indonesia) number 4/16 Kep-Dir on 26 July 1968 to help in the preparation for the establishment of the capital and financial market. In 1976, *Badan Pengawas Pasar Modal* (BAPEPAM), the country's capital market authority was formed (Bapepam, 2007).

In anticipation of the possible increase in demand for accounting services following the establishment of the capital market, the IAI in its general meeting in 1973 issued PAI (*Prinsip Akuntansi Indonesia*, literally the Indonesian Principles of Accounting) and NPA (*Norma Pemeriksaan Akuntan*, literally Accountants' Examination Norms). These were, respectively, the first accounting and auditing standards in Indonesia. An account of how these accounting standards were drafted was given by one of the members of the drafting committee 34 years later:

> "…. As described earlier, it was the time of preparation of the opening of the capital market. For that purpose, Drs. Radius Prawiro elected several

[23] There were various views as to who was behind the coup but many believed that the US was behind it (see e.g. Griswold, 1998).

> accountants (*to prepare the accounting and auditing standards*). The combination between old and young accountants, between practitioners and academics ended up in the predictable debate as to whether to adopt the Dutch or the American system. Drs. B. Soenasto bought and distributed a book by Paul Grady, Inventory of Generally Accepted Accounting Principles. It was this book that we referred to in drafting *Prinsip Akuntansi Indonesia* (*Standar Akuntansi Keuangan;* Financial Accounting Standards) (Tuanakotta, 2007 p. 338; the words in italic are in original).

As can be seen in the above quote, the US-educated accounting elites have played an essential role in determining the direction of the professionalization. Radius Prawiro, a former military officer, was one of the students sent to the Netherlands in the early 1950s. During the late 1960s and early 1970s, he held the position of Governor of the Bank of Indonesia, the Indonesian Central Bank (1966 – 1973). The position was held concurrently with the post of Governor of the IMF Indonesian Representative Office (1967-1971) and Vice Governor of the ADB Indonesian Representative Office (1967-1971). The second important figure, Drs B. Soenasto, was one of the earliest registered accountants. During the UC Berkeley–University of Indonesia cooperation, he was an assistant to Robert Dinman, a lecturer assigned to teach auditing in Indonesia (Tuanakotta, 2007). By the mid 1970s, the full switch to the US system became a reality:

> "Universities' economic master graduates are not the only ones that will bring the mission to spread and develop the American accounting system by practicing it …, be it in a small company or the state…. But also all the undergraduates and drop outs who do not further their education and choose to work. All these are the factors that helped the application of the American system (Sapiie, 1980 p.193).

This section presents evidence of how the fundamental change in Indonesia's politics had paved the path of the early development of the profession. The instalment of the New Order into power was not a mere change in national political leadership. In addition to providing political support to the New Order, the US influence was also channelled through the students of the Ford Foundation educational cooperation

programmes who became vital domestic actors in changing the direction of Indonesia's development ideology. The cooperation enabled the US to groom the country's future elites which were receptive to its economic and political ideals. In other words, such projects had become a vital catalyst in influencing the Indonesian civilian and military elites to accept capitalism. Western-oriented intellectuals together with the army later ended Soekarno's socialist-oriented Old Order and changed the orientation of Indonesian politics towards the US. With its ties with the Western powers, particularly the US, it was not surprising that the change of regime had also meant the change in the country's power configuration and system of political economy. As the country opened its doors to foreign capitalists, the Western-style accountancy profession gained its momentum. The US managed to reap what it planted two decades earlier. The Ford Foundation projects established the first accounting degree programme, provided funding to open other accounting programmes in other universities in the country, provided the lecturers and even supplied the teaching materials. Indeed, the students benefitted from the cooperation that changed the path of the development and organization of Indonesian accounting. These students established the first accounting association and masterminded the direction of the country's orientation towards the US system.

4. 5. Summary and conclusion

The central argument of this chapter is that the early development of the Indonesian accountancy profession was inseparable from the wider dynamics of a newly independent country, heavily influenced by the changing relationship between countries following the demise of the colonial world order. Similar to other newly independent countries during the mid 20th century, Indonesia was heavily shaped by

the interaction of rival sets of material, institutional and ideological configurations emanating from the changing global order between the 1950s and 1970s. First, the wave of independence aspirations had indeed ended formal occupation as the way of controlling the means of production and transferring the wealth to the centre of the world economy. However, it was also accompanied by the emergence of the US as a new global superpower attempting to establish a new hegemonic world order under her leadership. During the post-colonial era, the US pursued this objective through implanting ideas, systems and technological infrastructure that would facilitate the working of the new world economy through various project such as the Marshall Plan in Europe. In this new order, ex-colonized societies would serve as both production centres and markets for advanced capitalist countries' products. To achieve this purpose, it is necessary for the core countries to prepare these 'underdeveloped' societies to have 'modern' and 'developed' socio-economic and political infrastructure including the accountancy profession. This would enable them to fulfil their new role as profit-generating centres based on rent and consumption of the late industrial countries' products. On one frontier, thus, newly independent countries such as Indonesia were being dragged to be part of a new form of global production organization through foreign debt, aid and investment (e.g. Helleiner, 2005). The US agenda, however, faced rivalling social structures emanating from two sources. First, the bitter experience of colonialism had generally developed negative feeling towards Western interests and influence amidst the ex-colonized societies (e.g. Kukreja, 2008). Second, the emergence of the Soviet Union as a rivalling world superpower had offered an alternative source of ideologies and material resources (such as financial aid) for the Third World countries' development.

In effect, the end of colonialism gave Indonesia the status of what Robert Cox termed as a 'protostate': a political structure that tried "more or less to successfully monopolize the capacity for exercising political force within the national territory but has not acquired either a firm social basis of consent or administrative capacity to formulate and apply economic policies" (Cox, 1987 p.218). Deciding the national strategy for achieving economic growth and development was thus a divisive dilemma in post-independence Indonesia. This was exacerbated by the Dutch colonial legacy and the various roots of Indonesian nationalism. After 350 years of colonization, the Dutch left Indonesia in a "social power vacuum due to weakness and fragmentation of social power" (Robison, 1988 p.49). When the country gained its independence, it was confronted with one of the most intense ideological struggles between the social and political factions striving to lead the country into either social revolution or reconstruction of capitalism (Robison, 1988).[24] Unlike many other ex-colonies, the newly independent Indonesia had neither clear proximity to nor close support from any of the then superpower blocs in terms of strategies for economic development.

It was in the above circumstances that the accountancy profession emerged and consolidated. Going back to the colonial time, 'modern' accountancy was introduced in Indonesia during the last decades of the Dutch colonial administration mainly to serve the Dutch capitalist interests that were about to invest in the colony following the adoption of the 'liberal economy system'. However, accounting had always been exclusive only to the Dutch; so much so that at the time of Indonesian independence,

[24] Nowhere else had the ideological battle been as intense as in Indonesia (at least in Asia) during this early period of the Cold War. Islam had perhaps become a factor that differentiated the struggle from elsewhere within the ex-colony world. It is a massive social force but at the time it was not necessarily a unified ideological force (see e.g. Mintz, 1965).

there was only one indigenous Indonesian who was an ‘accountant’. As in any colonized societies, the emergence of the accountancy profession cannot be attributed solely to the dynamics of the local people, due to the lack of leading circumstances such as an active community of accountants and the existence of an accounting market (see e.g. Dyball *et al.*, 2007; Birkett and Evans, 2005). In the case of Indonesia, the Dutch colonial administration itself had no intention nor made any effort to integrate accounting amongst the local people, and completely segregated the economy between local indigenous people (or the “*pribumi*”), the Eurasians and the Europeans. Constraining *pribumis* to only farming activities meant they had no exposure to business activities and practically no contact with accountancy, resulting in virtually no Indonesians being qualified as accountants. Despite these conditions, the country was quick in establishing the foundation for an accountancy profession. Within five years of achieving a stable administration, Indonesia passed an Act in 1954 that set the foundation of the accountancy profession in the country and provided legal boundaries for the profession. Three years later, a professional association was formed, despite the fact that the number of accountants at that time did not exceed “the number of fingers in one hand” (Tuannakotta, 2007). The two events indicated that the adoption of Western-like accounting infrastructure seemed imminent during the first half of the 1950s.

A stronger explanation thus may lie in the argument that the modernization of the accountancy profession was affluent with foreign interests. The increase of foreign direct financial interest and the proliferation of educational as well as technical aids and cooperation provide strong indication that the professionalization process was part of the efforts by global powers (especially the US) to integrate Indonesia into the

new global capitalistic order. However, unlike the accountancy profession in other ex-colony countries during that time (especially former British colonies), the accountancy profession in Indonesia was not a continuation of the Dutch legacy. Instead, it fulfilled the needs of a new wave of foreign interests attempting to control the country. The process reflected the attempts by the US, as a new and rising global power, to influence Indonesia's accounting orientation as part of and in line with other changes at the wider level of the social, political and economic contexts under her leadership (e.g. Helleiner, 2005; Ikenberry, 2007).

However, history is anything but linear. The chapter also shows that the implantation of the US-oriented accounting infrastructure was far from smooth as it faced challenges from the existing rivalling structures existing in Indonesia during the period in question. Despite having successfully laid down the foundation of the Westernization of Indonesian accounting in its early days of independence, the process of transformation faced material and ideological obstacles emanating from the fact that virtually no accounting infrastructure existed in the country due to the Dutch colonial administration as well as ideological divisions amongst Indonesian leaders during the first two decades following independence. The US's efforts involving modernization and developmental campaigns to change the social, political and economic institutions and orientation of Third World countries to fit the desired open world economy under its control, faced a stumbling block when Indonesian leaders moved towards the Soviet Union's model of development during the Soekarno's Guided Democracy between 1957-1966. The US influence could only be imparted by the nurturing of the country's elites through educational cooperation, which somehow survived political hostility towards the Western bloc during the

Guided Democracy era. The “modernization” of the profession only regained momentum when the New Order, a pro-Western political regime, gained control over the country in mid-1960s.

Finally, the chapter also explained how the nurturing of an elite group posed to be a vital factor in influencing the history of the accountancy profession. As discussed in the chapter, political and economic pressures do not seem to be effective forms of global influence on the development of the accountancy profession in the case of Indonesia. A more subtle approach was needed and this was achieved through the building of a knowledge network within a group of Indonesian elites. These elites were directly and indirectly involved in orchestrating the switch of orientation in accounting practice and infrastructure. By the mid 1970s, the Indonesian accountancy profession seemed ready to adopt a Western-style accountancy profession, particularly the US model. The next chapter will discuss how and why such expectation had not come to fruition during the last 20 years of the New Order’s era between 1967 and 1997.

Chapter 5

Globalization, the Politico-Business Regime and the Accountancy Profession under the New Order (1967-1997)

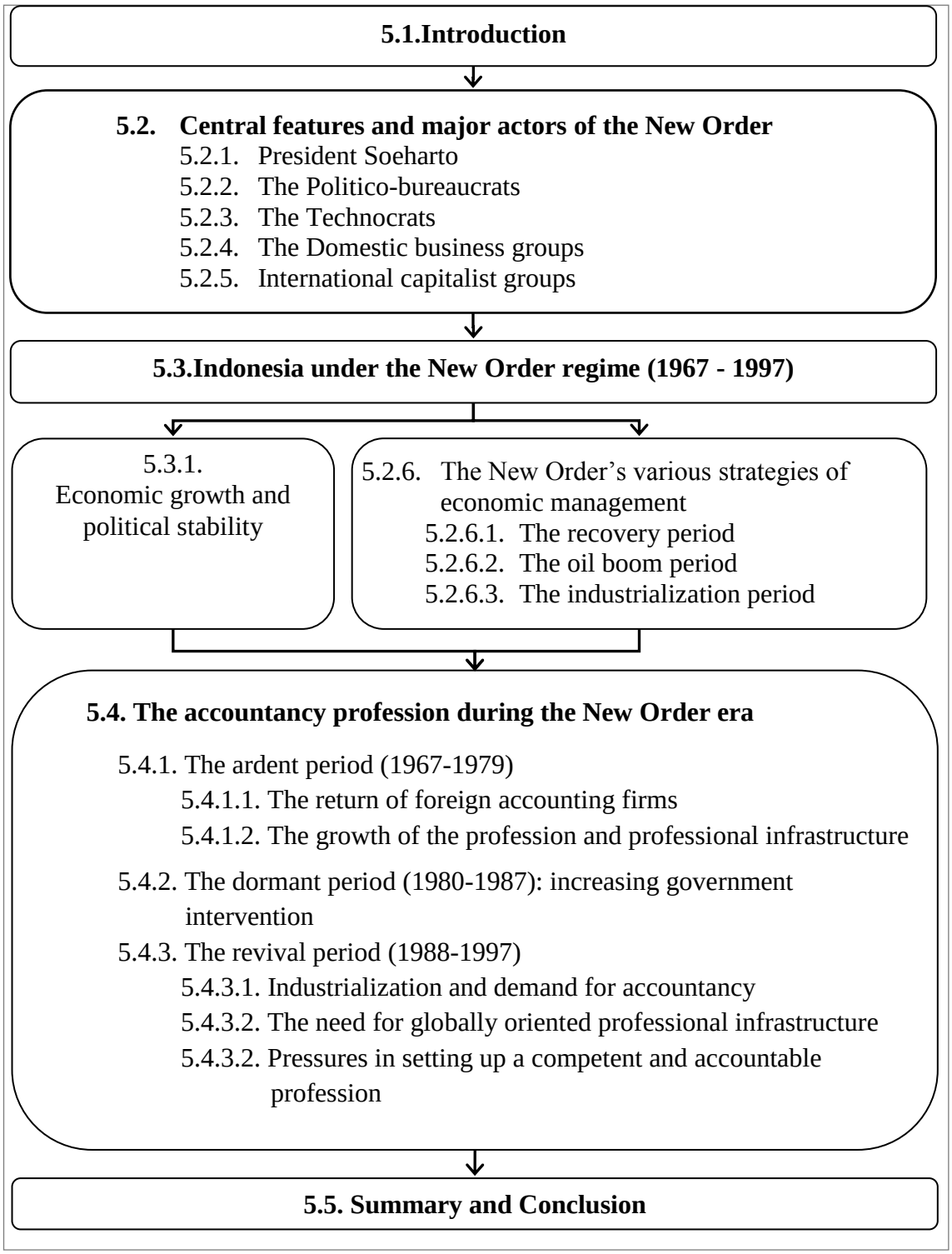
5. 1. Introduction

The development of the accountancy profession in Indonesia during the first decade following its establishment in the early 1950s until the mid-1960s was narrated in the last chapter. This chapter continues the enquiry by analyzing the second period in the history of the Indonesian accountancy profession when a new political regime known as the New Order took power in 1967 and governed Indonesia for 32 years. Unlike the tumultuous period of the 1950s and 1960s, this period enjoyed political stability and economic growth under the leadership of Soeharto, Indonesia's second president and the founder of the New Order. The narrative in this chapter shows that, despite the economic growth and political stability brought about by the New Order regime, the profession did not develop as might be expected given the economic growth and the New Order's good relationship with Western power. Possible factors contributing to the slowdown in the Westernization of the profession are discussed.

Figure 5-1 presents the structure of Chapter 5. To set the context for understanding major events in the development of the Indonesian accountancy profession during the New Order era, Section 5.2 starts by describing the central features and major actors of the New Order as a political regime with strong business interests. Section 5.3 describes the economic growth and political stability of the New Order era and the New Order's various strategies of economic management throughout its rule. Section 5.4 describes the development of the accountancy profession in relation to changes in

the New Order's economic development strategy. The chapter ends with the summary and conclusion in Section 5.5.

Figure 5-1: The structure of Chapter 5



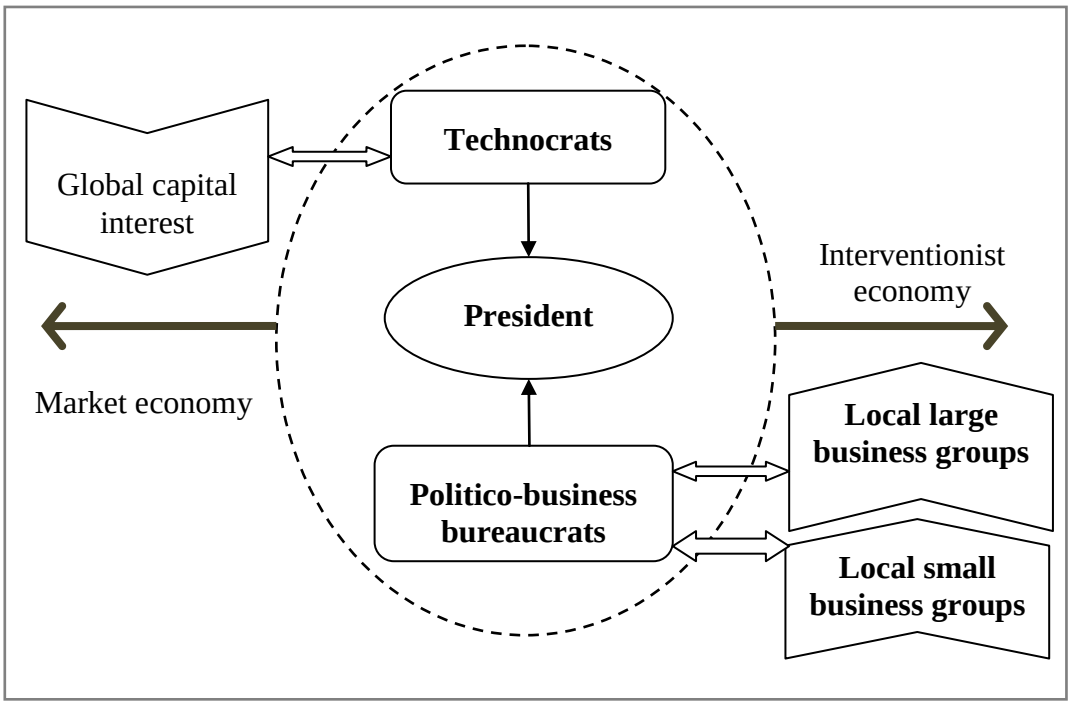
5. 2. The New Order as an alternative social structure: central features and major actors of a politico-business regime

The New Order played a very crucial role in shaping the development of the profession through its choice of economic policies and development strategy. Established as a Western-backed political regime during the transition of power in 1965-1967, the New Order grew into a prevalent political power with strong business interests. In effect, the New Order had become a politico-business regime in which the political elites used their power to build the economic emporium of the domestic conglomerates (mostly the political elites' cronies and family members), which in turn provided material support to sustain the New Order political reign. Combined, the two factors (the New Order's openness to Western power and the politico-business coalitions with the domestic conglomerates) had constantly swayed the New Order's economic development ideologies along the spectrum of open and interventionism economic policy. Throughout the New Order's era, the country experienced economic policies that bear the reflection of economic nationalism, populism, predatory behaviour and liberalism, all in different intensities at different points of time (Robison, 1997).

Why and how such variations prevailed may be attributed to the regime's policy-making structure and process, which was heavily influenced by the interactions between politicians and bureaucrats who had diverse economic interests (see e.g. Cassing, 2000; Rosser, 2002). Within the New Order, the presidency was the pivotal point of the regime's social and economic policies. Over the years, a circle of power grew immediately around the president (Cassing, 2000) and there were two camps of politicians and bureaucrats within this high political rank: the technocrats and the

politico-business bureaucrats. The technocrats and politico-business bureaucrats had different and conflicting views on how the country's economy should be administered. When the technocrats had more say in the inner circle, then the country would swing towards an open market economy, and when the politico-business camp had more say in the inner circle, then they would bring the country towards a protective and interventionist model of economy. This opposing tendency of the two camps to a large extent reflects the opposing interests of the international capitalists and the local conglomerates respectively. Figure **5-2** depicts this intricate relationship between the major actors.

Figure 5-2: The New Order major actors



As the figure shows, the starting point in understanding the New Order and its choice of economic orientation is to acknowledge the important actors who have the capacity to influence the choice of policies. Four major actors played crucial parts in directly and indirectly orchestrating the thematic fluctuations of the New Order's economic

policy orientation. Their influence over economic political decisions can be analyzed at two levels. The first level is the inner circle of power which includes the presidency, the liberal-market-oriented camp of bureaucrats (the techno-bureaucrats or simply "the technocrats") and the nationalist, interventionist-economy-oriented bureaucrats ("the politico-business bureaucrats"). At the second level, outside the political power boundaries, there are those interest groups who, because of their economic and political connections, have considerable ability to influence economic policymaking. The two major groups are the global capitalists and the large domestic business groups or the conglomerates. There is also the local smaller business group whose influence has usually been insignificant. Each of these major actors will be discussed in turn in the following sections.

5. 2. 1. President Soeharto

The most important actor is Soeharto, the President himself. Not only was he the founder of the regime that took over the country from 1967 to 1997, but also remained as the single central and dominant figure over the 32 years of the New Order's reign. According to the 1945 constitution, which was reverentially adopted by the New Order regime, the president as head of government already held a strong and powerful position in the Indonesian political system. However, through his political style, President Soeharto succeeded in nurturing his position to a point of enormous and irreplaceable centrality. This was made possible by gradually eliminating political rivalry at all levels through various mechanisms including issuing legislations that made state ideology (*Pancasila* or the Five Principles) to be the only permitted political ideology of any political or public movements; restricting and silencing oppositional activities through military and policing operations; and

controlling ideological diversities and political aspirations through simplification of political parties[25] and establishment of government-controlled NGOs. Other state institutions such as the *Dewan Perwakilan Rakyat* (People's Representative Assembly, the parliament), were made powerless as many of their members were either elected through an undemocratic election system or appointed by the President. This caused the New Order to be regarded as a patrimonial regime.

President Soeharto managed to achieve his position due not only to his political ability and the support of the military, but also to feudal inheritance and Javanese cultural belief that treated state officials as royal nobility who have power over them and whom they must obey. The Javanese, the largest ethnic group in Indonesia, often considered Soeharto (himself a Javanese) as a king, a father and God's representation to them (see e.g. Wahyudi, 2005). Over the years, such centrality led to unavoidable consequences: Soeharto became the nucleus of an exclusive power circle of political elites, comprising the people closest to him. As the regime grew stronger, so did the centrality of this circle of power, resulting in all major government policies being determined by the inner circle of power. Virtually all strategic policies and decisions had to go through a consultation with the President and, after obtaining his blessings, these decisions would go ahead unchallenged and would be implemented almost at all

[25] In the first election during the New Order regime in 1971, ten political parties participated in the election. Soeharto simplified the political parties by both reducing and limiting the number of political parties to just three in the 1977 general elections. All parties with an Islamic background were fused into the United Development Party, while nationalist parties were merged into the Indonesian Democracy Party (e.g. Mujani, 2008). The ideological oppression impacted the social and economic life of Indonesians. Islamic ideology and its manifestations had been subdued from the nation's political and economic agenda during the New Order and were only resurrected in early 1990s when Suharto (an 'abangan', a term representing Indonesian Muslims who adhere less strictly to Islam and often mix Javanese culture in the practice) approved the formation of Ikatan Cendekiawan Muslim Indonesia (the Indonesian Association of Muslim Intellectuals) under the leadership of B.J. Habibie, the then Minister for Research and Technology.

costs (Cassing, 2000). In other words, the dynamics of the New Order economic policy can largely be explained by the dynamics within the power circle.

There are two influential groups of bureaucrats within this power circle. The first group consists of bureaucrats who tended to advocate a nationalist agenda while the other tended to support the market economy. The opposing views held by the politico-business bureaucrats and the technocrats resulted in struggles to influence the country's economic policies.

5. 2. 2. The politico-business bureaucrats

The politico-business bureaucrats are the first of two important groups of high-ranking individuals who had significant influence over the New Order's economic policy-making. These were politicians and state officials who were either within the inner ring of the presidency or had access to that circle. A major characteristic of this group is their inclination towards a nationalist economic policy and strong belief that the state should protect the interests of domestic business and prevent foreign business' expansion and domination. They manifested their economic development agenda through their advocacy of economic protectionism and interventionism[26]. In addition, they also supported public investment in business activities in the form of state-owned enterprises.

Despite their seemingly nationalist motives, the intention of the politico-business bureaucrats was far from that of genuinely acting in the public interest. Instead, they were interested in an interventionist economy largely because it would be beneficial

[26] The term generally refers to the involvement of the government in the economy by influencing the working of the market through regulations and/or subsidies.

for their own economic and political positions. In other words, the politico-bureaucrats were the main culprits responsible for the regime's rent-seeking behavior, which was another important feature of the New Order. Rent-seeking was manifested in the form of business monopoly through concessions of industrial forests; import and export licenses; and domestic trade monopoly licenses (*tata niaga*) of key commodities such as rice, sugar, palm oil, and clove (e.g. Loughlin *et al.*, 1999 Wiradiputra, 2004). Other forms of facilitation include exclusive access to state financing i.e. subsidized bank credit (Rosser, 2002).

5. 2. 3. The Technocrats

The views of the politico-business bureaucrats were strongly contested by the second influential group of high-ranking officials, the technocrats, who wanted the Indonesian economy to be built through an open and market-oriented policy regime. They argued that the government should keep its involvement and intervention in the country's business and economic spheres to a minimum level. In addition, most of the policies that this group advocates tend to be outward-looking as they are deemed the best way to achieve integration with the global economy. Some of the policies for liberalizing the domestic market and encouraging foreign capital flows include applying conservative monetary and fiscal policies; reducing bureaucracy in investment and market deregulations; promoting a "friendly" regulatory framework for foreign direct investment; and establishing strong capital markets and a strong financial services industry.

The appeal of a market economy to the technocrats is not surprising since most if not all of them, had their education in either the Netherlands or the US. The emergence of

this group can be traced back to the early 1950s when Indonesia turned to the US for help in educating the country's potential leaders (discussed in Chapter 4). One project that stood out in particular was the cooperation between the University of Indonesia and the University of California in Berkeley. The cooperation was mainly in economic studies where students such as Widjojo Nitisastro, Ali Wardhana, Radius Prawiro and JB Sumarlin from the University of Indonesia were sent to study economics in the US (e.g. Borsuk, 1999; Kahin, 1989). When the New Order took control of the country with the support of the US, it was not surprising to find the Berkeley-educated students being the preferred choice for economic policy makers. Due to their educational background, this group was nicknamed the "Berkeley Mafia". During the early years of the New Order, many of these technocrats held some of the most strategically important positions in the regime's government. For instance, the Finance Minister was Ali Wardhana, Minister for Trade and Industry was Sumitro Djojohadikusumo, the Coordinating Minister for Economic Affairs and Head of *Bappenas* (National Development Planning Agency) was Widjojo Nitisastro, and Radius Prawiro was the governor for the central bank (Kepustakaan Presiden-presiden Indonesia (Library of the Indonesian Presidents), 2009a).

Throughout the New Order's 32 year reign, the technocrats remained one of the most important groups in shaping Indonesia's economic policy, despite the fact that most (if not all) of them were not politicians with a strong base of constituency. Their relative strong position was due to their close connection with the international community, in particular the US. Their influence was most prevalent at times when Indonesia was in economic difficulties. For example, market-oriented policies were introduced at full speed during the economic recovery period (1967–1973) and during

the post-oil-boom recession (1987–1997). During these times, the country was forced to turn to foreign money to finance its economy and, as capital flowed into Indonesia, the technocrats were in full control of the economic policy with the support of international and regional financial and donor organizations such as the International Monetary Fund (IMF), the World Bank and the Asian Development Bank (ADB). Such support was in congruence with the need to guarantee the free flow of international capital as well as to guard the security and profitability of these capitals.

5. 2. 4. The domestic business groups

One consequence of the New Order's remarkable economic performance was the creation of powerful business groups amongst certain sections of Indonesian society. Rosser (2002) divided these local business interests into two broad groups. The first group is composed of large business groups which he termed the conglomerates, and the other consists of smaller business groups which he labelled the petty bourgeoisie and "other marginalized elements". Of central importance to this study is the link between those business groups, particularly the conglomerates, with the New Order's political elites. A survey of Indonesia's 300 largest business groups showed that the majority of these conglomerates started their business during the New Order era (Wibisono, 1997). The link between the conglomerates and the political elites becomes clearer when analyzing their direct association with the President which may have been familial, friendship, or institutional, as reflected by four major groups of conglomerates. These groups are the Chinese conglomerates, the indigenous conglomerates (including business groups under Soeharto's family), various *yayasan* (charity funds) established by Soeharto, and finally the armed forces business groups. By 1994, the top 25 business conglomerates in Indonesia consisted of those four

major groups as shown in Table **5-1**. Out of the four groups, the Indonesian-Chinese conglomerates were the most powerful economic force in Indonesia.

Table 5-1: Indonesia's major domestic conglomerate groups

Group	Principal Owner	Principal activities	Turn-over[1]	No. of Companies
Salim	Lim Sioe Liong	Cement, finance, autos, agro-industry	18,000	450
Astra	Prasetya Mulya Group and public	Autos, estates	5,890	205
Lippo	Mochtar Riady	Finance, estates	4,750	78
Sinar Mas	Eka Tjipta Widjaja	Agro-industry, pulp & paper, finance	4,200	150
Gudang Garam	Rachman Salim	Cigarettes	3,600	6
Bob Hasan	Bob Hasan, Sigit Harjojudanto[P,S]	Timber, estates	3,400	92
Barito Pacific	Prajogo Pangestu	Timber	3,050	92
Bimantara	Bambang Trihatmoddjo [P,S]	Trade, real estate, chemicals	3,000	134
Argo Manunggal	The Nin King	Textiles	2,940	54
Dharmala	Soehargo Gondokusumo	Argo-industry, real estate	2,530	151
Djarum	Budi and Michael Hartono	Cigarettes	2,360	25
Ongko	Kaharudin Ongko	Real estate, finance	2,100	59
Panin	Mu'min Ali Gunawan[P]	Finance	2,080	43
Rodamas	Tan Siong Kie	Chemicals	2,000	41
Surya Raya	Soeyadjaya	Property, estates, trade	1,980	242
Jan Darmadi	Jan Darmadi	Real estate	1,940	60
CCM / Berca	Murdaya Widyawimarta Poo	Electronics, electricity	1,800	32
Humpus	Hutomo Man- dala Putra [P,S]	Oil, trade, chemicals	1,750	11
Gadjah Tunggal	Sjamsul Nursalim	Tyres, finance, real estate	1,650	49
Raja Garuda Mas	Sukanto Tanoto	Pulp & Rayon, Finance	1,590	66
Gemala	Wanandi	Chemicals autos	1,550	78
Pembangunan Jaya	Several	Real estate	1,390	57
Metropolitan	Several	Real estate	1,200	57
Soedarpo	Soedarpo Sastrosatomo[P]	Shipping, trade, pharmaceuticals	1,200	35
Tahija	Julius Tahija[P]	Finance	1,200	39

Adapted from Hill, 1996

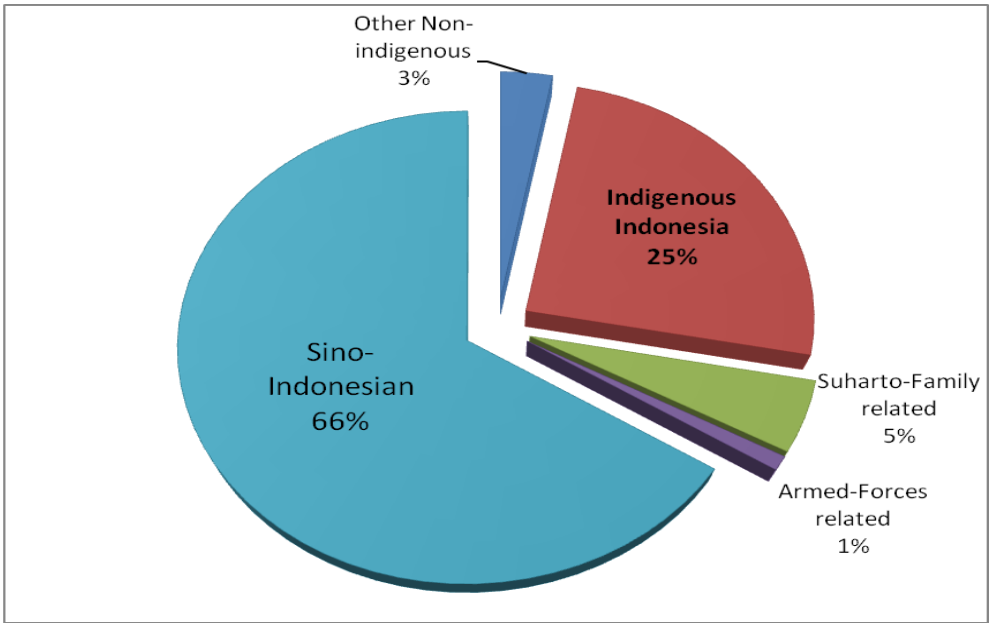
Note: 1 In Rp million as of 1996

"P" denotes conglomerates that belongs to indigenous Indonesian ("pribumi"), other than these belong to Chinese Indonesian

"S" represents members of Soeharto family, mainly Soeharto's sons.

Figure **5-3** shows the business ownership held by various conglomerate groups. It can be seen that the Sino-Indonesian groups accounted for 66% of the 200 largest businesses in the country. The Salim Group (see Table **5-1**), founded by Lim Sioe Liong in the early 1940s, was by far the largest conglomerate. This group started its business by providing logistics to the army, which led to the closeness between Lim Sioe Liong and Soeharto when the latter was in charge at Kodam Diponegoro, the regional military command unit of Central Java (see Aditjondro, 2008).

Figure 5-3: Business ownership of conglomerate groups as of 1997



Adapted from Evans (1997) as cited in Tabalujan, 2001

The business activities of the Soeharto family constitute about 5% of conglomerate ownership, further demonstrating the strong politico-business links in the New Order era. Their cumulative wealth earned them the recognition as Asia's 9th richest family in 1997 (see e.g. Reuters, 1997), and by 1999, an investigation by TIME magazine reported that the family's fortune was worth US$15 billion (Colmey and Liebhold, 1999). Cronyism and nepotism were also prevalent in the form of yayasan, a form of

pseudo-charity institution set up to gather and manage charitable funds to supposedly finance not-for-profit social, cultural or religious activities. However, in practice, they operated as profitable business ventures and enjoyed corporate tax exemption during the New Order era. These pseudo-charities, especially the various yayasan set up by Soeharto's family, constituted a big business empire on their own with wealth that supposedly had surpassed that of both the Rockefeller Foundation and the Ford Foundation (see e.g. Aditjondro, 2004). Appendix 6 presents some accounts on the wealth of Suharto's family and his *yayasan*.

5. 2. 5. International capitalist groups

Foreign presence and influence in Indonesia is not a phenomenon associated only with the New Order as they were also present during the pre-New Order period (1949-1966). However, there are differences between the two periods in terms of who exerted such influence and how. In the period leading up to the New Order, foreign influence came from powerful countries through direct financial investment in the form of aid, debt, or grants. Another important feature of this period was the fact that there had been competition between the powerful countries to assert their influence not only in Indonesia but also other ex-colony countries, as explained in Chapter 4. In contrast, the influence and pressure of foreign economic forces in the New Order era was not only channelled through direct investment by rich and powerful individual countries but also through inter-governmental organizations in the form of debts and financial aid. As soon as the New Order came into power, in 1967, Indonesia re-joined the IMF and pleaded for its help in restoring the country's decaying economy, and a special group, called the Inter-Governmental Group on Indonesia (IGGI), was

formed.[27] Similarly, the World Bank also made a comeback to the country under the new regime. Thus, the economic success of the New Order could not be detached from the strong influx of foreign support from the Western countries through IGGI and international organizations such as the World Bank. Table **5-2** shows the flow of foreign money into Indonesia in the form of both debts and direct investment during the New Order era. It can be seen from the table that foreign debts have constantly been much larger than foreign direct investment. Table 5-4 also shows that both foreign debts and investment increased significantly whenever the New Order adopted a more open economic regime i.e. during the economic recovery and industrialization period.

Table 5-2: Foreign debts and investment in Indonesia (1970-1997)

Year	Total external debt		FDI, net inflows	
	Value (current US$ million)	Change (%)	Value (current US$ million)	Change (%)
1970	4,528.07	-	145.38	
75	11,497.81	153.92	1,292.06	788.75
80	20,937.70	82.10	300.09	-76.77
85	36,715.22	75.35	310.00	3.30
90	69,871.53	90.31	1,093.00	252.58
95	124,398.32	78.04	4,346.00	297.62
96	128,936.70	3.65	6,194.00	42.52
97	136,272.59	5.69	4,677.00	-24.49

Adapted from The World Bank (World Development Indicators Online), 2008

As described in Chapter 4, the involvement of Western countries (especially the US) in the overthrow of Soekarno and the installment of Soeharto (see e.g. Ransom, 1975; Scott, 1985) dramatically changed the country's allegiance towards the Western bloc

[27] IGGI was initially founded as the coordinating forum for Indonesia's creditors comprising countries such as Australia, Austria, Belgium, Canada, France, Germany, Italy, Japan, Holland, New Zealand, Spain, Switzerland, England and the US (other countries such as Denmark, Finland and Ireland joined the group later).

countries. Undeniably, the allegiance also paved the way for international capital to exert its influence over the country. Shortly after the installment of Soeharto, a conference entitled "To Aid in the Rebuilding of a Nation" was held between Soeharto's team (mostly the "Berkeley Mafia") and the world's most powerful capitalists (Pilger, 2003). The three-day conference held in Geneva was sponsored by Time-Life Corporation and "all the corporate giants of the West were represented: the major oil companies and banks, General Motors, Imperial Chemical Industries, British Leyland, British-American Tobacco, American Express, Siemens, Goodyear, the International Paper Corporation, US Steel" (Pilger, 2003 p.39).

Having considered the central features and the major actors in the New Order regime, it is apparent that the different economic and political interests of the actors had profound effects in shaping the New Order's political decision-making. The next section explains Indonesia's main economic policies under the leadership of President Soeharto.

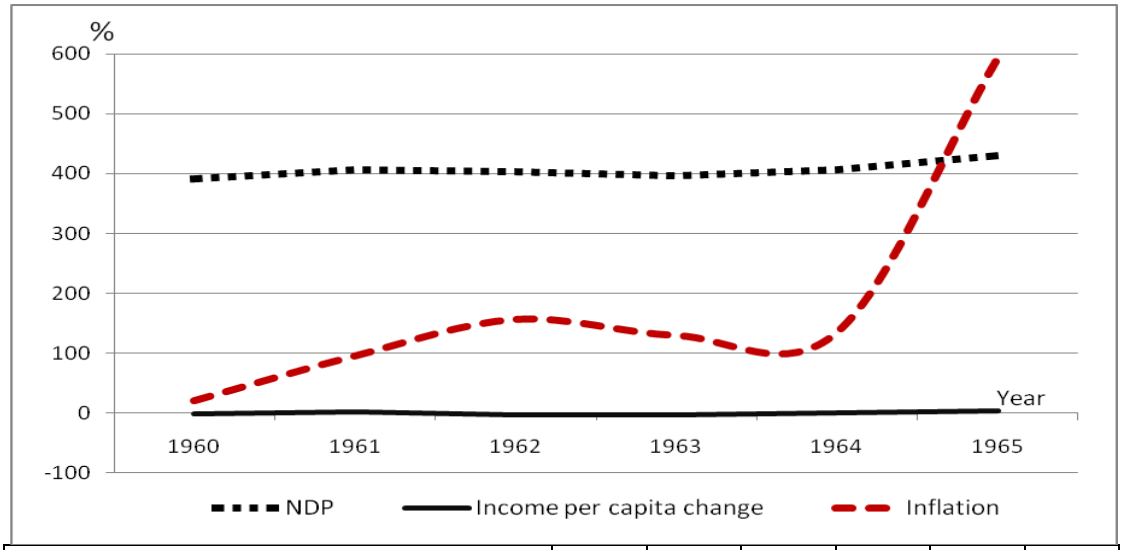
5. 3. Indonesia under the New Order regime (1967–1997)

The New Order was a governmental regime that had a pervasive influence on many aspects of the life of Indonesians, and the political power and economic interests of both local and global actors influenced the development of the accountancy profession. Each of these interest groups formed a coalition with different factions within the highest bureaucratic ranks who had power to shape the country's choices of economic policies, and in turn, had significant impact on the dynamics of the country's accountancy profession.

5. 3. 1. Economic growth and political stability

The 32 years of the New Order administration were a time when Indonesia experienced political stability and enjoyed spectacular economic growth. When Indonesia underwent a power transition between 1965 and 1966, it was a nation on the brink of economic breakdown. The calamity was inherited from the political and economic choices made during the last years of Soekarno's Old Order administration. At the time of Soekarno's politics of confrontation, most of the country's population had very little wealth, low purchasing power while the inflation rate reached the figure of nearly 600%. Figure **5-4** summarizes Indonesia's economic problems as shown by some main indicators during the first half of the 1960s, the last years of Soekarno's regime.

Figure 5-4: Indonesian main economic indicators, 1960-1965

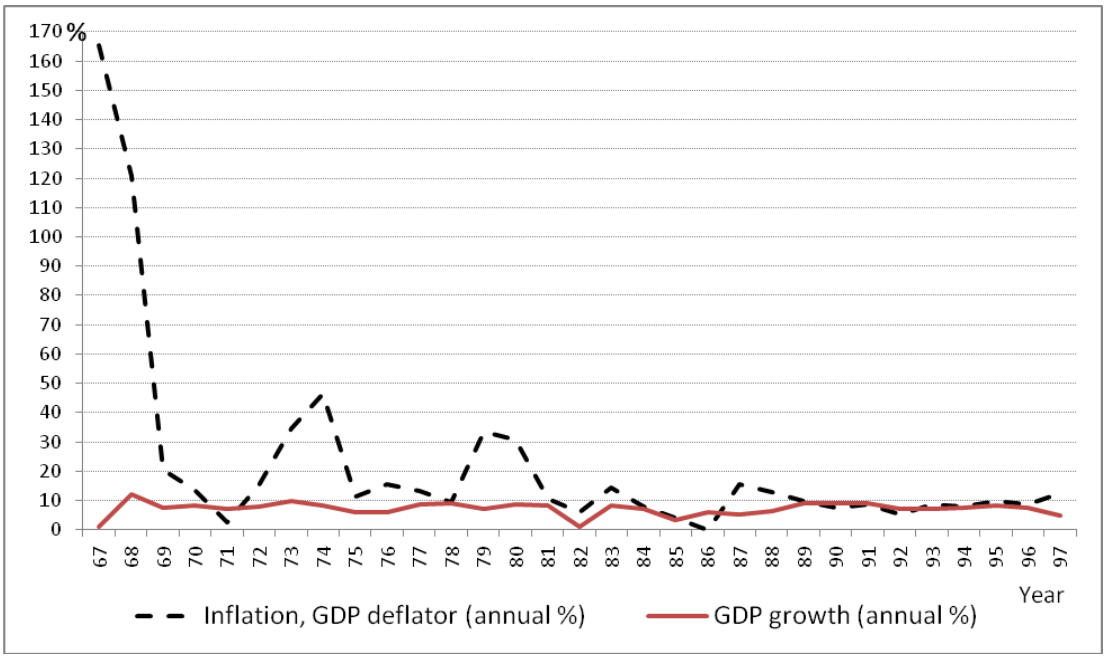


	1960	1961	1962	1963	1964	1965
National Domestic Products (NDP)	391	407	403	396	407	430
Income per capita change	-1.6	1.7	-3	-4	0.3	3.2
Inflation	20	95	156	129	135	594

Adapted from Hill, 1996. Note: NDP in Rp billion at 1960 prices, per capita income in %, inflation in % increase of consumer prices index.

The poor economic conditions were successfully overturned by Soeharto, who took control of power during 1967-1997. His administration was called the New Order regime. Not only was his regime able to stabilize the economy but also managed to achieve it in a relatively short time. Over the next 32 years, the New Order was able to maintain good economic performance as shown in Figures 5-5 and 5-6. The inflation rate dropped from 600% in 1965 to below 20% in the space of just three years and in 1971, the rate hit a single figure (2.74%). Figure **5-5** shows that the economy grew at a faster rate, an average of 7%, during the same period. After the brief hiccups of rising inflation during 1971-1974 and 1978-1980 (the dashed line in the figure), the country embarked on stabler and steadier economic growth as indicated by the GDP growth figures increasing at the rate of no less than 5% per year.

Figure 5-5: Indonesian inflation and GDP growth, 1967-1997

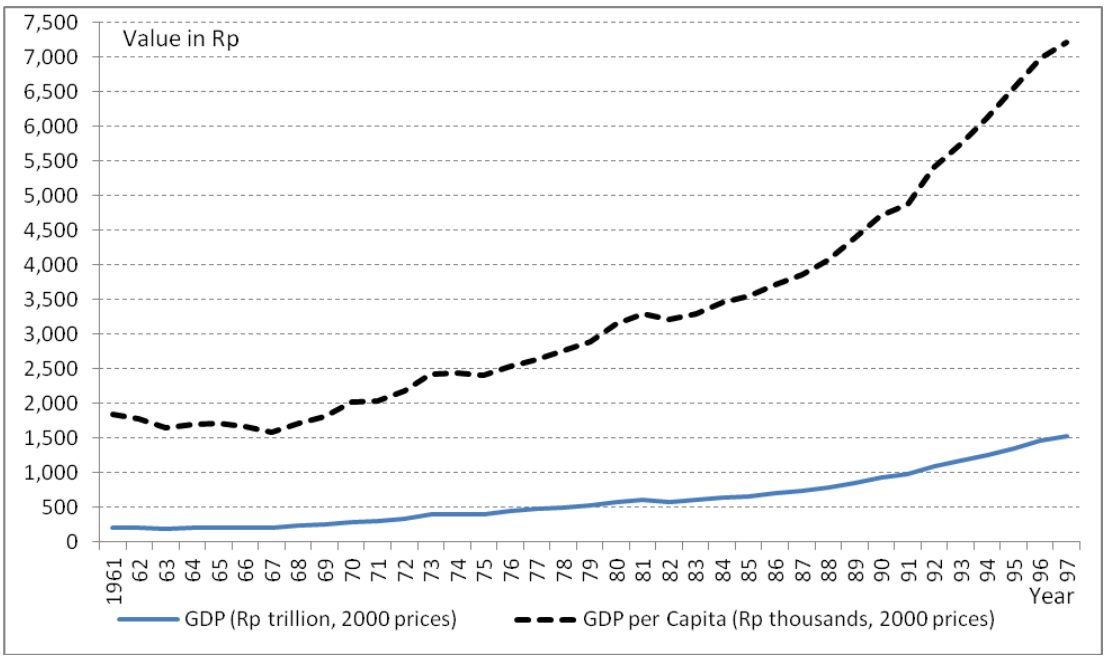


Source: The World Bank (World Development Indicators Online), 2008

Figure **5-6** further shows that both GDP and GDP per capita figures steadily increased over the years. After the period of economic contraction during 1961-1966, the

country's GDP in 1967 was just over Rp208 billion, but by 1997, Indonesia's GDP had grown to a staggering Rp1,525 billion, representing an increase of more than 7 times its size in 1967 (the continuous line). In just over 30 years, the New Order had increased the GDP per capita figure by more than 4 times from Rp1.6 million per capita in 1967 to Rp7.2 million in 1997 (the dotted line in Figure 5-6). The remarkable economic performance had certainly transformed the wealth and quality of life of Indonesians.

Figure 5-6: Indonesian GDP and GDP per capita figures, 1967-1997



Source: van der Eng, 2005

This remarkable development has caused the country to be regarded as one of the "Asian Miracles" in terms of economic achievement, as commented on by the World Bank:

> "Indonesia has been remarkably successful in achieving its development objectives over the past twenty-five years: income per capita has risen from US$50 in 1967 to USS650 today; poverty has been reduced from 60% to an estimated 15%; life expectancy at birth has increased by 20 years (almost 50%); and with the achievement of universal primary education, adult illiteracy has been cut by two thirds. While still a low-income country, its

> tradition of sound economic management, the structural reform in the 1980s and past investments in human resources and infrastructure have laid the foundation for continued progress in the decades ahead" (The World Bank, 1994a p. xi).

Although the economic success of the New Order administration is admirable, there have been some criticisms that the success was coincidental, exploitative and unequally distributed (Hill, 1996). It is said to be coincidental as it relied heavily on the increase in favourable terms of international trade such as an increase in oil prices. It is deemed exploitative as the growth relied on unrecoverable natural resources. Finally, there have been arguments that success was only enjoyed by certain groups in society, most notably those who were close to the political leaders.

The economic success does not tell the whole story of the New Order administration. What has attracted more attention from various observers is the nature of the regime itself as a political and economic actor as well as the way it was able to accomplish the aforementioned economic success. As a political regime, the New Order had been able to rule over such a long period and keep a balance between political dominance and economic performance. This in turn kept social discontent at a minimum level. On another front, the New Order was also successful in appeasing internal sentiment against foreign powers without directly confronting against them.

The aforementioned success and nature of the regime has led many scholars to regard the New Order as a complex political and economic administration, some of which emanated from its patrimonial nature and the diverse interests of its leaders - politicians and bureaucrats as well as coalitions with outside interests. Understanding the complexity of the New Order administration is important in comprehending the

history of the profession given its pervasive domination as well as economic success. The next section will elaborate the central features and major actors of the New Order regime.

5. 3. 2. The New Order's different strategies of economic management

Understanding the pattern of the New Order's economic performance over time requires breaking the period into various sections to reflect the different economic circumstances. A common periodization of the New Order's economic history is to divide it into three major periods (see e.g. Hill, 1996; Soesastro, 1999): the early recovery period (1967-1973); the oil boom period (1974-1988); and the industrialization period (1988-1997).[28] Throughout these periods, the New Order government adopted different and sometimes conflicting economic policies, which in turn affected the development of the country's accountancy profession.

5.3.2.1. The early recovery period (1967–1973)

The Old Order regime's ideology (a blend of the nationalist aspiration of President Soekarno and the flourishing influence of *Partai Komunis Indonesia* (the Indonesian Communist Party)), resulted in economic and political instability. The wave of hostility towards Western interests in the country reached its height between 1957 and 1965. In fact, Soekarno was considering nationalizing all US business interests in Indonesia when Soeharto ousted him from power in 1965-1966 (e.g. Pease, 1996; The US State Department, 2001).

[28] Other observers such as Hill (1996) and Rosser (2002) further divided the post-oil boom era into two periods: the "adjustment to lower oil prices" period (1982–1986) and the economic liberalization period (1987–1996).

The change in attitude towards Western powers was evident during the early years following the change of political leadership from President Soekarno to President Soeharto. Due to the turbulent economy inherited from Soekarno's administration, the first period (1967-1971) under the New Order was marked by policies that were aimed at economic stabilization and rehabilitation. Immediately after Soeharto assumed power, he realized the importance of economic stability in supporting political stability, hence he focused on economic development. The first step was to stabilize inflation and to ease the burden of foreign debts. This was achieved by controlling inflation through tight monetary and fiscal policies and rehabilitating relationships with foreign sources of much-needed funds to finance the economy (Hill, 1996). In other words, the economic policy during this era was very accommodative to the flows of foreign capital, be it in the form of direct investment or debts.

Parallel to the political support given by the West, particularly the US, Western money, President Soeharto also realized, was the only direction for fuelling the economy (see e.g. Memorandum for the US President from Henry A. Kissinger dated 18 July 1969; Memorandum of conversation between President Suharto of Indonesia - the President of USA - Dr. Kissinger on 21 May 1970). Hence, the role of technocrats was vital in implementing Western-oriented economic policies as they had strong affiliations and support from Western countries, Indonesia's primary donor countries. By 1967, Indonesia took various structural adjustment actions as required by the IMF following the reinstatement of its membership. These adjustments were largely intended to accommodate the transition towards a market economy especially in providing the legal and institutional framework for business

invasion by large (Western) multinational corporations. It was in that year that Act number 1/1967 regarding Foreign Investment was enacted. Interestingly, in the same year, Freeport-McMoran, a US mining corporation, was granted a 30-year concession of copper and gold mining in the Erstberg District in *Irian Barat* (West Papua) province, which was considered the largest above-ground gold and copper depository (Cloos, 1997). Freeport "became the first foreign company to sign a contract with the new government in Jakarta and became a significant economic and political actor in Indonesia" (Leith, 2002 p.3). The enormous influence of Western capitalists in the early years of the New Order is described in Jeffrey Winters'[29] comments on the aforementioned Geneva conference (see section 5.2.5):

> "… the Indonesian economy was carved up, sector by sector. 'This was done in the most spectacular way' … . 'They divided up into five different sections: mining in one room, services in another, light industry in another, banking and finance in another; and what Chase Manhattan did was sit with a delegation and hammer out policies that were going to be acceptable to them and other investors. You had these big corporate people going around the table, saying this is what we need: this, this, and this, and they basically designed the legal infrastructure for investment in Indonesia. I've never heard of a situation like this where global capital sits down with the representatives of a supposedly sovereign state and hammers out the conditions of their own entry into that country" (quoted in Pilger, 2003 p.41)

5.3.2.2. The oil-boom period (1974–1988)

Given the sheer influence of the global capitalists in the early years of Soeharto's regime, Indonesia's integration into the global market economy seemed imminent. However, from the mid-1970s, the New Order started to lean towards protectionism and interventionist policies and one of the primary reasons for this was the improvement of Indonesia's terms of international trade, coupled with the increase in oil prices (Booth, 1998). Indonesia's oil price climbed from less than US$3 per barrel

[29] He is a professor at the North-western University in Chicago and an expert on Indonesian politics.

in 1972 to US$30 in 1981, causing a significant increase in the proportion of oil exports in Indonesia's total export - from 37% in 1970 to 82% in 1982 (Vatikiotis, 1998). As a result, the country's GDP and income per capita grew at an average of 7% and 5% respectively. Another important reason may have been public sentiment against foreign interest during the period of the early 1970s. Many factions within society still believed and supported the aspiration of the founding fathers (among whom was Soekarno) to make Indonesia a socialist state. The fifth pillar of *Pancasila*, the country's ideology set up by Indonesia's founding fathers, bears the vision to achieve "social justice to all Indonesian citizens". This is the core foundation of Article 33 of the 1945 Constitution, which dictates that "all areas in the economy which bear crucial importance to the welfare of the Indonesian people must be controlled by the state". Seeing the New Order's open policy as a direct opposition to this idealism, public sentiment against foreign involvement in the economy started to mount in early 1970s and by the mid-1970s, the protests got stronger and culminated in the "*Malari*" incident.[30]

The combination of the two factors was the reason for the New Order's reluctance to completely adopt free-market economy policies. Instead, it tried to balance the pressures of international capitalist support and the populist nationalist sentiment (see Vatikiotis, 1998; Rosser, 2002) by continuing to open its economy to foreign investment but also introducing policies that, to some commentators, were directly opposed to the open economic policies introduced in the early years of the New Order regime (Soesastro, 1999). The state was the dominant actor in the country's economy

[30] *Malari*, short for "*Lima Belas Januari*" - literally meaning "fifteenth of January" - was a social riot that took place on 15 January 1974. The incident was triggered by anti-foreign-capital protests by students which culminated during the visit of the Japanese Prime Minister to Jakarta from 14 to 17 January 1974.

as it established foreign trade and investment barriers to protect local businesses and increase spending and investments in state enterprises formed during Soekarno's era. One such state enterprise is *Pertamina*, the national oil company, which gained more importance while new state enterprises such as IPTN (*Industri Pesawat Terbang Nusantara* or National Aeroplane Industry) and PAL Indonesia (Indonesian maritime technology developer) were set up under the agency umbrella of *Badan Pengkajian dan Penerapan Teknologi* (the Agency for Assessment and Application of Technology) to encapsulate ambitious state projects in hi-tech industries.

Another consequence of the regime's economic policies during this period was the flourishing of large domestic business groups, which hindered the expansion of international capitalist interests in Indonesia (see Section 5.2.4, where the importance of these domestic conglomerates was discussed). By the early 1980s, Indonesia became "a highly regulated and controlled economy, and the role of the government was undoubtedly stronger than at any time since the 1930s" (Booth, 1998 p.320). By the mid-1980s, the domestic business groups had already established themselves as a strong coalition with the bureaucrats, exerting considerable pressure towards protectionism and interventionism in many areas of the economy. As a result, according to some commentators, the Government often introduced contradictory measures of reforms during this time. Deregulation and de-bureaucratization, for example, were accompanied by trade and investment restrictions in other areas. Deregulation in the financial sector was not accompanied by prudent measures. Such contradictions had inadvertently benefited the local conglomerates as they provided

them with considerable access to public fund through the banking sector (see e.g. Chua, 2008).[31]

The failure of establishing the security exchange market is another indicator of the failure of the Western capitalist model in penetrating Indonesia's economy during this period. As described in Chapter 5, the Government of Indonesia had attempted to establish a security exchange market since the early period of the New Order (albeit rather reluctantly[32]) with 24 companies listing their shares and 3 companies issuing bonds (Yunus, 1992). However, the development of the capital market came to a halt during the late 1970s and early 1980s due to the increase in the Government's revenue which led to state intervention in the economy and the rise in importance of domestic conglomerates. As a result, the Indonesian security market never grew and by 1986, it was considered the least developed in the region and perhaps also in all countries adopting a capitalist system (Foo, 1988, Vatikiotis, 1998).

The era of total state protection and intervention in the economy, however, did not last long. As the price of oil began to fall, the New Order regime had to alter their strategy for building Indonesia's economy.

5.3.2.3. The industrialization period (1988–1997)

As the oil price plummeted, the New Order government began to realize that it could no longer build the economy by relying on its exports of commodities and natural

[31] Other writers such as Booth (1998) argued that this was not the case; rather, it was only "a symptom of the limitations of the deregulation process" (p. 322).

[32] In addition to the fact that the New Order was closer to Western economic thinking during its early years in power, the Government's intention in establishing the security exchange market at the time was to create a channel of distributing wealth across various sections of society (Rosser, 1999) due to increasing social tension during the mid-1970s (see footnote 30).

resources and, hence, embarked on industrialization of the Indonesian economy. Since the free flow of capital was needed to support the industrialization policy, the regime changed its orientation towards economic openness to attract foreign inflows. Public spending and expenditure were cut and various reforms in taxation, banking and custom duties were introduced. The New Order's resistance towards the liberalization policy changed in the last years of the 1980s as it faced dwindling revenue and escalating debts, and had no choice but to open the country to the inflow of foreign money. Accepting monetary aids and debts had meant that the government needed to comply with the policy prescription imposed by the creditors. From 1987, the appointment of the technocrats in strategic policy-making posts was vital to the efforts of overcoming the impacts of oil price drop and the monetary crisis from the maturing debts incepted in the early years of the New Order.

The technocrats introduced new and more comprehensive liberalization efforts which lasted for the next ten years. The last decade of the New Order was thus an era of massive deregulation in the financial sector and capital markets. First, *Pakdes 87* (*Paket Desember* or December Package 1987), introduced de-bureaucratization in listing and issuing securities, eliminated listing fees, lifted the limit of share price movement, allowed foreign investors to buy shares in public companies to a maximum of 49% and opened new over-the-counter markets. This was soon followed by *Pakto* 88 (October Package 1988) and *Pakdes* 88 (December Package 1988), which, between them, further stimulated the capital market by introducing tax on interests gained from bank deposits and allowed private companies to set up and run the security market. In 1990, the government issued *Keputusan Presiden Republik Indonesia* (hereafter *Keppres*: Decree of the President of Republik Indonesia) number

53 year 1990 regarding Capital Markets. The decree re-established Bapepam under the MoF as the supervisory and regulatory body of the Indonesian capital markets. The peak of the capital market restructuring was the enactment of Act number 8 year 1995 concerning Capital Markets. In addition to the restructuring of the capital market, other related sectors also undertook major restructuring during this period. The period of the first half of the 1990s witnessed the enactment of various high-level pieces of legislation that were intended to transform the country's business sector in general and financial sector in particular. They were the Insurance Act (Act number 2 Year 1992), the Banking Act (Act number 7 Year 1992), and Pension Fund Act (Act number 11 Year 1992). On a wider basis, a new Limited Companies Act was also enacted (Act number 1 Year 1995). In many ways, these Acts represented a dramatic and extensive change in Indonesian economic management in the space of less than a decade. Just ten years earlier, the country's commercial code had been labelled as grossly out of date (Foo, 1988), having maintained *Wetboek van Koophande*, the commercial code inherited from the Dutch, since 1847.

In short, Indonesian economic management during the New Order was a constant fluctuation along the spectrum of interventionism and protectionism at one end and market-oriented economic policy at the other end. The next sections discuss how and to what extent this context influenced the development of the accountancy profession in the country.

5. 4. The accountancy profession during the New Order

The constant swing in economic policies between interventionism and liberalism under the New Order had directly affected the profession, especially in terms of the

development of its professional infrastructures. Indirectly, the political culture influenced the structural arrangement of the profession and its relationship with the state. As argued in Chapter 3, as the development of the profession followed the system of political economy, it is necessary to periodize the history of the profession to facilitate the analysis and reflect the development of the accountancy profession within the wider socio-political context of Indonesia under the New Order. For the purpose of this study, the history of the profession is divided into three sub-periods: the ardent period, the dormant period and the revival period. During the ardent period (late 1960s – late 1970s), the profession entered a period of new excitement following the opening of Indonesia's economy. In the dormant period (early 1980s – late 1980s), the increasing influence of the politico-bureaucrats, which dragged the country towards interventionism, resulted in the stagnation of the profession. Finally, the liberalization programmes starting from the mid-1980s pushed the profession into a period of rejuvenation. The next three sections will elaborate on each of these periods in detail.

5. 4. 1. The ardent period (1967–1980)

After facing major ideological and political hindrances to building a profession akin to the Western model in the first decade of its establishment under the Old Order regime, the accountancy profession entered an ardent period under the New Order early administration.

5.4.1.1. The return of foreign accounting firms

The economic policy during this period, which encouraged the flow of foreign capital into the country, triggered a boom in the accounting market and an increase in

the demand for accountants. The increase in the demand for accounting and auditing services, especially those of foreigners, changed the dynamics of the profession. In keeping with the enactment of the investment act packages (Act number 1 year 1967), Indonesia opened her door to foreign accountants. Frans Seda, the then Finance Minister, gave permission to several foreign accounting firms to cooperate with Indonesian public accounting firms. This was followed by a wave of cooperation between foreign and Indonesian accounting firms as shown in Table **5-3**.

Table 5-3: Foreign-local accounting firm cooperation in the early 1970s

Year	Foreign accounting firm	Local accounting firm
1971	Arthur Young	Santoso Harsokusumo
	Sycip, Gorres & Velayo	Utomo Jososudirjo
	Turquand Young	Go Si Tiem
	Price Waterhouse	Tan Eng Oen
	Peat Marwick Mitchell & Co	Soedjendro & Co
	Coopers & Lybrand	Suparman
1972	Peat Marwick Mitchell & Co	Sudomo & Co
1974	Klijnveld, Kraijenhof & Co	Go Si Tiem
1975	Touche Ross International	Hendra Darmawan & Co

Adapted from Gade, 2002; Tuanakotta, 2007

The opening of the accounting market for foreign accountants and accounting firms was a clear overturn of the previous policy of expelling foreign accountants (see chapter 4). The number of foreign accountants increased from 4 in 1968 to 94 in 1976, an increase of almost 2400% (Sapiie, 1980). The influx of foreign accountants to the country was an obvious consequence of opening the economy (see e.g. Tuanakotta, 2007). The flow of foreign money into the country meant growing demand for accounting services. However, soon enough, there was growing discontent amongst local accountants who saw the mode of partnership cooperation

as giving too much opportunity to expatriate accountants, as described by one of the practitioners in that era:

> "... the discontentment of local accountants who had foreign cooperation may come to surface when their foreign counterparts replace local partner or when they left the partnership.
>
> The discontentment of local accountants who do not have foreign cooperation develops because they experience "unhealthy competition" and are losing key clients with whom they have had long relationship with. In their perceptions, unhealthy competition occurs because:
>
> - Foreign partners are too aggressive whereas local partners only act as puppets (the *front man* or *stroman*). In practice, there is no equality [between partners].
> - Joint partnership firms violate the statutory rules [set up as conditions for their operations].
> - There are doubts that foreign accountants are actually passing their knowledge and expertise to local accountants, as indicated in the persistent occurrences of staff and partner hijacking between firms (which would not have happened if training and education [from foreign partners] programs run well)
> - There is neither time limit nor quota in numbers of foreign accountants that can work in the country." (Tuanakotta, 2007 p.320, words in italics are in original, words in [brackets] are added).

The growing resentment from local accountants subsequently caused the Government to pass statutory restrictions on foreign cooperation. The then Finance Minister, Ali Wardhana, issued *Keputusan Menteri Keuangan Republik Indonesia* (hereafter KMK; Decree of the Finance Minister of Republik Indonesia) number 76 year 1971 which effectively put an end to joint partnerships (Tuanakotta, 2007) but still allowed correspondence relationships between Indonesian *Kantor Akuntan* (accounting office) with foreign accounting firms. One of the qualifying requirements for cooperation was the reciprocity principle i.e. a foreign accounting firm from a given country was permitted to operate in Indonesia if an Indonesian accounting firm was permitted to operate directly in that country (Article 2). Joint partnerships were also required to have a minimum number of foreign clients; not allowed to audit state-owned

enterprises; and not allowed to demand foreign investment facilities (such as tax holidays). In addition, foreign accountants were required to fulfil the requirements set in Act number 34/1954 (see Chapter 4) and had to contribute to the development of the profession in Indonesia. All these requirements had made it more difficult to form a joint partnership but it was the reciprocity principle that effectively terminated the joint partnership mode of operation.

The stiffer government regulations caused foreign–local co-operations to take less obvious forms. Joint partnerships ceased to exist in legal forms and took a more elusive form of cooperation whereby local accounting firms used their foreign counterpart names without having any foreign accountants involved directly in the day-to-day operations except for advisory roles. This situation further exacerbated resentment amongst local accountants and another regulation, KMK number 1681 year 1976, which imposed further restrictions on the number of foreign accountants contracted, the number of clients and the length of joint partnership, was passed. Despite these efforts, the issue of foreign accountants and accounting firms remained problematic over the remaining period of the New Order era.

5.4.1.2. The growth of the profession and professional infrastructure

As mentioned earlier, another source of demand for the professional services of accountants had been the government itself through its regulations and investment activities. For instance, *Pertamina*, despite being a state enterprise, had to use the services of professional accountants as part of fulfilling the accountability requirements since it received much foreign financial assistance. By the end of the 1970s, a series of tax regulations also created demand for accounting services.

Keppress number 52 year 1976, which set up the institutional framework for an Indonesian capital market and the introduction of incentives to stimulate companies to list their shares in capital stock (such as tax exemption for asset revaluation surplus), created demand for accounting services.

Another regulation that created demand for accounting services was *Instruksi Presiden* Republik Indonesia (hereafter *Inpres*; Instruction of the President of Republik Indonesia) number 6 year 1979 dated 27 March 1979 regarding Taxation Policy. The *Inpres* offered tax incentives to companies who prepared their financial statements according to the generally accepted accounting principles (Article 3.3) and had these statements audited by public accountants with an unqualified auditor opinion (Article 3.4). For instance, the tax for providing a clean audited report for a company with a total profit of Rp100 million was 25% compared to 45% for non-audited financial statements. A Finance Minister decree (KMK number 108/KMK.07/1979) broadened the incentive package and to be entitled to the incentive, companies had to provide a calculation of the qualification's impact on profit or loss (Article 3.4). In addition, to improve audit quality, the decree required auditors to comply with their professional standards as well as introducing statutory sanctions for noncompliance in the form of either revocation or suspension of licences to practise (Article 6). Another regulation included in this package was KMK number 109/KMK.04/1979, which required companies to publish financial statements and allowed companies to revalue their assets.[33]

[33] The result of this revaluation was not taxable, provided that the company agreed to submit a written declaration stating that it would keep proper records and publish reports of its accounts according to corporate tax laws; submit balance sheets from the last three years; and submit the adjusted financial statements as of 1 January 1979.

The combination of foreign investments, government investments and tax regulations boosted the demand for services of professional accountants and triggered the development of professional infrastructure, especially the size of the profession i.e. the number of accountants. As indicated earlier in Chapter 4, the accountancy profession at the time of independence was simply non-existent as there was only one qualified accountant in 1945. The number increased to 10 accountants by the early 1950s and 30 accountants in 1960. Having established a full administration as an independent country in 1949, the Government introduced training and education programmes in its attempts to fulfil the need for low- and middle-level accountants.[34] Shortly after the change of power to the New Order, under *Keputusan Bersama* (Joint Decree) between the Finance Minister and the Culture & Education Minister number Kep.302/Menkeu/1967 (3/PT/1967) on 15 December 1967, all the institutions were merged and became *Institute Ilmu Keuangan* (Institute for Financial Sciences, hereafter IIK). The position of IIK was strengthened by *Keppres* number 167/1968 on 6 May 1968, as it operated under the MoF as a university offering degrees in public finance. Its establishment was welcomed in the accounting academic community; in particular, by the Faculty of Economy at University of Indonesia (BPPK, 2007). Through some ministerial decrees[35], IIK was transformed into STAN or *Sekolah*

[34] A number of institutions were set up for this purpose: *Kursus Djabatan Adjun Akuntan* (Course for Accounting Technician) in 1953; *Kursus Djabatan Pembantu Akuntan* (Course for Assistant Accountant) in 1959; and *Sekolah Tinggi Ilmu Keuangan Negara* (College of Public Finance) in 1959, *Akademi Djabatan Adjun Akuntan* (Academy for Accounting Technician, which later became State Academy for Accounting Technician) in 1960. All graduates from these institutions worked for the government, mainly in the Ministry of Finance (MoF).

[35] IIK was re-evaluated in 1974 following the issuance of Presidential Decree number 44 year 1974 which established the reorganization of state ministries and their implemental regulations, in particular KMK number 405/MK/6/4/1975 regarding the Structure and Role Descriptions of Organizations with the MoF. The decree established the Finance and Education Training Agency to carry out all training and education responsibilities within the MoF. One of FETA's sub-units was STAN.

Tinggi Akuntansi Negara (State College of Accountancy, hereafter STAN) which would carry out training and education in accounting. STAN was later endorsed as an accounting education institution by the Ministry of Education and Culture through Ministerial Decree number 13495/MPK/1975 on 17 March 1975. Because of their operation as higher education, these institutions later played an important role in the profession in Indonesia. These institutions contributed an important feature of the profession in that accountants who work in government institutions constitute a major proportion of the IAI memberships (IAI, 2007a).

Compared to the previous period, the Indonesian Institute of Accountants (IAI) was also more active and gained more support from the Government during this period. Since its establishment in 1957, the IAI had only managed to hold one national congress in 1963. One of the outcomes from the congress was the election of Dr. Radius Prawiro as Chairman of IAI, a position he held until 1986 besides his other high-ranking positions in the New Order administration[36]. The IAI's position strengthened in late 1969 when the Finance Minister imposed IAI membership as part of the requirement to obtain a licence to practise as a public accountant (The Asian Development Bank, 2003). It is necessary to explain briefly the two major groups of accountants in Indonesia: public-practising and non-public-practising accountants. Non-practising accountants are those who work as management accountants, government accountants and academics. Public-practising accountants, popularly

[36] These include the positions of Deputy to the Minister of State Audit Office and Deputy to the Minister for Central Bank Affairs (1965), Governor of Bank Negara Indonesia, later Bank Indonesia (1966-1973), IMF Governor and Vice Governor of Asian Development Bank for Indonesia (1967-1971), Member of Presidential Economic Advisory (1968), Chair of Board of Governor of IBRD (1971-1973), Minister of Trade (1973-1978, 1978-1983), and finally of Finance Minister from 1983 until 1988 (*Ensiklopedi Tokoh Indonesia (Encyclopedy of Indonesian Public Figures), 2005;* PDAT, 2009b).

known as “public accountants”, are those who hold the licence to open a public accounting firm and offer financial audit services. To obtain a licence as a public accountant, one must, among other requirements, be registered at the Ministry of Finance and pass the Indonesian CPA examinations. It is also necessary to emphasize that the Government does not allow public accountants or public accounting firms to offer only accounting services.

An important infrastructural landmark for the profession in 1973 was the issuance of the first Indonesian accounting and auditing standards, which was a combined effort of the Government and the IAI. In August 1972, the Executive Chair of the Agency for Supervision of Financial and Capital Market formed “the Task Force for Compilation of Materials and Structure of Generally Accepted Accounting Principles and Generally Accepted Auditing Standards” and *Yayasan Pengembangan Ilmu Akuntansi Indonesia* (YPIAI; the Foundation for the Development of Indonesian Accountancy). On the other hand, IAI formed *Komite Norma Pemeriksaan Akuntan* (Committee for Accountant’s Examination Norms) in 1973. Both committees were the mastermind of *Prinsip Akuntansi Indonesia* (PAI, Indonesian Accounting Principles) and *Norma Pemeriksaan Akuntan* (NPA, Accountants Examination Norms), the first Indonesian accounting and auditing standards respectively. The 1974 PAI was compiled based on Paul Grady’s “Inventory of Generally Accepted Accounting Principles for Business Enterprises” in Accounting Research Study number 7, which was published by AICPA in 1965. Clearly, the two standards were issued as part of government efforts to prepare the capital market and did not emerge from the need of the Indonesian business complexity. The fact that the standards were heavily influenced by US accounting and auditing standards strengthened the

conclusion and indicated the influence of the US accounting thinking on professional infrastructure development.

Another significant development in professional infrastructure was the formation of the public accountants' section of the IAI in 1977. Despite the relatively small number of members of the IAI, public accountants lobbied Radius Prawiro with the suggestion that they should form their own association but not separate from the IAI. This new association was named IAI *Seksi Akuntan Publik* (IAI Public Accountants Section), with Theodorus Tuannakotta as the first Chairman. IAI continues to be an umbrella organization hosting different sections of its members based on the type of employment. Besides the public accountants section, there were also an educator accountants section, a management accountants section and a government accountants section.

In short, the period during the late 1960s and 1970s was an exciting and optimistic episode for the Indonesian accountancy profession. Accounting markets blossomed as demand for accounting and auditing services significantly increased as a result of flows of foreign investment into the country. The profession developed close ties with the state and the adoption of the American accounting system was made possible. Several regulations were passed by the government to ease local accountants' resentment amidst its commitment to a market-oriented economy. It was to be interesting to see the impact on the profession in the following period when the country's socio-political and economic landscape dramatically changed.

5. 4. 2. The dormant period (1980-1987): increasing government intervention

While the first period of the New Order was a period of excitement for the profession, the second decade of the New Order was a period of slow development of the profession. In this period, increasing revenue from oil had transformed the New Order into a strong regime, increased the influence of the nationalist bureaucrats and enabled the development of large and powerful domestic family-based conglomerates. Hence, there was little incentive for the Government to develop the profession, as domestic businesses (which are mostly family-owned) had little interest in accounting and auditing. As a result, the professional infrastructures were virtually stagnant in the first half of the 1980s.

The Government's reluctance to support and develop the accounting profession was because the Government did not see the profession as being effective in helping the Government increase tax revenue. An early assessment of the tax incentive packages introduced by Presidential Instruction number 6/1979 indicated that tax incentives were not an effective stimulus for companies to publish audited financial statements. In January 1980, for, example, the Director General of Tax reported that only 3.5% of all companies took advantage of the tax incentive package by voluntarily publishing audited financial statements. One possible reason for the small number was that the majority of the companies were family-owned ones who would rather negotiate their tax liabilities than publish their financial positions and income. The use of financial reports and independent audit as instruments of tax incentives was finally abandoned in 1984, only five years after its introduction. This was a blow to the accountancy profession as this reduced the market for accountancy services.

Parallel to the shrinking of the market, the development of professional infrastructure had also undergone a major setback. In addition, the Government also increased its role in regulating the profession in this period. In 1981, a report by a special committee set up by the MoF (KMK number 302/1981) revealed that the 1979 tax incentive packages had inadvertently lowered tax revenue due to fraudulent financial reports being submitted by companies in their attempt to benefit from the incentives. While the MoF's committee had a specific investigative task, it was nevertheless an important leap in terms of government involvement in professional matters. For the first time, the Government questioned the profession's independence. Shortly after the report, a major change took place when the Government decided to assume a quality review function and take more control as it deemed the profession to be ineffective. The President assigned BPKP (*Badan Pengawasan Keuangan dan Pembangunan* or the Financial and Development Supervisory Agency), the government's internal audit office (*Keppres* number 31 year 1983), the power to perform periodic reviews over public accountants and public accounting firms. In effect, this meant that peer review, a form of professional quality assurance, was taken away from the profession. The two events thus marked a significant leap from the previous period whereby the government's involvement was limited to registering and granting the licence to practise to accountants and licence to operate to accounting firms.

Further government involvement in regulating the professional infrastructure was in the entry qualification mechanism. In 1980, the Directorate for Higher Education of the Ministry of Education and Culture issued Decree number 15/1980 regarding *Ujian Negara Akuntansi* or UNA (National Accountancy Examinations). As stated

under Act number 34/1954, only accounting graduates from public universities could automatically use and be registered as accountants in the MoF. Graduates from private universities, on the other hand, had to pass an examination for degree equalization (see Chapter 4). However, by 1980, a joint committee set up by Act 34/1954 to conduct the examination faced difficulties in fulfilling its responsibility, as the number of private universities was on the increase. Decree number 15/1980 was issued to overcome the problem by establishing UNA, a nation-wide examination system for accountancy. There are two levels of UNA: UNA *dasar* (basic UNA) and UNA *profesi* (professional UNA). To obtain the accountant title (i.e. become a registered accountant), an accounting graduate had to pass both levels of UNA. UNA was therefore a further barrier to the profession because the MoF would later rule that a public accountant licence could only be granted to a registered accountant.

Faced with these unfavourable changes, the profession reacted with several courses of action. In October 1982, the IAI held its fourth national congress. Amongst its major aims was the revision of *Prinsip Akuntansi Indonesia* (PAI) and *Norma Pemeriksaan Akuntan* (NPA). In this congress, the IAI set up two special task forces for the revision: *Komite Prinsip Akuntansi Indonesia* (KPAI; IAI Committee for Indonesian Accounting Principles) and *Komite Norma Pemeriksaan Akuntan* (KNPA; IAI Committee for Accountant's Examination Norms). With regards to PAI, the committee recommended the inclusion of two specific accounting standards: Accounting for Foreign Currency Transactions and Translations (Statement number 1) and Capitalization of Interest during Construction Period (Statement number 2). On the other hand, three exposure drafts of NPA supplements were also published by the NPA committee: Communication between Predecessor and Successor Auditor

(NPA Supplement number 1); Client Representation Letter (NPA Supplement number 2) and Audit Report on Comparative Financial Statements (NPA Supplement number 3). A year later, these revisions were approved and codified in 1984 PAI and NPA. Compared to the 1974 version, the 1984 versions of PAI and NPA were more detailed. In fact, practitioners and IAI hailed these revisions as fundamental and comprehensive (IAI, 2008b; Nasution, 2003).

As the oil price plummeted, the government turned to foreign money to fuel its economy. As a result, the Government showed some efforts to develop the profession. In 1985, YPIAI was replaced by *Tim Koordinasi Pengembangan Akuntansi Pengembangan* (Coordinating Team for Accountancy Development; CAAD). Its primary mission was "to develop accounting education, the accountancy profession, a set of professional standards and a code of ethics" (Delloitte, Touche Tohmatsu Emerging Markets Ltd, 2000 cited in The Asian Development Bank, 2003 p.50). A year later, a more fundamental transformation shaped the future of the profession. On 26 August 1986, Radius Prawiro (the then Finance Minister) issued KMK number 763/KMK.011/1986 (the 1986 decree) regarding Public Accountants which strengthened the legal basis for the institutional framework of the profession. The decree endorsed the IAI as "the professional association of accountants recognized by the government" (Article 1 point c) and its membership is a mandatory requirement to apply for a licence to practise as a public accountant (Article 4.h). However, the decree also stated that the MoF was to help develop the profession (Article 14) and reinforced that the responsibility of supervising accounting firms' adherence to rules and regulations lay with BPKP (Article 17).

There were also rules in the 1986 decree that sent mixed messages about the government's position, especially on issues related to the operation of foreign accountants and accounting firms in Indonesia. On the one hand, the decree continued on from the regulation of the previous period to prohibit foreign nationals from becoming public accountants in Indonesia (see Section 5.4.1.1). Article 4.1 stipulated that only Indonesian citizens who resided in Indonesia could obtain the licence to practise as a public accountant and open an accounting firm. Furthermore, the decree clearly stated that, "Alien citizens are prohibited to conduct public accountant practice" (Article 6). Interestingly, however, the decree allowed the operation of foreign accounting firms as long as they cooperated with local accounting firms (Article 12). These firms could also hire foreign accountants on the condition that these accountants were required to "... improve accounting technical knowledge and capabilities within the [local] accounting firm" (Article 12.2, word in bracket added). In this regard, the Government had held its position since the previous decade in terms of protecting the profession from the direct operation of foreign accounting firms (see Section 5.4.1.1).

In short, the period between 1980 and 1987 had been a period of confusion for the profession. In the first part of the period, the government seemed to withdraw itself from supporting an independent profession. This was largely because the country had been able to achieve relative autonomy in its economic development. As the country slumped into crisis due to declining export value and maturing foreign debts, the second part of the period saw the start of a new wave of foreign influence on the profession. However, due to the strong coalitions between domestic business interest and the nationalist bureaucrats, the influence seemed to be slow. This impact was

summed up by an observer who commented that "In Indonesia, accounting standards are not well-developed, the number of well-trained accountants is limited, and the accountancy profession is not effectively regulated by itself or by outside parties" (Gray, 1989 p.6). The World Bank further commented:

> "The Government of Indonesia has recognized the importance of setting and enforcing standards, and of generally enhancing the quality and reputation of the accounting profession; however its efforts to date appear to have had limited impact. Enterprise financial statements are not yet prepared consistently according to a generally accepted set of accounting standards; and even if audited by local accounting firms, such financial statements often are given limited credibility by investors, lenders and concerned government agencies." (The World Bank, 1994b p. 2)

In the end, the drive towards progress in the profession again occurred due to another external pressure. Parallel to its need to find alternative means of fuelling the economy, the Government introduced the financial sector and capital markets reforms starting in late 1988. These reforms speeded the development of the accountancy profession, as will be narrated in the following section.

5. 4. 3. The revival period (1988 – 1997)

In many respects, the last decade of the New Order adopted an economic development strategy that was a substantial overturn of that of the previous period. As described in the previous section, the end of oil windfall profit and increasing foreign aid and debts from international and regional inter-governmental institutions (most notably the World Bank and the ADB) had increased pressures on the Government to liberalize and industrialize the economy. As a result, there were dramatic transformations and restructuring of the professional infrastructure. Progress took place in virtually every aspect of the profession and there was a change in the Government's attitude towards professional autonomy. While the government seemed

to withdraw its support for developing an independent and self-regulatory profession in the preceding period, it took steps to build a fully independent accountancy profession in this period.

5.4.3.1. Industrialization and the creation of demand for accountancy

As in the first liberalization era during the early years of the New Order rule, drives towards institutional reforms of the accountancy profession from the late-1980s until the mid 1990s were largely due to pressure from the World Bank and the ADB, two of the biggest IGGI/CGI[37] creditors besides Japan (see e.g. Bank Indonesia, 2000; The Library of Congress, 1992). They were critical of the weak status of the accountancy profession in Indonesia as there was "a general absence in Indonesian law of regulations which would require and enforce basic standards of accounting, auditing and reporting, other than for certain financial institutions and listed companies" (The World Bank, 1994b p. 2). Hence, in order to fulfil the open economy and financial liberalization policy, it was important to have a strong professional infrastructure to support the capital market.[38] Various efforts were undertaken by the global institutions as part of their wider agenda of integrating Indonesia into the global economic order through free trade and the free flow of capital, and a fully functioning Indonesian capital market was essential for the

[37] IGGI stands for Intergovernmental Group on Indonesia, a creditor forum for Indonesia set up in 1968 (see Section 5.2.5). Until early 1992, IGGI was under the leadership of the Netherlands despite its insignificant proportion of debt. It was dismissed on 25 March 1992 with a letter from Radius Prawiro (the then Coordinating Minister for Economy, Monetary and Industry Affairs). The Indonesian Government (particularly Soeharto) was annoyed by the Dutch's comments regarding Indonesia's human rights conditions, most notably the comments on the Indonesian Government's treatment of Santa Cruz East Timor protesters in November 1991 (see e.g. Margana, 1992). The Government regarded the Netherland as using debts as political intimidation and thus refused to accept further financial aid from them. Since 1992, IGGI creditors (minus the Netherlands) formed the Consultative Group on Indonesia (CGI).

[38] For example, since 1986, ADB launched a Financial Reform Programme in Indonesia to develop domestic capital markets (see e.g. The Asian Development Bank (Operations Evaluation Department), 2008).

purpose. The attempt at integrating the country into the global financial and economic system was not new as it was part of the agenda of liberalization of the early 1970s.

The structural and institutional transformations in the late 1980s and the first half of the 1990s (see Section 5.3.2.3) without doubt had a direct impact on the accountancy profession. A capitalistic financial sector and capital markets simply would not be sustainable without the accountancy profession. *Keppress* number 53 year 1990 embedded the legal basis for the accountancy profession as one of "the supporting professions" of the capital market (Article 16). This simply means that the Decree had widened the markets for accounting services. KMK number 1548/KMK.013/1990, consisting of 220 articles, explained in detail the rules and institutional arrangements of the Indonesian capital market. One of the most significant policies was the decision to separate the roles of the capital market operator and regulator, both previously assigned to Bapepam[39]. Many of Bapepam's new functions were supervisory in nature and one of them was to supervise the accountancy profession as it was one of the supporting services for the capital market (Article 1 bullet 65). Accountants who wished to offer their services to publicly listed companies had to register with Bapepam and comply with its rules and regulations in rendering professional services in the capital market. Insurance Act number 2/1992 required all insurance companies to submit the statements of financial position (balance sheet) and profit and lost calculation (Article 16). The Banking Act number 7/1992 stipulated even tighter requirements and requires all banks to submit audited balance sheets and profit and loss accounts (Article 34) and release these documents to the public (Article 35). In

[39] Bapepam's name was revised from its original name of *Badan Pelaksana Pasar Modal* (Capital Market Executive Agency) in 1977 to *Badan Pengawas Pasar Modal* (Capital Market Supervisory Agency).

Act number 11/1992, a pension fund had to submit its financial statements as part of an annual operational report (Article 52) and had to have these statements audited by a public accountant every year (Article 14). The 1995 Company Act requirements captured even wider constituents and Article 56 states:

> "Within five (5) months following the annual closing of a company's accounts, the company's board of directors prepares an annual report to be presented to the shareholders general meeting, which should include at least:
> b. a document of "annual calculation" consisting of a balance sheet, a profit loss calculation and accompanying explanatory notes to those documents;
> c. a consolidate balance sheet of all companies in a holding group, in addition to the balance sheet of each member company
> d. a report about the condition, the operation and the result of operation
> e. the main activity(-ies) of the company and any changes happened within the last accounting year;
> f. details of problems which had impacts on the operation of the company
> g. the names of members of board of directors and commissioners; and
> h. the amount of salary and other remuneration given to members of the board of directors and commissioners." (Limited Companies Act number 1/1995)

Article 57 makes it obligatory for all members of the board of directors and commissioners to sign the financial statements. The Act also required companies to prepare the financial statements in accordance with *Standar Akuntansi Keuangan* (Financial Accounting Standards) and provide explanations if otherwise (Article 59). Moreover, a financial audit was mandatory if "the company's main business involves raising money from the general public" or if "the company issues debt instrument securities" or if "the company is a public company" (Article 59). This Article also required the audited financial statements to be accepted by the shareholders in the annual general meeting and be published in two daily national newspapers. All this high-level legislation strengthened the legal basis for the existence of the accountancy profession.

5.4.3.2. The need for global-oriented professional infrastructure

In keeping with the above structural transformations, there were also significant efforts to consolidate and restructure the accountancy profession's infrastructure. This perhaps was the starting point of the direct involvement of inter-governmental organizations, particularly the World Bank, in updating and synchronizing the accountancy profession to support wider business and economic restructuring. On 17 May 1988, the World Bank approved a loan to Indonesia totalling US$113 million specifically to fund an "Accountancy Development Project" meant for "the improvement of accounting practices in both the public and private sectors" (The World Bank, 1988). In achieving its objective, the project provided supports and assistance both to the Government and the profession (through the Indonesian Institute of Accountants) in developing the professional infrastructure (including technical standards and code of ethics); modernizing and improving the Government's accounting and auditing system; and improving the quality of accountancy education and training.

Such substantial funding had effectively boosted the surge towards an Indonesian accounting system and profession capable of supporting the requirements of the wider restructuring initiatives. Given the World Bank's position as Indonesia's biggest creditor, the loan (Loan number 2490-IND) certainly exerted considerable pressure on the government to implement strategies to improve both public and private sector accountancy. In the government accountancy sector, major improvements were made in the installment of new Government accounting system software. However, the biggest change took place in the private sector where efforts were undertaken to "ensure that financial accounting, reporting and auditing in private sector enterprises

meets consistently high international standards" (The World Bank, 1994b p. 6). The report also emphasized the centrality of the Government in providing "guidance and support to the process of drafting and issuing accounting and auditing standards" since the profession is still 'maturing' and "[ensuring] adherence to these standards" (The World Bank, 1994b p. 6). Specifically, the report also contended that the efforts should be best done through "a coordinated effort in capital market regulations, company and commercial law development, testing and licensing of public accountants and the strengthening of the Indonesian Accountants Institute" (The World Bank, 1994b p. 6). The World Bank's role was to provide technical assistance as well as funding of well-focused overseas higher education for a selection of staff who would then train and supervise all the above transformations.

The initial project ended on 30 June 1995 but it was extended on 22 September 1994 with the Second Accountancy Development Project on the grounds that it would "further support the Government for the modernization of the Government Accounting System and the enhancement of the credibility and usefulness of financial information in the private and public sectors" (The World Bank, 1994b p. i). A further loan amounting to US$ 33.9 million was made available to cover the anticipated expenditure of software and hardware procurement, overseas training and education as well as technical assistance. It was designed to support the restructuring process for the next 7 years and the milestones for the project were clearly specified. The project appraisal report stated that the loan "negotiation" had earned the World Bank "assurances" from the Indonesian Government that a detailed approach and work plan had been adopted (The World Bank, 1994b). This detailed work plan was

listed in Schedule 5 (Implementation Program) of the loan agreement which stated that:

> "2. The Borrower shall, in a manner and substance satisfactory to the Bank:
> (a) by June 30, 1996, adopt and, thereafter, implement or cause to be implemented the detailed approach and work plan for professional accountant qualifying examinations;
> (b) by July 31, 1996, complete the requirements documents for the Government Accounting System Second Release (GAS R.2.0);
> (c) by May 31, 1997, adopt at least 15 accounting and 15 auditing standards;
> (d) by September 30, 1997, complete the enrolment process of at least 18 candidates for the overseas degree training program;
> (e) by October 31, 1997, adopt and, thereafter, enforce or cause to be enforced at least 30 new rules and 10 disclosure guidelines for the regulation of Capital Markets;
> (f) by November 30, 1997, complete and, thereafter, implement or cause to be implemented a pilot data communications system;
> (g) by November 30, 1997, complete the acceptance tests of GAS R.2.0; and
> (h) by July 31, 1999, adopt at least 40 accounting and 16 auditing standards." (Loan Agreement number 3801 IND between the World Bank and the Government of Indonesia dated 21 October 1994)

In the area of public sector accounting, the Accountancy Development Projects were able to meet most of their objectives, most notably in completing a new government accounting system, and significantly enhancing the education for the accounting faculty in the country. In private sector accounting, the project exerted pressure on the Government to support and develop the infrastructure for the accountancy profession. With the support of the IAI (see e.g. The Asian Development Bank, 2003), perhaps the most significant indicator of the project's success in achieving its objective in the private sector was the revision of accounting and auditing standards. In 1994, the IAI set up *Komite Standar Akuntansi Keuangan* (Financial Accounting Standards Committee) to succeed KPAI (IAI Committee for Indonesian Accounting Principles) and *Komite Standar Profesional Akuntan Publik* (Public Accountancy Professional Standards Committee) to replace KNPA (IAI Committee for Auditing Norms)). Through the new committees, IAI decided to harmonize accounting and auditing

standards with international standards (IAI, 2008b). On 1 October 1994, following its national congress, the IAI officially published a new set of accounting and auditing standards. SAK, the abbreviation of *Standar Akuntansi Keuangan* (Financial Accounting Standards), replaced the 1984 *Prinsip Akuntansi Indonesia* (PAI: Indonesian Accounting Principles). SAK was largely set up based on International Accounting Standards. The 1994 SAK was a complete makeover of the 1984 model which was branded as incomplete and narrow by the ADB (The Asian Development Bank, 2003). In total, SAK 1994 codified 28 PSAK (*Pernyataan Standard Akuntansi Keuangan* or Statement of Financial Accounting Standards).

Unlike the previous standards (1973 and 1984 PAI), SAK was revised twice in the space of just over three years. In April 1996, 2 more PSAKs for insurance industries were introduced and by December 1997, there were already 41 PSAKs. As for auditing standards, SPAP or *Standar Profesional Akuntan Publik* (Professional Standards of Public Accountants) was published on 1 August 1994 to replace the 1984 NPA (Accountants Examination Norms) as the Indonesian auditing standards. It contained the complete set of auditing standards, standards for attestation services, accounting services and review on financial statements as well as the quality assurance standards. SPAP was a close copy of the US Generally Accepted Auditing Standards with adaptation from the International Auditing Standards for matters that were in the US GAAS (The Asian Development Bank, 2003).

5.4.3.3. Pressures for setting up a competent and accountable profession

In addition to the new company law and a series of financial and capital market laws and regulations, changes to the regulation of the profession were also imminent. Steps

to strengthen the profession also took the form of providing legal frameworks through laws and regulations concerning the profession:

> "Enforcement of accounting and auditing standards is also achieved through provisions in company and commercial law and associated ministerial decrees. Hence, the project would support limited but important technical assistance to ensure effective coordination among the law and decree making, standard setting, capital market rule-making and *professional accountants licensing and supervision activities*." (The World Bank, 1994b p. 9, italic added)

In January 1997, the MoF issued KMK number 43/KMK.017/1997 regarding Public Accountant Services to replace decree number 763/KMK.011/1986 about Public Accountants. The new decree contained some important changes from its predecessor, including sections that concerned the licensing requirements, foreign accountants and accounting firms, and supervision on public accountants and public accounting firms. Changes in licensing requirements were perhaps the most significant. First, the decree required all public accountant licence applicants to pass *Ujian Sertifikasi Akuntan Publik* (Certified Public Accountant Examinations) held by IAI (Article 7 bullet a). This was a completely new requirement, which was in line with the terms of the World Bank's project. Secondly, the decree required all applicants to domicile in Indonesia (Article 7 bullet a) which lifted the citizenship requirement adopted in the previous decrees. In other words, foreigners could now apply for Indonesian public accountant licenses without reciprocity. Related to this, the decree also stated that "KAP can cooperate with foreign public accountants or accounting firms in the form of correspondence, technical cooperation or any other forms of affiliations so long as they are in accordance with any relevant governing regulations" (Article 5), thus clarifying the status of foreign cooperation. Other important changes concerned supervisory authority and mechanisms. In the preceding institutional arrangement, the MoF regulatory function was limited to licensing and keeping a register of accountants while the supervisory authority had been with BPKP

(see Section 5.4.2). In the 1997 decree, the MoF's duty and authority was "to help develop public accountants and KAPs by, among others, monitoring KAP's compliance with relevant governing regulations" (Article 13). Together with this, the MoF also had the power to issue sanctions towards noncompliance. Depending on its seriousness, these sanctions included admonition, licence suspension, or licence revocation (Article 24). These provisions meant that the regulatory power of the MoF had been increased as the MoF now had power in enforcing compliance with professional standards and codes of ethical conduct as the decree required all public accountants to adhere to them in rendering their services (Article 15).

In summary, the Indonesian accountancy profession went through a period of revival during the last decade of the New Order. The drive towards a Western-style accountancy profession started in 1988 following the country's efforts to further integrate its economy into the global economy. During this period, various laws and regulations were enacted to support the functioning of its capital market and to strengthen the financial services sector. This statutory legislation also incorporated provisions that strengthened the legal foundations of the profession. All of these were with the support of the World Bank and the ADB. Parallel with these transformations, dramatic and unprecedented changes took place in the profession. New, internationally harmonized accounting and auditing standards were published. Professional qualification examinations were also introduced for the first time in this period. Enforcement of these standards and qualification mechanisms was also enhanced by increasing the Government's power over the profession.

5. 5. Summary and conclusion

Understanding the nature and influence of the New Order is important in contextualizing the development of the accountancy profession in Indonesia during the period between 1967 until the onset of the 1997 Asian financial crisis. Unlike the previous period where Soekarno's administration created an ideological barrier against the capitalist system encroaching into country, Indonesia under the New Order was a Western-backed regime that experienced political stability and economic growth. At the beginning of the New Order, the process of Americanization of the profession was expected to be smooth considering the New Order's closeness with Western power and economic thinking in the early years of its rule. However, as narrated in this chapter, that was not the case because the New Order itself became the major obstacle to the development of the profession.

Over time, the New Order had transformed into an oligarchic capitalist regime which was different from Western-model capitalism and consequently had different views on the role and function of the accountancy profession. The increased revenue from the oil boom and the strong sentiments against Western power, had granted the New Order the opportunity to adopt its own developmental ideology. On the ideological front, it was able to balance foreign-oriented and nationalist agendas and on the economic front, it was able to groom enormous domestic conglomerates. As a result, the ideology of free-market capitalism was constantly challenged throughout the Order's era. In the political sphere, the open economy idealism propagated by the Western-educated technocrats was always challenged by the nationalist agenda of the politico-business bureaucrats. On the other hand, foreign influence (channelled through financial and political supports) faced the interests of the politico-business

coalitions between domestic conglomerates and the bureaucrats. As a result, the regime's choice of economic policy had been coloured by various themes along the spectrum, with liberalism at one end and protectionism at the other end. From the outset, the New Order never officially closed its economy to the inflow of foreign money, and at the same time, it also introduced protective and interventionist measures under the argument of social justice (e.g. Rosser, 2002; Vatikiotis, 1998). Clearly, the fluctuations in economic policy had had direct impacts on the trajectory of the development of the accountancy profession in Indonesia.

Given the above context, some conclusions could be drawn. First, the drive towards a Western-style arrangement ensued when the country leant towards the liberal system with the technocrats dominating the policy-making agenda. This was evident during the first and last decade of the New Order when professional infrastructure was developed and strengthened. However, there were important differences in how global capital interests imposed a Western-style accountancy profession during the New Order. The pressure no longer came from a single superpower country as evident in the previous period (the US). Rather, the major powers that exerted pressures were the multilateral institutions at international or regional level. During the early decade of the New Order, it was the IMF who exerted all the pressures whereas in the last decade, it was the World Bank and the ADB. During these times, structural adjustments, deregulation and de-bureaucratization were carried out, in an effort to integrate Indonesia into the global financial and economic order. Simultaneously, the two institutions also required steps towards a "strong" and "independent" accountancy profession (such as strengthening legal backing for the profession, setting up internationally compatible accounting auditing standards and

qualification mechanisms). In addition, there had also been a change in the method of imposing pressures. The role and influence of foreign debts in the time of the New Order was more decisive in imposing the economic liberalization agenda. In the early years of the New Order, the two important creditors were the IMF and the IGGI, a multi-government creditor forum for Indonesia. Through loan agreements, these creditors had successfully imposed their agenda for structural adjustments in the country in a rather dramatic fashion (e.g. the foreign investment Act 1/1967 and steps to set up capital markets during the early 1970s and especially after 1988).

The Westernization of the profession was intermittent as the New Order effectively implemented a different type of capitalism i.e. crony/oligarchic capitalism (see e.g. Chua, 2008). Progress towards full adoption of a Western accountancy profession was compromised when the politico-bureaucrats were in power, especially from the second decade of the New Order era. With the growing power of domestic capitalist groups (i.e. Indonesian-Chinese and crony conglomerates), the need for an independent accounting profession was at its lowest point. During this time, the development of the profession depended heavily on the state's actions. In fact, the market for the profession had largely been a creation of state legislation. This was evident in the late 1970s when the country introduced tax incentive packages as well as in early 1990 through a series of capital markets and financial sector deregulation. The close relationship between the state and the profession was also evident on issues of market access for foreign accountants and accounting firms.

The analysis in this chapter, thus, supports the contention that the development of the Indonesian accountancy profession was a function of both internal and external

factors. It confirms that the drive for professional accounting development in ex-colony countries such as Indonesia follows the stages of globalization as a capitalist world-order. However, the success of such efforts is also a function of Indonesia's internal specificity in terms of its history and socio-political configurations. While in the first decade of its establishment the development of the profession had been compromised by ideological barriers, which emanated from the highest political ranks (see Chapter 4), the development of the profession from 1967 to 1997 faced the New Order as an alternative politico-economic structure. As a result, while a Western-style accountancy profession seemed to be the future model in the country in the early 1970s, its adoption certainly has been far from smooth. Overall, the World Bank's continuous attempt to 'upgrade' the profession to meet 'international standards' only had little impact despite the significant financial and economic reform agenda from 1988 until 1997. This was partly because the coalitions of the political power of the New Order's bureaucrats and the domestic conglomerates had reached their strongest point by the mid-1990s, causing the reforms to have rather partial and incomplete impact on the economy (Rosser, 2002). The limited impact of reforms was reflected in the profession. For example, the Australian Department of Foreign Affairs and Trade still regarded Indonesia's professional infrastructure conditions in the late 1990s as "not yet up to international norms and … enforced weakly" (The Australian Department of Foreign Affairs and Trade, 2002 p. 93).

Until early 1997, the profession seemed set to embark on a similar path of intermittent development as in the previous periods given the fact that the New Order still stood firmly as Indonesia's prevalent political power. However, in mid-1997, the New Order's politico-business coalitions faced their strongest challenge when the

value of the Rupiah plummeted. The next chapter will look in depth at why the Rupiah's depreciation has proven to be a vital factor in shaping the unprecedented development of the profession in the last decade.

Chapter 6

The Indonesian Accountancy Profession after the 1997 Asian Financial Crisis

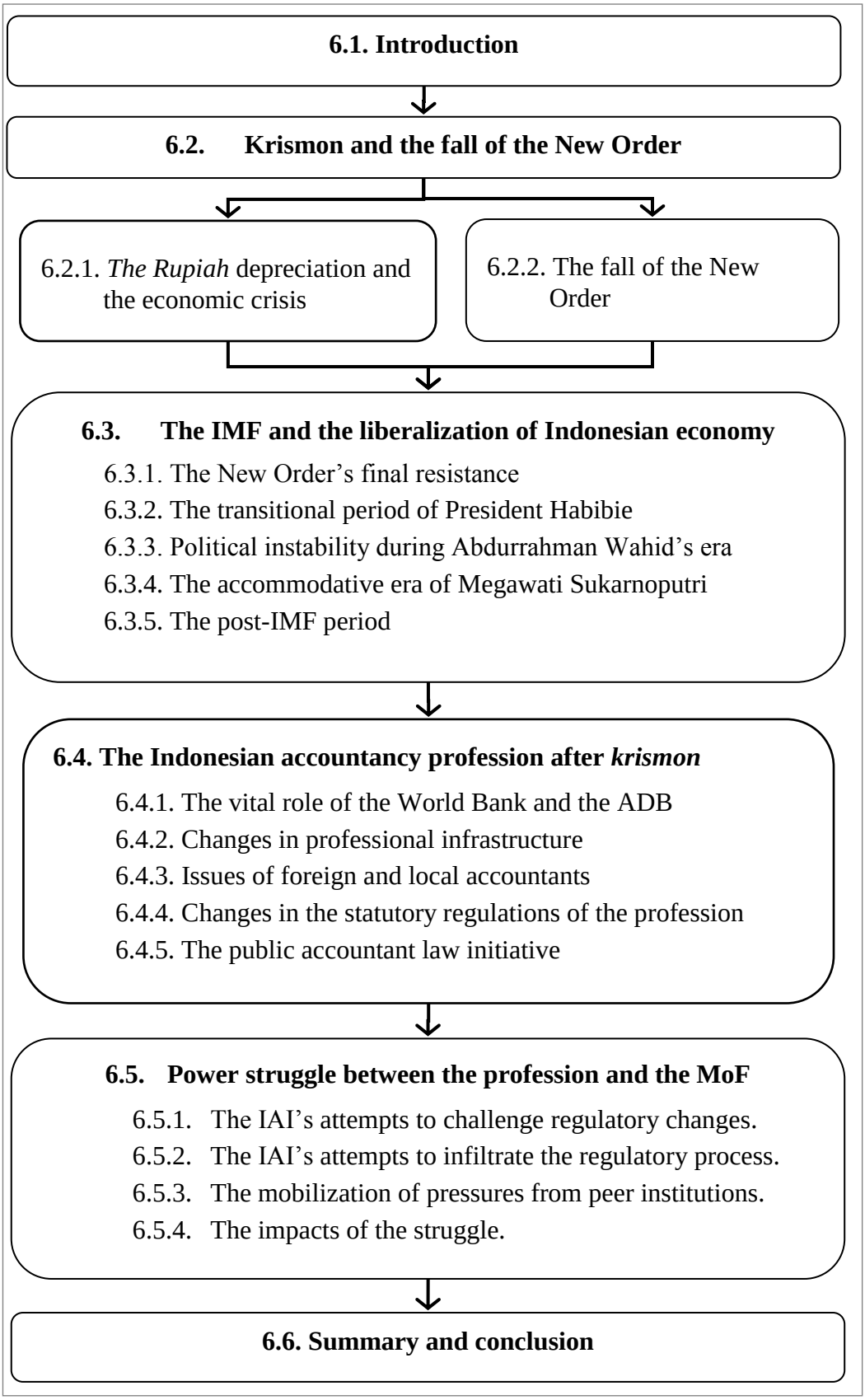
6. 1. Introduction

The end of the oil boom in the mid-1980s had provided the opportunity for the World Bank, later joined by the ADB (Asian Development Bank), to "modernize" Indonesia's accountancy professional infrastructure in the mid-1980s. By the mid-1990s, these efforts had brought about significant progress, most notably the adoption of International Accounting and Auditing Standards. The domination of the government and family-owned conglomerates in the economy hampered progress but things changed when the country was hit by the 1997 Asian financial crisis. Indonesia was the hardest-hit by the crisis, prompting the country to seek aid from the IMF (International Monetary Fund). This had significantly accelerated efforts towards liberalizing the country and consequently, transforming the accountancy profession. The period after 1997 was marked by several major developments unprecedented in the history of the accountancy profession in the country. With the backing of the IMF, the World Bank and the ADB played crucial roles in making these changes, all of which were made under their terms of 'financial aid' programmes. Significant changes in the profession include, among others, a new route for becoming a registered accountant, a new CPA examination design, as well as new and revised accounting and auditing standards.. The biggest change of all, however, took place in the area of statutory regulation of the profession, especially of the auditing profession. The Government, through the MoF (Ministry of Finance), introduced radical changes to the ministerial decrees that governed public accountants and public accounting

firms. It also attempted to strengthen these changes by incorporating them into a new act replacing the 50-year-old Act 34/1954. The changes had sparked a tussle between the MoF and the Indonesian Institute of Accountants, especially the public accountant section.

Figure 6-1 presents the structure of this chapter. As in the two previous chapters, the chapter starts by analysing the post-1997 Indonesia's politico-economic conditions. Section 6.2 briefly describes the 1997 Asian financial crisis and its political implications i.e. the fall of the New Order. Section 6.3 focuses on describing the role of the IMF in dictating Indonesia's economic policy following *krismon*. To enhance our understanding of the impacts of those major changes on the Indonesian accountancy profession, Section 6.4 elaborates the central role played by the World Bank and the ADB in driving the transformations of the profession post-crisis, viz. changes in professional infrastructure and the reappearance of foreign-local issues, as well as the Government's attempt, with the push from the ADB, to enhance auditors' liability in Indonesia by constantly revising the statutory regulations of the profession and initiating a new public accountant law. Section 6.5 describes how those two attempts i.e. by foreign institution and the government, sparked tension between the profession and the State. The Chapter ends with the summary and conclusion.

Figure 6-1: The structure of Chapter 6



6. 2. *Krismon* and the fall of the New Order

The 1997 Asian financial crisis, popularly known as *krismon*[40] in Indonesia, was a decisive factor in the development of the Indonesian accountancy profession. It had fundamentally changed Indonesia's power configuration, favouring the global capitalist camp. While it is true that efforts to integrate Indonesia into the global economy had begun as early as the mid-1980s, these efforts were rather partial and had inadvertently benefited local capitalists as well as nurturing the coalitions between the local capitalists and the bureaucrats. However, the 1997 crisis had weakened both the economic power of the local capitalists and the political power of the politico-business bureaucrats. In other words, the crisis had seriously shaken the very foundation of the aforementioned business-politics coalitions. Since Indonesia's economy was in dire need of fresh funds, the international capitalists were able to exert pressure on Indonesia to integrate more quickly towards the global capitalist economy. These changes and reforms were imposed through structural adjustment programmes under the IMF's financial "aid".

6. 2. 1. The Rupiah depreciation and the economic crisis

The 1997 Asian financial crisis, triggered by currency fluctuation that hit several East and South East Asian countries, left the longest impact on Indonesia. The crisis began when the value of the Rupiah started to fall on 17 July 1997 from Rp 2,466, to Rp18,000 per US$ during mid-1998, stabilizing at Rp 8,000 per US Dollar by the end of 1998, only 30% of its value as of January 1997 (The World Bank, 2008). The enormous decline in the Rupiah's value in such a short period was fatal as it

[40] *Krismon* (short for *krisis moneter*, literally monetary crisis) was a popular term used by Indonesians to refer to the 1997 Asian financial crisis. It owed its name to the fact that the crisis was started by monetary crisis triggered by the plunge of the Rupiah's value.

significantly increased the amount of debt payable by the Government to foreign creditors, which had already been at a high level in its foreign currency value.

Table 6-1 presents the amount of Indonesia's foreign debt for the period between 1996 and 2007. It can be seen from Table 6-1 that in 1996, Indonesia's foreign debts were US$130 billion or Rp304.6 trillion[41]. By the end of 1997, the value of the debt in Rupiah soared by 167% to Rp815.6 trillion despite the fact that the increase in US Dollar value was only 5.7% (to US$136.3 billion). In some cases, since the value of the Rupiah never recovered to its pre-crisis value, the debt amount in Rupiah increased even though the US$ amount actually decreased (as in 1999/2000 and 2000/01, see Table 6-1). In effect, Indonesia's post-crisis total foreign debts escalated to four times its pre-crisis nominal value.

Table 6-1: Indonesia's foreign debt statistics 1996–2007

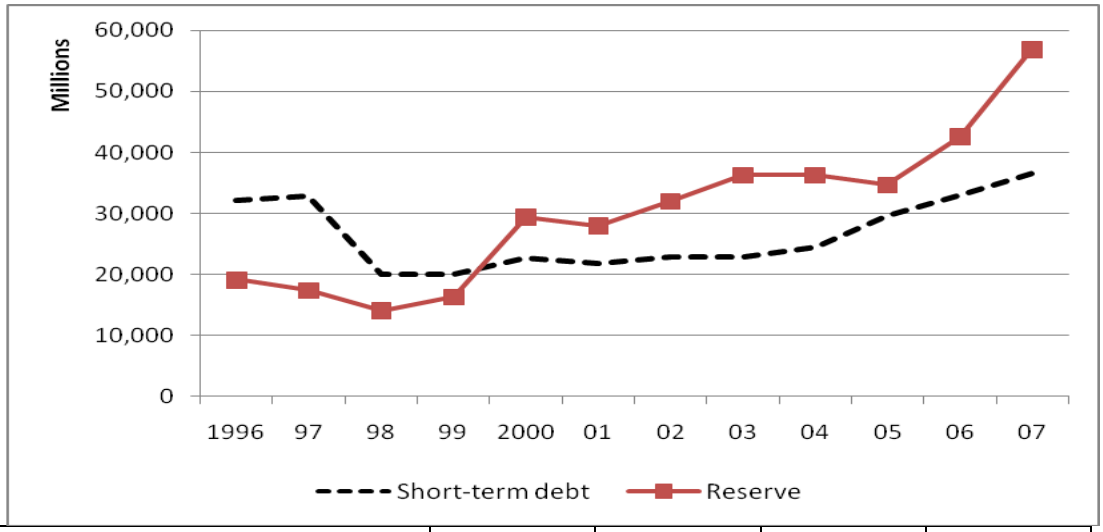
Year	**External debt** (US$ billions)	**% Change**	**Inflated Change** (1996 =1)	**External Debt** (Rp trillion)	**% Change**	**Inflated Change** (1996 =1)
1996	128.94		1	304.65	1	1
97	136.27	5.69	1.06	815.59	167.71	2.68
98	151.35	11.06	1.17	1,187.93	45.65	3.9
99	151.33	-0.01	1.17	1,065.06	-10.34	3.5
2000	144.16	-4.74	1.12	1,369.74	28.61	4.5
1	133.83	-7.17	1.04	1,397.67	2.04	4.59
2	132.84	-0.74	1.03	1,181.81	-15.44	3.88
3	136.65	2.87	1.06	1,152.19	-2.51	3.78
4	139.40	2.01	1.08	1,293.91	12.3	4.25
5	130.71	-6.24	1.01	1,270.95	-1.77	4.17
6	130.96	0.19	1.02	1,173.47	-7.67	3.85
7	136.64	4.34	1.06	1,279.65	9.05	4.2

Adapted from The World Bank, 2008

[41] Valued at Rp 2,362 per US$ as of 2 January 1997.

The devastating effect of the plunge in the Rupiah's value was more apparent when considering the amount of short-term debt. Figure 6-2 presents the amount of short-term debt and foreign reserves from 1996 to 2007. It can be seen that before the currency depreciation in July 1997, Indonesia's short-term debts (US$32 million) already exceeded its foreign currency reserves at the time (US$19,125 million). The 1996 short-term debt figures represented over 14% of Indonesia's 1996 GDP but the figure jumped to 15% and 21% during the peak of the crisis (1997/98) because of the shrinking of the country's GDP (The World Bank, 2008).

Figure 6-2: Indonesia's short-term debt and foreign reserve (1996–2007)



Year	1996	97	98	99
GDP (current US$ billions)	227.37	215.75	95.45	140.00
Short-term debt - (US$ billions)	32.23	32.87	20.11	20.03
Short-term debt - (% of GDP)	14.18	15.23	21.07	14.31

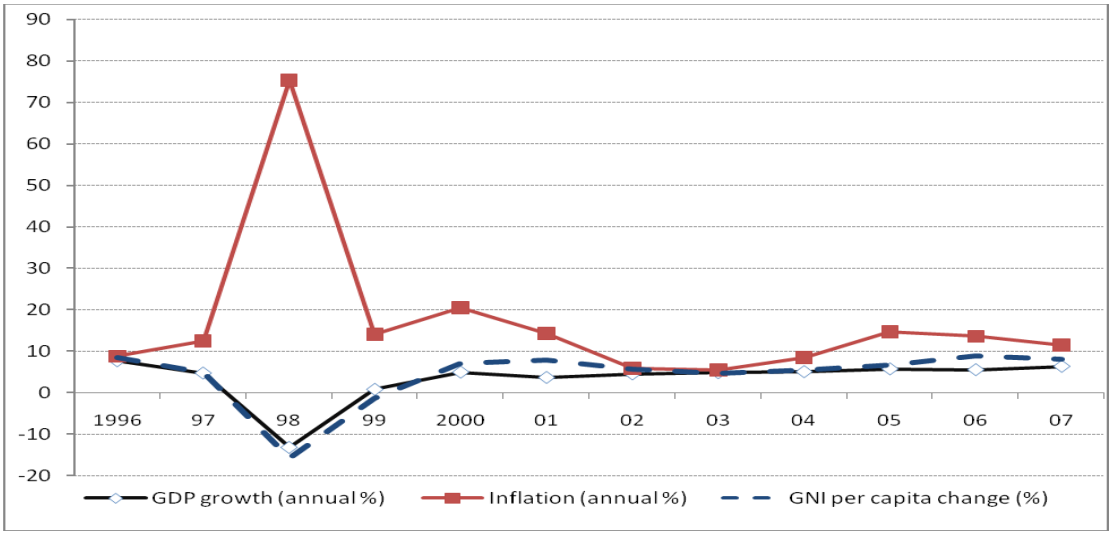
Adapted from The World Bank, 2008

Furthermore, the large deficit in foreign reserve in 1997 made it difficult for the Government to intervene in the currency market to manage the Rupiah's exchange rate. On 14 August 1997, the Government had to abandon the managed floating currency exchange system and adopted the free floating system, making Indonesia one of the most liberal countries in terms of its currency exchange system (see e.g.

Toussaint). Other policies being implemented to restore confidence in the Rupiah and the Indonesian economy include, among others, increasing interest rates, cutting government spending, increasing tax on luxury items, cutting import and export tariffs, and abandoning the 49% ceiling of foreign ownership in publicly listed companies (Djiwandono, 1998; Santoso and Iskandar, 1999). However, the measures still failed to stop scepticism about Indonesia's economy. The Government attempt to ask for the IMF's help in the form of a stand-by loan of up to US$10.14 billion (The International Monetary Fund, 1997) did not improve the situation. The IMF's way of handling the crisis, especially its recommendations to liquidate 16 banks on 1 November 1997, was inappropriate for Indonesian circumstances (see e.g. Toussaint, 2004) as it triggered a crisis of confidence in the Indonesian economy in general and the banking system in particular.

The consequences of the Rupiah depreciation and the crisis of confidence in the Government had finally brought Indonesia's economy into crisis. The prolonged depreciation and instability of the Rupiah's value created uncertainty and a huge burden on the economy as the Government, banks and other companies with foreign debts experienced chronic liquidity and solvency problems (Ramli, 2008). Figure 6-3 shows Indonesia's major economic indicators during the last decade following the 1997 crisis. It can be seen that GDP and GNI started to fall in 1997 while inflation started to soar, with the worst occurring in 1998 when GDP fell by around 13% while inflation reached 75%, resulting in a fall in income per capita of around 15% (The World Bank, 2008).

Figure 6-3: Indonesia's major economic indicators 1997–2007



Adapted from The World Bank, 2008

6. 2. 2. The fall of the New Order

Over the course of the following months, *krismon* became *kristal* (*krisis total*; Indonesian for total crisis). Social unrest started to surface as *sembako* (nine basic-need products i.e. rice/cassava, palm oil/margarine, sugar, meat, egg, corn, salt, kerosene/LNG) became increasingly scarce and expensive. The difficulty experienced by ordinary people escalated the socio-political crisis to its peak during 13 to 15 May 1998 when a massive riot broke out in Jakarta following the shootings of several students who protested against the Government's way of handling the crisis on 12 May 1998 (Kompas, 2008). The incident triggered colossal protests led by students and public figures[42] and was followed by a call for Soeharto's resignation from the board of chairs of MPR/DPR[43], most of whose members were either appointed by Soeharto or elected from Soeharto's Golkar party. Other political manoeuvres that

[42] These include among others Amien Rais, Abdurrahman Wahid (popularly known as Gus Dur) and Megawati Soekarnoputri.

[43] MPR is short for *Majelis Permusyawaratan Rakyat* or the People's Consultative Assembly, the highest legislative state institution in Indonesian politics and DPR is short for *Dewan Perwakilan Rakyat* (the People's Representative Council, Indonesia's parliament).

were a massive blow to Soeharto was the resignation of Soeharto-chosen members of cabinets and the refusal by many public figures to be included in Soeharto's new cabinet and *Komite Reformasi* (Committee for Reformation), a committee he set up to accommodate public demands for reforms (Kompas, 1998, 2009; Penerbit Buku Kompas, 2008). Faced by public pressure and deserted by even his closest allies,[44] Soeharto announced his resignation as President on 21 May 1998 and handed over his power to Baharrudin Jusuf (B.J.) Habibie,[45] the then Vice President (detikNews, 2007; Habibie, 2006).

The fall of the New Order is of crucial importance to this study as it epitomized the change within Indonesia's power structure. Three major events during the crisis damaged the coalitions between the conglomerates and the politico-business bureaucrats. First, the currency crisis put enormous pressure on the wealth of the conglomerates as they found their foreign debt multiplied by at least four overnight. Secondly, the decision of the Government to submit to the IMF recovery programmes was deemed unfavourable to their interests and was strongly opposed. The last and final blow to the coalition was the stepping down of Soeharto as President. Although the local conglomerate–bureaucrat coalitions were not totally destroyed, the fall of Soeharto had seriously undermined their solidarity and influence. More importantly,

[44] It must be remembered that many of the then MPR/DPR members were appointed by Soeharto and/or came from Soeharto's *Golkar* party. The Chairman of MPR at the time (Harmoko) and many of the resigning ministers (such as Akbar Tandjung and Ginandjar Kartasasmita) were Soeharto's closest and trusted bureaucrats (Kompas, 2009; Penerbit Buku Kompas, 2008).

[45] Habibie's ascendancy to presidency was actually a result of his "naivety in interpreting a question of a Javanese king"(Witoelar, 2006). According to this account, Soeharto told Habibie on 20 May that he would step down the next day and Habibie was supposed to step down together with him in order to pave the way for General Wiranto (the then Armed Forces Higher Commander, Soeharto's loyal man) to take leadership. Because he "was not well-versed in Javanese culture", Habibie was unable to read the implicit gestures and took the presidency instead, ruining Soeharto's plan for his succession (Bayuni, 2006).

the fall of the New Order had meant the destruction of the biggest hindrance to globalization. In the next two sections, the sheer influence of the IMF in shaping Indonesian economy during and after the crisis will be described.

6. 3. The IMF and the liberalization of the Indonesian economy during and after *Krismon*

The critical economic situation had caused the Government to sign the LoI on 30 October 1997. It was the first time that Indonesia had to request fundamental and long-term support from the IMF (see e.g. Kuntjoro-Jakti, 2001). Following the initial agreement in 1997, no fewer than 21 subsequent agreements in the form of LoIs and Memoranda of Economic and Financial Policies were signed between the Government and the IMF over the course of six years (1997-2003). When Indonesia finally decided to terminate the agreement at the end of 2003, the country had utilized US$15.55 billion of the credit line with the largest amount being used in 1997 and 1998. Indonesia was only able to repay the full amount in 2006. Table 6-2 presents a summary of Indonesian debts received from, and repayments to, the IMF.

Table 6-2: Indonesia's debts to the IMF, 1997-2006

Year	Purchases and Loans (US$)		Charges and Interest Paid
	Disbursements	Repayments	
2006	-	7,647,080,005.60	277,921,970.20
2005	-	1,084,731,664.80	296,549,762.60
2004	-	949,304,997.20	241,153,085.60
2003	1,926,736,000.00	1,370,959,332.40	208,089,140.00
2002	1,541,344,000.00	2,568,384,000.00	284,010,218.80
2001	433,510,000.00	1,926,288,000.00	517,298,397.00
2000	1,191,610,000.00	-	558,385,240.00
1999	1,415,400,000.00	-	374,555,223.00
1998	5,956,087,200.00	-	187,549,087.60
1997	3,082,060,800.00	-	-

Adapted from The IMF (2009) assuming 1SDR (Special Drawing Rights) = 1.4 US$

With its much-needed money, the IMF held a significant power over Indonesia's choice of economic policies. The IMF dictated its agenda of "economic reforms" by disbursing its "help" incrementally and on the condition that Indonesia satisfactorily implemented its recommendations, most of which were no different from an agenda of economic liberalization.

6. 3. 1. The New Order's final resistance (October 1997- May 1998)

Without doubt, the IMF was the central agent in liberalizing Indonesia's economy following the crisis. The various LoIs were the instruments by which it imposed macroeconomic policies and structural reforms directed towards achieving a liberal market capitalist economy by reducing government intervention in the economy as stated in the first LoI on 30 October 1997:

> "… a strong macroeconomic framework designed to achieve an orderly adjustment in the external current account, and incorporating substantial fiscal adjustment as well as a tight monetary stance; second, a comprehensive strategy to restructure the financial sector, including early closing of insolvent institutions; and third, a broad range of structural measures which also improve governance" (Letter of Intent between the Government of Indonesia and the IMF dated 30 October 1997).

In the LoI, the economic liberalization agenda was translated into detailed policy plans with performance measures and targets established as well as monitored. Quantitative target measures were set[46] in the first LoI aimed at stabilizing the currency, maintaining foreign exchange reserves and limiting inflation. Typical policy actions set to achieve those targets included cutting Government spending and increasing revenues, managing interest rates, restructuring and privatizing State-Owned Enterprises; and restructuring and reforming the financial sector (especially

[46] For example, a 1% budget surplus was allowed in 1997 and 1998; targeted inflation rates were 10% in 1997/1998 and 5% thereafter; and the percentage allowed for current account deficit was 3% (Letter of Intent between the Government of Indonesia and the IMF dated 30 October 1997).

the banking system). Clearly, these programmes were intended to prepare and upgrade Indonesia's institutional and legal framework to enable full integration into the global capital market. Following the first LoI, and as the value of Rupiah plunged below Rp 8,000 per US$ in mid-January 1998, Soeharto had no other option but to continue the agreement with the IMF. Two further LoIs were signed in the space of four months (signed on 15 January and 10 April 1998 respectively) with stronger performance measures than the previous.

Despite the signings of three letters of intent, the IMF was not able to fully turn Indonesia's dependence on its loan into political victory mostly because Soeharto's regime was still very much in control.[47] Resistance towards the liberalization agenda continued for several reasons. Firstly, the IMF's pressure to reduce monopoly and domestic trade arrangements would undermine the conglomerates' business interests.[48] The second major reason was related to the socio-political consequences of the IMF's recommendations. The New Order political elites knew very well that reducing subsidies on basic food commodities, fuel, kerosene and electricity would ignite social and political unrest because it would directly affect grass-root citizens, the majority of whom still depended on kerosene for household fuel.[49] In other words,

[47] The 1997 general elections had put Soeharto's political party as the overwhelming winner with 74.5% votes (Komisi Pemilihan Umum, 2009), which meant that the politico-business bureaucrats were still in charge of making crucial political decisions.

[48] For example, the liberalization of the clove trade would undermine one of Tommy Soeharto's businesses while the elimination of the BULOG's[48] (the National Food Logistic Agency) monopoly of several basic food commodities would affect the source of finance for the bureaucrats' political activities. Thus, various devices such as the imposition of an uncompetitive export procedure for plywood, the restoration of tax incentives for the Timor *mobnas* manufacturer, and the attempt to restore the clove monopoly using a different name and scheme (Rosser, 2002) were constructed to impede the liberalization attempt.

[49] It would also have had indirect and multiplying effects because reducing subsidies on petrol and diesel would increase transportation costs and eventually cause the prices of other basic commodities to increase.

the issue of subsidies was not merely an economic choice but also a politically sensitive issue as it could be used against the Soeharto regime.

The New Order's reluctance to implement the IMF's recommendations was evident once the first LoI was signed.[50] However, the resistance took its strongest form during the first half of 1998. The first effort was Soeharto's insistence on adopting the currency board system,[51] a system that would fix the value of the Rupiah at around Rp5,000 per US$. Soeharto's strong intention was expressed in a meeting with the Advisory Council for National Economic Security (Xpos edition 18/01 (27 February 1998) as quoted in Djiwandono, 2000). He also instructed Parliament to prepare temporary legislation as the legal basis for CBS; invited Steve Hanke, an economist from John Hopkins University and an avid supporter of CBS, to meet him in Jakarta;[52] and sacked the then governor of the central bank, Sudrajad Djiwandono, on 12 February 1998 allegedly because he opposed the CBS. The second important sign of rebellion was shown in his choice of cabinet members, particularly the economic ministries when the MPR elected him as President for the seventh consecutive period. He appointed his closest circle of friends and families to strategic positions in his

[50] The Government did not fully commit to cutting expenditure but instead continued spending on costly projects (e.g. IPTN's national aero-plane project) and on food and fuels subsidies, protecting uncompetitive *tata niagas* (trade arrangements) such as the rice and clove monopoly, as well as retaining tax leniency for Timor (*mobnas*, the national car manufacturer).

[51] According to Djiwandono (2000), the reason Soeharto insisted on the CBS was because he needed to quickly stabilize the economy and concentrate on the upcoming General Meeting of the MPR (*Majelis Permusyawaratan Rakyat* or People's Consultative Assembly, the highest legislative state institution in Indonesian politics) in March 1998, and one of the important items was the election of the president. The Rupiah's stability at a lower rate (between February and April 1998, the Rupiah was valued between Rp8,000 and Rp10,000 per US$) would give a boost to the conglomerates and his crony in regaining and consolidating their businesses.

[52] It was believed that Mr. Hanke was invited by Peter Gontha, a close friend of Tommy Soeharto (see e.g. Antara News, 2008).

cabinet.[53] His choice of ministers was considered as a sign of rebellion against the IMF as these figures' vision was incompatible with the IMF's reform agenda (see e.g. Shiner, 1998).

In the end, Soeharto's resistance was fruitless. Soeharto's determination to adopt CBS invited reactions from the creditors. Pressure from the IMF, the World Bank, the ADB and other Western Governments[54] mounted as they threatened to freeze their loan if Indonesia continued to implement the CBS. Without the support of the IMF, the World Bank and other Western creditors, the Government would not have enough reserves to back all circulating currency plus bank deposits (as previously shown in Figure 6-2). Secondly and more importantly, the backing of these creditors was crucial in building and restoring confidence in the Government and the Indonesian economy. Another contributory factor to Soeharto's weak position was the progression of the economic crisis into social and political crisis (see Section 6.2.2). Due to increasing threats to his position, Soeharto had no option but to negotiate with the IMF and signed the third LoI on 12 April 1998. This round of negotiation was considered a major victory for the IMF (Rosser, 2002)[55] as it succeeded in forcing Soeharto to abandon his plan of adopting CBS in March 1998 (Berfield and Tesoro,

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[53] These include: B.J. Habibie (Soeharto's protégé) as Vice President, Fuad Bawazier (a business ally of Tommy Soeharto) as Finance Minister, Tanri Abeng (a close friend of Habibie) as State Minister for the Empowerment of State-Owned Enterprises, Muhammad "Bob" Hasan (one of Soeharto's cronies) as Minister for Trade and Industry and Siti Hardianti Rukmana (Soeharto's eldest daughter) as Minister for Social Affairs (Kepustakaan Presiden-presiden Indonesia (Library of the Indonesian Presidents), 2009b; Tempo, 1998c, d, e).

[54] Bill Clinton, for example, directly phoned Soeharto about the matter, to whom Soeharto was reported to have "retorted" that "the current IMF programme hasn't been a roaring success"(Blustein and Richburg, 1998).

[55] According to Rosser (2002), the IMF made some compromises in this round of negotiation such as increasing the budget deficit target from 1% to around 3.2%. However, it achieved more results in return such as forcing the Government to eliminate many trade restrictions e.g. the clove monopoly by Tommy Soeharto's BPPC (*Badan Penyangga dan Pemasaran Cengkeh*; literally Clove Support and Marketing Agency) and the ban on palm oil exports.

1998). The IMF's position was further strengthened when Soeharto stepped down on 21 May 1998 and handed over presidency to Habibie (the then vice president), marking the end of the New Order reign.

6. 3. 2. The transition period of President Habibie (1998-1999)

The coalition between the conglomerates and the politico-business bureaucrats was in serious jeopardy when Soeharto stepped down from the presidency. Faced with economic, politic and social disarray, Habibie had little choice but to continue seeking support from the IMF and follow their recommendations.[56] Habibie's administration also had to react to demand for cleaner and more effective public money administration. A major step undertaken by the Government to eradicate KKN (a very popular Indonesian abbreviation for *kolusi, korupsi dan nepotisme*, i.e. collusion, corruption and nepotism respectively) was by terminating various projects, agreements and cooperation with the Government and/or state-owned enterprises (SOEs) which were founded without due diligence. Habibie's administration was also willing to consider the possibility of prosecuting Soeharto and his family as reaction to public opinion about their KKN and abuse of power (e.g. Tempo, 1998a, b)[57].

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[56] Several recommendations that he implemented include deregulating investment procedures and introducing a new bankruptcy law (July 1999). He also gave Bank Indonesia greater autonomy and independence through the new central bank law (May 1999) and revised the 1992 Banking Act (which among others lifted the restriction on foreign investors directly owning shares in Indonesian banks) in late 1999. Finally, he extended the life of and gave greater power to BPPN (*Badan Penyehatan Perbankan Nasional*), an agency set up for the purpose of managing and restructuring troubled banks under the government's liquidation aids (Sjahrir (2004). Transisi menuju Indonesia baru. Jakarta, Yayasan Obor.

Sjahrir (2004). Transisi menuju Indonesia baru. Jakarta, Yayasan Obor.

Tempo Interaktif, 4 May 2004).

[57] The handling of Soeharto corruption cases had never shown any real significant progress despite the fact that it was clearly mandated by MPR Resolution number XI/MPR/1998 (e.g. *Konsorsium Reformasi Hukum Nasional* (National Consortium of Law Reform), 2006 and Muslih, 2006). He had never stood trial for his crime by the time of his death on 27 January 2008 (e.g. Yamin, 2008).

However, resistance still existed, albeit sporadic in nature and generally unsuccessful, due to a number of factors. First, although Soeharto had stepped down, there was no complete change in the political elites including Habibie himself.[58] Thus, despite the change of presidency, considerable elements of the New Order still existed in the very highest level of Indonesia's post-Soeharto political regime. Both the cabinet and the people's representative houses were filled with figures previously associated with Soeharto and *Golkar* (Soeharto's vehicle for dominating the country) was still a very powerful political party. Secondly, the enormous economic wealth of the conglomerates (including Soeharto's family) granted them the power to create social and political intimidation should they wish to.

Despite complying with many of the IMF's recommendations (a total of 8 LoIs were signed over the 15-month period), there still existed interference in the number of negotiations between the IMF and Habibie's Government. In some areas, for example in the banking sector, the progress of reforms and the work of BPPN were hampered by the lack of cooperation, especially from banks owned by powerful conglomerates.[59] Similarly, despite the pressure by the IMF-World Bank-ADB trio for privatization of SOEs to improve efficiency, it proved to be a tricky agenda not only politically but also socially. Firstly, there was resistance coming from within the SOEs because many of the SOEs' directors, managers as well as commissioners, were ex-officio-bureaucrats (Bali Post daily, 2002). In addition, privatization was never popular amongst the general public as it was seen as an attempt to sell the country's assets to foreign power (e.g. *Gatra, 2001*; Rosser, 2002). The fact that the agenda was

[58] Habibie admitted in his memoir that he was very close to Soeharto (Habibie, 2006).

[59] For instance, the failure to close down the troubled *Bank Nusa Nasional* of Bakrie Group, a conglomerate group allegedly close to Habibie, was attributed to political interference.

recommended by the IMF during a time of crisis certainly made the sentiment worse (see e.g. Baswir, 2001; Muttaqin, 2008b; Santosa, 1998; Suara Merdeka, 2003).[60] Opposition was also strong in the utility sector or SOEs where public stakes were high and as a result, "the sale of SOEs has been very slow and is surrounded by political controversy" (Smith, 2001 p. 8 see also McLeod, 2002). Finally, much to the foreign creditors' annoyance, structural reforms were also hindered by problems related to the KKN cases, particularly the Bank Bali case where funds were illegally transferred from the bank's record (Tempo Interaktif, 2004a). This case invited strong reaction from the IMF, the World Bank and ADB who threatened to withhold the cash disbursement of their credit commitments (Republika, 1999; Sadli, 1999).

Habibie was not in power for long. He was forced to hold an early election in June 1999 and was replaced by Abdurrahman Wahid (more popularly known as 'Gus Dur') the following October.

6. 3. 3. Political instability during Abdurrahman Wahid's era (1999-2001)

Similar to the Habibie era, the IMF's liberalization agenda moved rather slowly during Gus Dur's presidency, for several reasons. First, the election result showed that many of the politicians from the New Order era were able to retain their positions and adapt to the situation despite political freedom and democratic elections.[61]

[60] A vivid example of the sentiment was the fact that protests against the selling of Government shares in *Indosat* (an SOE in the telecommunication business) to Singapore's Temasek Holding was still ongoing in 2008 (e.g. Dinata, 2008).

[61] Out of 48 parties participating in the election, the three biggest-winning parties with around 60% votes or 330 of 462 parliamentary seats (*Komisi Pemilihan Umum* (Indonesian Election Committee), 1999) were old parties born during the New Order. *PDI Perjuangan* (the Indonesian Democratic Party – Struggle) gained 34% votes (153 seats); *PPP* (the United Development Party) took 58 seats and the New Order's *Golkar* got 22% vote (120 seats). New parties, supposedly representing the reform aspirations, failed to gain significant votes with only three of them (*PKB* (the National Awakening Party), *PAN* (the National Mandate Party) and *PBB* (the Moon Crescent Party) only managed to gather 99 seats.

Furthermore, the new political parties did not have any clearly identifiable "economic and social policy agenda, let alone a clear commitment to liberal economic and political values" (Rosser, 2002 p. 194). Another problem was that democratization had led to political instability and fragmentation of political powers amongst various different political and ideological factions[62] (e.g. Azra, 2006). Fragmentation of political power posed a big problem to the IMF because political commitment and stability was essential for smooth implementation of its 'reform' programmes. The fact that Gus Dur's party was not strong in the parliament[63] forced him to share power in the Government and eventually led him to choose cabinet ministers from parties not popularly known for their liberal economic agenda[64]. As the result, his choice of ministers received a negative response from the market (Sadli, 1999) and brought Indonesia's relationship with the IMF to its lowest ebb because the ministers were "essentially against IMF's involvement" and "had no intention of implementing the programmes, especially not under the strict timetables and continued scrutiny on matters of detail" (Soesastro *et al.*, 2003 p. 7).

Fragmentation of powers also hindered reforms as it led to stiff competition for control over state resources and strategic posts, which in turn created political instability. This is evident in the sacking of two ministers from *Golkar* and *PDI-P* in

[62] Both Golkar and PDI-P were nationalist parties (despite being perceived as different in their approach to nation building), PPP and PKB were closer to traditionalist Islam, while PAN and PBB were regarded as modernist Islam representatives.

[63] Gus Dur's PKB party only received 13% of the vote which meant he had to share power with other political factions that supported his election and this distracted him from other agendas.

[64] These include, among others, Kwik Kian Gie as Coordinating Minister for Economic, Financial and Industrial Affairs and Laksamana Sukardi as Minister for Investment and SOEs (both from PDI-P); Jusuf Kalla as Minister for Trade and Industry (*Golkar*) and Bambang Sudibyo as Finance Minister (PAN). With its enormous power, Gus Dur's choice of Finance Minister raised most questions especially as Bambang Sudibyo, an accountant, was not known for his macro-economic expertise (e.g. Sadli, 1999).

April 2000[65], a move that triggered a political movement to destabilize Gus Dur's position. Although Gus Dur attempted to stamp his authority on August 2000's cabinet reshuffle, his choice was still deemed not favourable to the IMF's interest as the new ministers were mainly from his party and the technocrats were not holding critical decision-making posts[66]. Last but not least, the IMF also faced the long-standing KKN culture that included high profile cases involving Gus Dur himself.[67]

Despite the problems of political instability and KKN, the IMF's position during Gus Dur's era was already strong given the fact that Indonesia's economy would only survive with its support.[68] The Government simply did not have a choice other than to continue the cooperation with the IMF. The political instability and KKN cases were only causing minor/temporary problems in the form of delays in the implementation of the IMF liberalization programmes. As in Soeharto's and Habibie's period, the IMF's discontent with the progress of the implementation of the agreement manifested in its threats to delay the much-needed loan disbursement.[69] After the

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[65] On 24 April 2000, Gus Dur stripped Laksamana Sukardi and Jusuf Kalla of their positions (see footnote 20) and replaced them with Rozy Munir and Luhut Pandjaitan respectively without consulting either *Golkar* or PDI-P (Liddle, 2001), a move that sparked strong reactions from *Golkar* and PDI-P and caused instability in the cabinet in the following months (Kompas, 2000c).

[66] Some names such as Prijadi Praptosuhardjo (Finance Minister) and Rizal Ramli (Coordinating Minister for Economic Affairs) had caused negative reaction from the capital market (Basri, 2000; Kompas, 2000c), despite the IMF stating their support for Gus Dur's choices (Media Indonesia, 2000).

[67] One particularly controversial case was the appointment of his younger brother as head of BPPN. Smith (2001) stated that the appointment was made secretly (p. 12). Gus Im, the brother in question, was also reported to have said that he wanted to be a mob-style arm that collected money for Gus Dur's political activities.

[68] By the end of 1999, the economy had not fully recovered and the country's budget was increasingly strained by both foreign and domestic debts. In addition to the maturing debts from prior periods, the programme of rescuing several banks throughout 1998-1999 had also forced the Government to issue new debts in form of short- and medium-term bonds.

[69] In March-April 2000, for example, the IMF delayed the disbursement of the loan, stating that the progress of various bank restructuring agendas as agreed in the LoIs was too slow (Wibowo, 2000 and Kompas, 2000a).

signing of the fourth LoI in September 2000, the Government of Indonesia-IMF negotiations halted for quite a long time as the IMF was reluctant to continue with the programme. As late as mid-July 2001, Stanley Fischer, the then IMF Executive Deputy Director, stated that the IMF could not guarantee that Indonesia would receive the promised loan of US$400 million, citing political instability as the obstructing factor (Sinar Harapan, 2001). The IMF also questioned the commitment of Gus Dur's administration to the prosecution of several KKN cases, most notably the Bank Bali case (Kompas, 2000d).

Similar to Habibie, Gus Dur was also not long in power. The sacking of the two ministers in April 2000 and two KKN cases involving Gus Dur (*Buloggate* and *Bruneigate*)[70] led to his impeachment by the MPR/DPR. On 23 July 2001, the MPR terminated Gus Dur's presidency after only 20 months in power. He was replaced by Megawati Sukarnoputri, his Vice President.

6. 3. 4. The accommodative era of Megawati Sukarnoputri (2001-2004)

Perhaps the smoothest progress of the IMF's programmes took place during the Megawati Sukarnoputri era of presidency. Megawati's economic team was considered not only cooperative with the IMF but also having a level of understanding of the actions needed to solve Indonesia's economic problems that "accords with the basic framework of the IMF" (Soesastro *et al.*, 2003 p.7). For whatever reason, their support of the IMF's programmes was even evident before they assumed power (The Wall Street Journal, 1999). Unsurprisingly, many IMF

[70] In Buloggate, a total of Rp 35 billion of BULOG's money was missing, allegedly transferred to people close to Gus Dur (see e.g. Kompas, 2000b) . In the Bruneigate case, he was accused of not being transparent in the receipt and disbursement of a US$2 million grant from the Sultan of Brunei Darussalam (e.g. The Jakarta Post, 2000).

programmes went through rather smoothly over the three years of her Presidency. Many SOEs were privatized during her time, including profitable and strategic SOEs such as *Bank Central Asia* (Indonesia's biggest retail bank formerly belonging to the Salim Group) and *Indosat* (Indonesia's second largest telecommunication company) which were sold mainly to foreign buyers. Relying on its perceived strong public support (see e.g. The Jakarta Post, 2001) as "*partainya wong cilik*" or grassroots people's party, the Megawati administration also implemented the IMF's recommendation to cut many forms of subsidies in fuel, electricity and even in health and education services (*Koran Tempo, 2002*). The smooth progress was shown by the fact that as many as eight LoIs were signed during Megawati's presidency, all without too much controversy or power struggle between the IMF and the Government.

Negative reactions, however, came from the general public, especially towards privatization and subsidy reduction. While they were in accordance with the IMF's recommendations, these measures had never been popular options amongst many elements of the public, which was not peculiar given Indonesia's socio-historical context (Rosser, 2002, see also Chapter 4). The sentiment was finally manifested through *Ketetapan MPR* or MPR Resolution number VI/MPR/2002 dated 11 August 2002: the MPR mandated the President to carry out the privatization of SOEs "selectively, transparently, and with due care after consulting DPR" (Majelis Permusyawaratan Rakyat Republik Indonesia (People's Consultative Assembly of Republik Indonesia), 2002 p. 64). More importantly, the MPR also recommended the President "not to extend" cooperation with the IMF (Majelis Permusyawaratan Rakyat Republik Indonesia (People's Consultative Assembly of Republik Indonesia), 2002 p. 65). While there were signs of hesitation from the Megawati administration

(see e.g. Sinar Harapan, 2003), Indonesia eventually abandoned cooperation with the IMF in December 2003. The country nevertheless had to commit to certain post-cooperation monitoring programmes (popularly known as "The Exit Strategy") which were compiled under the Presidential Instruction number 5 year 2003, dated 5 September 2003.

6. 3. 5. The post-IMF period (2004-present)

The post-IMF period was marked by a number of political events, starting with the 2004 parliamentary and first-ever direct presidential election. The result showed yet again changes in Indonesia's political landscape. While the old political powers (particularly *Golkar* and PDI-P) were still able to scoop significant votes in the parliamentary election on 5 April 2004, a new figure, Susilo Bambang Yudhoyono, emerged as the new President in the presidential election on 5 July 2004. He was nominated by *Partai Demokrat*[71] (Democratic Party) which, together with other political parties, such as *Partai Keadilan Sejahtera* (Prosperous Justice Party) and PAN, were thought to epitomize the political aspirations of, mostly, young, educated and middle-class constituents. More importantly, the results of the elections meant further political fragmentation which made it difficult for the return of politico-business coalitions. Despite attempts to form such coalitions having been evident in Habibie's, Gus Dur's and Megawati's administrations, they were neither as significant nor pervasive as the New Order politico-business coalitions (Chua, 2008).

[71] In the 2004 election, a presidential candidate had to be nominated by a political party or by a coalition of political parties with 5% of the total national vote or 3% of the total parliamentary (DPR) seats.

However, attempts by domestic business groups to capture political decision-making did not completely vanish. In fact, Chua (2008) reported that these business groups (mostly Chinese conglomerates) were able to survive and regain their economic power. Not only were these groups able to adapt to fundamental changes in post-New Order political and economic system, they also managed to take advantage of such changes. However, there are important differences. First, while on the surface the conglomerates seemed to be disadvantaged by the wave of democratization, decentralization, and liberalization accompanying the *reformasi*, in reality they embraced and successfully benefited from it. For the conglomerates, democratization and decentralization only meant that the decision-making power had shifted from central to local government. This meant that, as opposed to forming coalitions with one strong central government regime (as in the New Order era), they could now approach and lobby coalitions with local bureaucrats as and when necessary. The conglomerates did not fear liberalization either, as they believed that their organizational and cultural experience and knowledge would give them a strong foundation to compete in Indonesia.

6. 4. The Indonesian accountancy profession after *krismon*

The previous sections explained that the demise of the New Order as a fundamental change in Indonesia's power configurations had given the IMF the opportunity to implement its economic policy regime, which was in essence a recipe for economic liberalization. As argued in the theoretical framework, the politico dynamics had crucial effects on the profession as the economic liberalization agenda necessitated structural adjustments in the wider area, including in the accountancy profession. As a result, the Indonesian accountancy profession after 1997 went through the most

dynamic and tumultuous period in its history. In this period, three major themes emerged. First, there was fundamental restructuring of the professional infrastructure, especially in the development of professional standards and certification. Secondly, the issues of foreign and local accounting also re-emerged because of the IMF's pressure to use internationally recognized accounting firms in many of its requirements. Lastly, deregulation in the statutory legislation of the profession was one area in which change was most notable; causing an unprecedented power struggle between the profession and the State. Figure 6-4 provides a simplified timeline depicting both fundamental changes in Indonesia's socio-political context and major developments in the accountancy profession during the last decade. Most of the changes during this period were the extension of changes advocated by the World Bank and the ADB since mid-1980s, which were significantly boosted by the presence of the IMF. The next section starts with a discussion of the role of the two institutions.

Figure 6-4: The timeline of post-*krismon* Indonesia and major events in the accountancy profession

Socio-political and economic changes	Year	Events in the accountancy profession
▪ The beginning of the Asian financial crisis ▪ Indonesia asked for IMF's financial aid and signed letters of intent.	**1997**	▪ Continuing agenda from the World Bank & the ADB's accountancy development projects e.g. the re-design of CPA examinations. ▪ The MoF revised the decree regulating public accountants, mostly strengthening the requirements for becoming public accountants.
▪ Despite the IMF's aid programme, the Rupiah depreciation led to the more serious economic problems. ▪ Economic crisis worsened, eventually caused social & political crisis and the fall of Soeharto and the New Order, a favourable change for the IMF.	**1998**	▪ The third IMF's Letter of Intent required the Government to review accounting and auditing standards. ▪ The ADB granted Loan INO-1618, which among others required the Government to strengthen regulations on accounting and auditing. ▪ The Government issued a decree regulating companies' annual financial information.
▪ The early election in 1999 elected Gus Dur into presidency in October. ▪ Cooperation with the IMF continued but plagued by political instability and corruption issues of the Gus Dur administration.	**1999**	The MoF: ▪ revised the ministerial decree regulating public accountant services. Some of the new provisions indicate a setback from the 1997 revision, especially concerning foreign nationals and USAP exemptions for ex-bureaucrats. ▪ started the efforts of enacting a new public accountant law
▪ Gus Dur was impeached, Megawati took power, her cabinet was deemed to be the most cooperative to the IMF.	**2001**	▪ The IAI issued the codified accounting and auditing standards. ▪ The MoF issued a new decree which, among others aspects, enacted audit rotation that initiated tension between the MoF and the profession ▪ Dissemination of the concepts of the Public Accountant Law (PAL), which contained audit rotation and penal codes for audit negligence provisions, prolonged the MoF-accountancy-profession friction.
▪ The IMF cooperation is terminated, but Indonesia had to fulfil some final monitoring program or 'exit strategy'.	**2004**	▪ The MoF submitted the PAL draft to the State Secretary as part of the IMF's 'exit strategy'. Shortly after this, the IAI sent a letter to the State Secretary and asked for the draft. ▪ The State Secretary sent back the PAL draft to the MoF, asking if the MoF needed to rethink it. ▪ Continued struggle between the MoF and the profession.

6. 4. 1. The influence of the World Bank and the ADB

The IMF had both direct and indirect effects on the Indonesian accountancy profession after the *krismon*. An example of how the IMF was able to directly affect the profession was its requirement to the Government to "immediately engage internationally-recognized firms to conduct portfolio reviews and to audit the banks annually" (Letter of Intent between the Government of Indonesia and the IMF dated 30 October 1997, point 29). Indirectly, the IMF channelled its influence on the profession by requiring the Government to comply and cooperate with the World Bank and/or the ADB's support programmes of enhancing governance and accountability.[72] The increasingly influential role of the ADB and the World Bank[73] for the accountancy profession after *krismon* was also apparent in their renewed priorities. While in previous periods a large proportion of the ADB's and the World Bank's loans went into social and development areas such as education and poverty reduction, following the 1997 *krismon*, the two institutions seemed to increase their attention to the more economic-related areas. The ADB admitted that:

> "From 1998 to 2007, after the Asian financial crisis, physical infrastructure accounted for just 4.67% of loans; agriculture and natural resources fell to 3.39%; energy fell to 13.43%; and education dropped to 3.94%. <u>The others</u>

[72] For example, the Letter of Intent on 30 October 1997 detailed the involvement of the ADB and the World Bank in financial reform programme such as: providing technical assistance in designing the overall financial sector restructuring strategies (part 2 point 25); assisting Bank Indonesia in assessing rehabilitation plans for troubled banks under supervision/conservatorship as well as monitoring their implementation (point 25). The ADB, on the other hand, was to provide assistance in the Government's efforts to strengthen the regulatory framework of the domestic bond market to meet international standards (point 31). In terms of structural reforms, the World Bank was also to provide assistance in reviewing public sector expenditure and investment (part 3 point 41).

[73] As discussed in Chapters 4 and 5, the influence of both the World Bank and the ADB on the country was not new. The World Bank had been present in Indonesia since 1967 and by the early 2000s had become its second largest creditors (see e.g. INFID, 2000) with total disbursed loans of US$30 billion (Pilger, 2003 p. 22). By 2009, the amount reached more than US$40 billion with an outstanding balance of US$8.9 billion (The World Bank, 2009a). Indonesia had also been a member of the ADB since 1966 and has became its largest debtor by 2007 with 291 programmes and technical assistance projects worth US$22.56 billion and US$253.66 million respectively (The Asian Development Bank, 2008).

> rose sharply to 74.58%, led by big gains in loans to the finance, and law, economic management, and public policy sectors." (The Asian Development Bank, 2008 p. 1 underline added)

Two important projects were closely related to the IMF's financial sector reform particularly in the field of governance and accountability: the Financial Sector Assessment Programme (FSAP) and the Financial Governance Reforms: Sector Development Programme (FGRSDP). FSAP was a "joint effort exercise" initiated in 1999 by the IMF and the World Bank containing "summary assessments of the observance of selected standards relevant to private and financial sector development and stability" in numerous countries (The World Bank, 2009b). In particular, the World Bank was in charge in the areas of corporate governance, auditing and accounting, and insolvency regimes and creditor rights. FGRSDP, on the other hand, was in charge of the loan project (Loan number INO-1618) worth US$1.4 billion approved by the ADB in July 1998. Under FSAP and FGRSDP, both the World Bank and the ADB assessed the conditions of the structures and systems of governance and accountability, including practices of accounting and auditing as well as the state of the accountancy profession, in numerous countries. The two institutions then drew conclusions and made comments and/or policy recommendations based on their assessments. Some of the changes recommended by the ADB and the World Bank are discussed below.

6. 4. 2. Changes in professional infrastructure

The impact of the ADB and the World Bank in terms of changes in the professional infrastructure was immediately obvious in the development and the adoption of professional standards and professional certification. In these two areas, both institutions put pressure on the Government and the profession to aim for

internationally recognized accounting and auditing standards and professional qualification mechanisms.

6.4.2.1. Commitments to adhere to IAS and IFRS

As described in Chapter 5, efforts to reconstruct the infrastructure of the Indonesian accountancy profession had been ongoing since 1988 under two accountancy development projects. The most significant outcome from the first project was the issuance of the 1994 Indonesian accounting and auditing Standards and the commitment made by the IAI to use International Accounting Standards as the basis for developing Indonesian standards (IAI, 2008a; Deloitte Touche Tohmatsu, 2007; and O'Regan, 2003 p. 153). Following *krismon*, the ADB immediately required the 1994 standards to be reviewed. In July 1998, Article 18.2 of the ADB's Loan 1618-INO required the Indonesian Government to "review and amend legislations/regulations to make financial disclosure, regulation and enforcement consistent with international best practices" (The Asian Development Bank, 2000 p.12). While the Article required a review on legislation and regulations, in practice, it was referring to the revision to the accounting and auditing standards. This was also emphasized by the IMF, which in September 1998, required the Government to "complete a review of accounting and auditing standards for the purposes of making them consistent with international standards" (Letter of Intent between the Government of Indonesia and the IMF dated 11 September 1998). The initial completion date was set as 31 December 1998. However, by February 2000, the target was not met due to "some administrative problems" (The Asian Development Bank, 2000 p.12). Nevertheless, the assessment of the status of compliance with Article 18.2 showed that there was already significant progress as stated by the ADB:

> "1. …. Since 1993, the Indonesian Accounting Institute has issued 55 accounting standards and 72 auditing standards. Of these, more than 60% of the accounting standards and nearly 100% of the auditing standards have been adjusted to be consistent with international references, such as the US Financial Standards Board, the International Accounting Standards Committee and others.
>
> 2. To meet financial reporting needs by March 2000, IAI is planning to adopt 10 international accounting standards and to continue reviewing the quality of the existing standards that were issued during 1990-1994…." (The Asian Development Bank, 2000 p.12)

The situation changed slightly by November 2000 when the ADB reconfirmed the progress made (Facsimile from the ADB to the MoF dated 14 November 2000). By then, "there [were] 58 financial accounting standards and 84 auditing standards which [were] already harmonized with international standards" (Letter from the MoF to the ADB dated 23 November 2000). The IAI finally issued a codified *Standar Akuntansi Keuangan* (Financial Accounting Standards) and *Standar Professional Akuntan Publik* (Professional Standards for Public Accountants i.e. the Indonesian auditing standards). Following the 2001 codifications of standards, both new and revised standards were continuously issued using the international accounting and auditing standards as the main reference. By 2006, DSPAP (*Dewan Standar Profesional Akuntan Publik*, the Indonesian auditing standard-setting body) decided to fully adopt the International Standards on Auditing whereas DSAK (*Dewan Standar Akuntansi Keuangan*, the Indonesian accounting standards body) announced their plan to have the Indonesian accounting standards fully converged with the International Financial Reporting Standards by 1 January 2012 (IAI, 2008a).

6.4.2.2. Professional certification

Another important change was in the field of professional certification. According to Act 34/1954, to become a registered accountant, a person needs to hold an accounting

degree from certain public universities, or hold an accounting degree from a private university and pass the national accounting examination. In 1993, PPAk (short for *Pendidikan Profesi Akuntan* or Professional Accountant Education) was introduced as a new route to becoming a registered accountant, through the Minister for Education and Culture's Decree number 036/U/1993. Several revisions, especially to the syllabus of PPAk, were introduced in 1999, 2001, and 2002 (Benny and Yuskar, 2006). As of August 2004, all accounting degree holders, including graduates from public universities, had to pass PPAk before being allowed to be registered as accountants (Bawono *et al.*, 2006).

Concurrent with changes in PPAk, the IAI, with the support of the World Bank, designed *Ujian Sertifikasi Akuntan Publik* (USAP, Indonesia for CPA examinations) targeted at those who wished to become public accountants (The Asian Development Bank, 2003). In February 2008, USAP was transferred from the IAI to IAPI (short for *Institut Akuntan Publik Indonesia* or the Indonesian Institute of Public Accountants). IAPI was the new name of IAI–KAP, adopted in May 2007 following the IAI national congress in November 2006 in which the IAI extended its membership to include not only individuals but also organizations (IAPI, 2009b).[74] The transformation of IAI-KAP into IAPI was the latest major change in the professional infrastructure. As will be described later, this move was perhaps part of the IAI's reaction to the Government's initiative to enact a new public accountant law.

[74] As a reminder, the IAI was formed in 1957 and was the umbrella organization for all Indonesian accountants. IAI–KAP was formed in 1977 and until 2007 was originally the compartment or section of IAI for public accountants. Other than IAI-KAP, there were also IAI-KAM (for management accountants), IAI-KAPd (for academic accountants) and IAI-KASP (for public sector accountants).

6. 4. 3. The issues of local and foreign accountants

The IMF programme that directly contributed to the dynamics of the profession was the audit of SOEs as part of the privatization of the Government sector. In the first and second LoIs, the IMF required the audit of all state-owned banks by the end of March 1998. In the third LoI, the IMF extended this requirement to include all "portfolios, systems and financial reviews" of troubled banks under government supervision, all major non-supervised banks and all other domestic banks. All these reviews had to be conducted by "internationally recognized audit firms". The third LoI also required the Government to arrange "audits of non-viable public enterprises" (Letter of Intent between the Government of Indonesia and the IMF dated 10 April 1998). The latter were more popularly known as "SOEs performance audits". During the seven years of the IMF's presence in Indonesia, there were four rounds of performance audits on nineteen SOEs, mostly big and potentially profitable SOEs.[75] While the IMF argued that the audits were aimed at boosting efficiency and transparency in public money administration, it was hard not to associate these projects with the IMF's privatization programme. Many of these SOEs were in fact subsequently privatized during the period of the IMF cooperation between 1998 and

[75] The nineteen SOEs were: (a) Round I (1998-2000): *Pertamina* (Indonesia's only oil mining company), *PLN* (Indonesia's national electricity provider holding the monopoly of providing electricity to the public), *BULOG* (a quasi-governmental agency operating as the biggest player and regulator in rice trade), the Reforestation Fund (a large extra-budgetary fund set up for restoring forests across Indonesia); (b) Round 2 (2000-01): *PT Pelabuhan Indonesia II* (one of Indonesia's seaport operator companies), *PT Jasa Marga* (the operator of paid highways), *PT Garuda Indonesia* (Indonesia's flagship airline, operating both long haul and domestic flights), *PTPN IV* (one of Indonesia's many plantation administration companies), *PT Telkom Indonesia* (Indonesia's biggest fixed and mobile telephone service provider); (c) Round III (2002-03): *PT Dirgantara Indonesi* (Indonesia's airplane manufacturing company), PT *Kereta Api Indonesia* (the biggest and only train service operator), *PT Pupuk Sriwijaya* (a fertilizer manufacturer), *PT Taspen* (the state pension fund management company), *PT Semen Gresik* (a cement manufacturer, arguably the biggest); and (d) Round IV (2003-04): *PT BNI Tbk* (one of Indonesia's biggest and most profitable banks), *PT Krakatau Steel* (steel manufacturer), *PT Angkasa Pura II* (one of airports operating company), *PT PAL* (Indonesia's sea ship manufacturing company), and *PT Pelni* (Indonesia's largest sea passenger transport company).

2003, in which between three and four SOEs were privatized as opposed to only one SOE privatization per year during 1991-1997 (The Ministry of State-Owned Enterprises, 2006 and Muttaqin, 2008a).

The IMF's insistence on requiring the Government to use internationally recognized auditing/accounting firms had caused the issues of foreign versus local accountants to resurface. By the end of January 1998, the Government allowed 120 foreign accountants to conduct reviews on the troubled banks whereas the performance audits on SOEs were conducted by KAPs (short for *kantor akuntan publik*, Indonesian for public accountant firm) who had affiliations with the then Big Five accounting firms. Bearing in mind that foreign accountants had historically been prohibited from directly practicing in Indonesia, this decision had caused uneasiness within the profession as local accountants showed resentment towards the decision. The general view was that "the appointment of foreign accountants to audit a number of troubled banks under IBRA's supervision is a reflection of distrust towards local accountants" (Banjarmasin Post, 1998). Indonesia's main professional accountant magazine commented that foreign accountants entered Indonesia in "an unanticipated" way whereas the chair of IAI-KAP openly branded the appointment as disappointing (as cited in Bachtiar, 2001). The relationship between the local and foreign accountants was not a new issue given the resentment against the presence of foreign accountants during the 1970s (detailed in Chapter 5). It subsided for quite a long time, especially during the New Order era but, finally, the magnitude and openness of such uneasiness could no longer be contained especially after 1997.

The resentment of local accountants was directed towards the Government for its decision to use and allow foreign accountants into Indonesia. However, the resentment did not last long for a number of reasons. First, the Government insisted that the decisions were part of the IMF's loan requirement and that the requirements were only applicable to troubled banks but not to other companies under BPPN's supervision. Secondly, a growing uneasiness developed between the Government and the profession over the issue of regulation of accountants, particularly public accountants. The next section discusses how and why the Government constantly revised the regulations on accountants following the *krismon*.

6. 4. 4. Changes in the statutory regulations of the profession

Professional regulation was the area that rendered the period after 1997 as the most tumultuous period in the profession's history. In this period, major and unprecedented disharmony developed between the profession and the Government. An experienced Indonesian public accountant and academic termed the first period (1954–1972) and the second period (1972-1996) as the "blooming" and "growing" periods respectively whereas the post-1997 period is branded as the period of "changes and full of challenges" (Kartikahadi (2007) p. 59). Major changes in statutory regulation took the form of changes in the ministerial decrees regulating the profession and the Government's initiative to enact a new Public Accountant Law to replace Act 34/1954.

The Government started to review and revise the regulations governing the accountancy profession concurrent with the regulatory reforms campaigned for by the

World Bank and the ADB in the early 1990s.[76] On 27 January 1997, shortly before the crisis, the Government issued KMK number 43/KMK.06/1997 regarding Public Accountant Services (the 1997 decree). In the space of just two years, the decree was revised by KMK number 470/KMK.017/1999 (the 1999 decree). Table 6-3 compares the two decrees' with respect to their most important issue: foreign accountants.

Table 6-3: Crucial provisions in the 1997 and 1999 Finance Minister decrees concerning public accountants

Issues	The 1997 decree	The 1999 decree
Licence requirements	A licence is needed for: a) a person who wishes to practise as a public accountant, b) an entity who wishes to operate as a public accounting firm.	Similar to the 1997 decree
	To obtain the public accountant licence, an applicant has to a) reside in Indonesia; b) pass USAP; c) be a member of the IAI; and d) have a minimum of 3 years' audit experience with good reputation.	Additional licence requirement: a) Only accountants who are registered with the MoF could apply for a public accountant licence. b) Ex-officers of the BPKP who wished to practise as a public accountant were exempted from USAP requirements.
Role of the Finance Minister	The Ministry (of Finance): a) supports the development of the profession, and b) monitors public accountants' and KAPs' compliance with relevant statutory regulations.	Similar to the 1997 decree

Adapted KMK number 43/KMK.06/1997 and KMK number 470/KMK.017/1999.

There are two important differences between the 1997 and 1999 decrees. The first difference was regarding foreign nationals. Neither decree explicitly required Indonesian citizenship to obtain the licence. In other words, both decrees implicitly permitted foreign accountants to practise and manage an accounting firm in

[76] Several statutory legislations such as the Capital Market Act of 1995, the Companies Act of 1995, the Insurance Act of 1992, and the Pension Fund Act of 1992 had significant impact on the accountancy profession.

Indonesia.[77] First, the 1999 decree ruled that only accountants who are registered with the MoF could apply for a public accountant licence. While the addition may seem minor, in practice this requirement made it much more difficult for foreign nationals to obtain a public accountant licence. This is because, according to Act 34/1954, obtaining the status of a registered accountant back in 1999 would require foreign nationals who wished to be a registered accountant to either (1) hold an accounting degree from one of the Indonesian public universities; or (2) hold an accounting degree from any Indonesian university and pass UNA (National Accounting Examination). In other words, while neither the 1997 nor the 1999 decree prohibited foreign nationals from becoming public accountants, the 1999 decree had certainly made the process much more expensive and time-consuming. The second difference in the 1999 decree was the exemption from passing USAP for applicants who were ex-officers of the Financial and Development Supervisory Agency (Article 7 point 2). A former officer in the MoF's Accountant Supervisory Agency confirmed that the last revision was clearly a compromise to accommodate former bureaucrat-accountants who wished to switch career to public accountant practice. Finally, the decrees granted the MoF the authority to monitor and supervise public accountants and accounting firms, a role previously held by BPKP (see Chapter 4).

The two differences in the 1999 decree may be considered a setback from the liberalization perspective, which was rather interesting given that the ADB approved a US$1.4 billion loan dedicated for Financial Governance Reform: Sector

[77] Such radical changes to the regulation were coincidental with, or perhaps a consequence of, Indonesia's participation in the global and regional agreement on trade and services i.e. GATS/WTO, Asia Pacific Economic Cooperation (APEC) and ASEAN Frame Agreement in Service or AFAS (Syahelmi, 2004) in the mid-1990s. The decrees also seemed a necessary enforcement of USAP, the World Bank's project of improving Indonesian accountancy to meet 'international standards'.

Development Programme (Loan INO-1618)[78] on 2 July 1998. As part of the loans' agreement, reviews and reforms of regulations governing financial reporting (Article 18.2) and auditor liability (18.1) were amongst the required policy commitments. However, the confusing decision by the Government might not seem surprising given the fact that the period between 1997 and 1999 was a transitional period in which the Government was still prone to political interferences. The ADB's influence started to materialize during the years of the Megawati presidency from 2001. In 2002, the loan was revived under the new name of Financial Governance and Social Security Reform (FGSSR) programme, which continued many of Loan INO-1618's policy requirements under its 'Policy Matrix' for the Government to comply with.

In the matrix, some reform objectives for restructuring the accountancy profession were clearly defined.[79] Point A32 required the MoF to issue a decree imposing liability on auditors for negligence. The 1999 decree was thus revised yet again on 30 September 2002 by KMK number 423/KMK.06/2002 (hereafter "the 2002 decree"). In many respects, the decree was far more detailed than any previous decrees both in terms of administrative and professional rulings. As the table shows, the decree provided stronger legal foundations to the profession. First, the decree firmly stated that the audit service is the exclusive domain of public accountants. Many

[78] The loan was accompanied by the loans for governance reform support (INO-1619) and for a capacity building programme (Loan INO-1620).

[79] In addition to the ADB's requirement that had a direct effect on the profession, other requirements that indirectly affected the profession include Article 18.2 of the policy matrix, which required the Government-issued Decree number 24/1998 on Company Annual Financial Information in addition to the newly issued accounting standards. In addition, Point A7 required Bapepam to "issue rule on independence of accountants providing audit services in the capital market". This was fulfilled by Bapepam on 12 November 2002 by the issuance of *Keputusan Ketua Badan Pengawas Pasar Modal (Decree of Chair of the Indonesian Capital Market Supervisory Agency) number KEP-20/PM/2002*, which contained Rule number VIII.A.2: the independence of accountants offering audit services in the Indonesian security exchange market.

administrative provisions such as the definition of terms, licensing requirements and licence holders' administrative obligations were meticulously elaborated. However, the decree contains many other provisions that were deemed unprecedented and controversial. Table 6-4 summarizes the most crucial provisions in the 2002 decree.

Table 6-4: Crucial provisions in the 2002 decree

Issue	Crucial provisions
Professional services	▪ Attestation services, which include general audit and review of financial statements, were exclusive to public accountants; ▪ Public accountants could also give performance audit and "special audit" (Article 6 Point 1) and non-attestation services (Article 6 point 2 and 3).
Professional regulator	▪ The Ministry of Finance supported the development of the profession and assumed an oversight role on public accountants and KAPs (Article 18). ▪ The Ministry had the right to conduct regular as well as investigative review on public accountants and KAPs. ▪ The Ministry may delegate some of its authority to a professional association.
Audit rotation	▪ A public accounting firm could only audit the financial statements of a company for 5 (five) years consecutively ▪ Public accountants could only audit a company for a maximum of 3 (three) consecutive years. According to Article 6 point 4,
Penalties	▪ Reprimand, attributable to light violations i.e.: (a) most licensing/administrative violations; or (b) violations on technical and/or ethical standards or any relevant regulations in a professional engagement that <u>do not have any impacts</u> on audit reports and/or any other reports from that engagement. ▪ Suspension of licence, attributable to serious violations, i.e.: (a) violations of technical and/or ethical standards or any relevant regulations in a professional engagement that <u>have significant impacts on audit reports</u> and/or any other outcomes from the engagement; or (b) violations on the mandatory audit rotation provision; or (c) receiving a second reprimand. ▪ Revocation of licence, attributable very serious violations i.e.: (a) violations of technical or ethical standards or any relevant regulations in a professional engagement <u>which have very significant impacts on audit reports</u> and or any other outcomes of that engagement; or (b) receiving a second suspension of licence; or (c) failing to maintain conditions required when obtaining the licence such as failing to set up or join a KAP, not residing in Indonesia, and/or no longer a member of the IAI or IAI-KAP.

Adapted from KMK number 423/KMK.06/2002, underline is added.

However, the decree was popular for several new and much tougher disciplinary and administrative provisions intended to enhance auditor liability. First, the decree clarified and re-emphasized that the MoF was the only regulator and supervisor of the Indonesian accountancy profession. More importantly, the decree granted the MoF the power to conduct regular peer and investigative reviews o public accountants and public accounting firms. Secondly, the 2002 decree was the first piece of legislation to impose mandatory audit rotation applicable both to public accountants (maximum three years audit tenure) and accounting firms (maximum five years audit tenure), a provision that made the 2002 decree the most important and controversial piece of regulation of the profession. Finally, the 2002 decree also introduced administrative penalties for professional misconduct by public accountants and/or accounting firms.[80] It was the first legislation that attempted to define and classify different levels of violations ranging from administrative noncompliance to professional misconduct and clearly stated the penalty attributable to each type of violation (see Table 6-4).

Despite its approach to detail, KMK 423/2002 was revised less than a year later by KMK number 359/KMK.06/2003, issued on 2 August 2003. The new decree was an anticipation of the latest development in the profession following the imposition of mandatory audit rotation, which caused a wave of KAPs that changed name and/or partner composition between 2002 and 2003. Apparently, these changes were the strategy for getting around mandatory audit rotation. KMK number 359/2003 specifically addressed these moves by extending Article 6 of KMK number 423/2002 by three more points. These additional points essentially ruled that mandatory audit

[80] Previous decrees had introduced sanctions and penalties on public accountants and/or KAPs but such sanctions were largely attributable to violations of their administrative obligations.

rotation is still applicable to a KAP even if it had changed the proportional composition of its public accountant partners (Point 5). Point 6 ruled that:

> "In the case of a KAP that changed its partner composition so that 50% or more of its partners come from a KAP that has had an audit engagement (with an entity), the former KAP is treated as the continuity of the KAP from which the public accountant/auditor originates and thus mandatory audit rotation is applicable to it."(KMK number 359/KMK.06/2003)

Finally, the 2003 decree ruled that audit rotation would be applicable to a new KAP (either newly founded or re-named KAPs) whereby 50% or more of its public accountant partners come from a KAP that had the audit engagement. In short, the main intention of the 2003 decree was to anticipate and prevent public accountants/KAPs from avoiding audit rotation.

Following the *krismon*, therefore, the ADB had generally been able to pursue its agenda without significant political resistance and interference. The 1999 decree may be considered a setback but it was not a major obstacle to the overall agenda. Furthermore, the 2002 and 2003 decrees were clearly compiled to fulfil the ADB's concerns of enhancing regulations on auditor liability in Indonesia. In fact, some provisions such as the mandatory audit rotation seemed to be tougher than the ADB's requirements. As a result, the new changes had sparked uneasiness between the Government (the MoF) and the profession, an unprecedented dynamic within the profession's history. However, the 2002/2003 decrees were only an interim measure to fulfil the ADB's policy matrix (The Asian Development Bank, 2002c p.16). Under the ADB's pressure, the Government started an initiative to compile a new public accountant act to replace the Act 34/1054.

6. 4. 5. The Public Accountant Law initiative

Changes in the ministerial decree seemed inadequate as the Government started the initiative of revising Act number 34/1954 in 1999 with the establishment of the *Tim Penyusunan rancangan Undang-undang tentang Akuntan Publik* (the MoF‘s Team for the Drafting of Public Accountant Law, hereafter ‘the MoF Team’). One of the Government’s stated reasons for the PAL initiative was the argument that a new legislation regulating the profession was long overdue. By 1997, Act number 34/1954 had been referred to as the foundation of the profession for more than 40 years. There had been discussion of a new act in 1997 (e.g. Manan, 1993) but this failed to materialize. Another reason was that ministerial decrees were not deemed appropriate for providing a strong legal foundation for governing the profession. This was admitted by the MoF Team:

> “Until today, public accountants were only regulated with KMK number 43/KMK.017/1997 regarding Public Accountant Services (revised by KMK number 470/KMK.017/1999)…… hence [these decrees] do not provide an adequate and strong legal basis [for the profession] (The MoF Team, 2000 p.2.).[81]

Finally, the Government also argued that all the governing provisions in the ministerial decrees were already materials appropriate for an Act, as argued by *Panitia Antar Departemen Penyusunan Rancangan Undang-undang Akuntan Publik* (the Inter-Ministry Team for the drafting of Public Accountant Law`, hereafter 'the Inter-ministry Team') in an academic paper prepared for the purpose of drafting the new law (*The Inter-ministry Team, 2001*). Despite these stated reasons, direct and indirect pressures from international interests were also undeniable. The MoF acknowledged this, for example, in its letter proposing the law to the President:

[81] A similar tone was also found in an academic paper prepared by the Inter-ministry Team (The Inter-ministry Team, 2001).

> "More sophisticated business affairs as fuelled by rapid development in information technology and the globalization of public accounting professional services have rendered the existing regulations of the profession insufficient to protect both the public and the profession…
>
> In entering the free trade era, it is necessary to have clear regulations regarding foreign accountants who wish to practice in Indonesia without violating the principles of service sector liberalization as agreed in the negotiations round at WTO or ASEAN level." (Finance Minister's Letter to President of Republik Indonesia p.2)

A similar tone was also found in another statement from the compiling team:

> "… [the public] demand for high professionalism is congruent with the free trade era which requires all WTO member countries to open their domestic market. As a preparation to enter this era, Indonesian accountants have to improve themselves to be able to compete with foreign accountants" (The Inter-ministry Team, 2001 p. 5).

In reality, such pressure was channelled directly through the ADB and the World Bank with their reform and restructuring programmes. In the 1998's FGRSDP loan agreement, the ADB required the Indonesian Government in Article 18.1 to "enact legislation/regulations making: (i) auditors liable for negligence in performing audits …" (The Asian Development Bank, 2000). Initially, the Government attempted to negotiate the requirement by stating that "… the above requirement has already been regulated. Therefore, it is not necessary to enact a new regulation concerning the above matters" (Letter from the MoF's Director General of Financial Institutions to the Asian Development Bank dated 4 February 1999 p.1). The ADB was not appreciative of the response and cited "… the complexities of implementing the outstanding agenda and associated institutional and administrative changes". This perhaps caused delay in the disbursement of the third tranche of the loan from the original scheduled date of March 1999 (The Asian Development Bank, 2002a p.1). In the end, the Government had no choice other than follow the ADB's pressure. The need to fulfill the ADB's requirements was often quoted by the Government in

communicating the law initiative. A letter from Director General of Financial Institutions to Big 5 KAPs dated 24 June 1999, for example, quoted that the new law initiative was "a follow-up action to the ADB memorandum point 18.1 which requires the Government to enact statutory legislations that regulate the responsibilities of and sanctions for public accountants in offering their services" (p.1).

Undeniably, the initiative was part of the Government's effort to fulfill the ADB's Article 18.1 of Loan 1618 (FGRSDP) Policy Matrix. In early 2000, the MoF Team finished the first draft of PAL which contained some new provisions (see Table 6-5). Unsurprisingly, the proposed PAL accommodated the ADB's demand for provisions imposing greater auditors' liability. The most attention-grabbing proposals were mandatory audit rotation for public accountants (Article 30.g) and penal code provisions (Articles 36 – 38). It needs to be noted that the draft was the first piece of regulation proposing audit rotation, before it was actually enacted in the 2002 decree. Table 6-5 summarizes important provisions in the MoF draft of PAL.

Table 6-5: New provisions in the MoF Team draft of PAL (March 2000)

Article	Provisions (Article referred)
Article 3.1	The categorization of public accountants as junior and senior public accountants.
Article 4.1	The conditional recognition of foreign accountant qualifications
Article 4.2	The recognition of foreign accountants, subject to reciprocity treatment
Article 26	The transfer of supervisory authority to the MoF
Article 30g	A public accountant is prohibited from auditing the financial statements of the same company for 5 (five) or more consecutive years.
Art. 36 (1) Max. 5 years and or max. Rp2.5 billions[1]	(a) whoever practices as public accountant without licence (Article 8 (1)); (b) merging and separating KAP without permission (Article 18(1)); (c) public accountants who do not report to the (Finance) Minister any

Article	Provisions (Article referred)
	information of any fraud and or violations of laws he/she learned during his/her engagement (Article 21(4)); and (d) issuing audit opinion that is not true to the actual conditions (Article 30.b).
Art. 36 (2) Max. 3 years and or max. Rp1 billion	public accountants who (a) work for two or more KAPs (Article 30.a); (b) disseminate confidential information obtained during engagement, except as required by statutory legislation (Article 30.d); and (c) offer services during suspension of licence (Article 30.e).
Art. 36 (3) Max. 1 years and or max. Rp500 millions	Public accountants who make or try to make a deal or ask for monetary or any other compensation that could compromise his/her independence and or objectivity (Article 30.c)
Art. 37 (1) Max. 5 years and or max. Rp2.5 billions	The penalty is imposed to the owners or users of a KAP (a) that operates and employs public accountants without permission or acknowledgement from the Finance Minister (Article 10(1) and 10 (2); (b) that fail to publish their permission to operate on state gazette (Article 10(3)); and (c) which its assets is not separated from the owners' assets (Article 10(4)).
Art. 37 (2) Max. 5 years and or max. Rp2.5 billions	Owners of KAP that do not provide reserve fund to (1) cover them from any loss occurring from third parties' allegation related to KAPs service engagements and (2) to develop its human resources (Article 23 (1))
Article 38	All violations mentioned in Article 36 and 37 are criminal violations

Source: The final report by The MoF Team (2000)
Note:
1. Time length (e.g. max. 5 years) represents imprisonment penalty while monetary value (e.g. max Rp2.5 billions) represents fine penalty.

Clearly, all those provisions – especially mandatory audit rotation and penal code provisions – demanded higher responsibility from public accountants and KAPs in offering their services. In other words, those provisions were in line with the ADB's requirements for the Government to increase Indonesian auditors' liability for their negligence. Later development showed that some of the provisions in the first draft of PAL were actually enacted as governing regulations under the controversial 2002/2003 MoF decrees. In fact, as described in the previous section, the 2002/2003

decrees included tougher provisions which supposedly built upon the same spirit as the provisions in the PAL draft. The decree introduced tougher mandatory audit rotation requirement by cutting the time requirement for auditor rotation (from five to three consecutive years) and imposing audit rotation to KAPs.

Following the first draft, the MoF continued the efforts to enact the new PAL law in 2003 as a continuation of the ADB programme Loan number INO-1618 and the new proposed loan totalling US$250 million under the Financial Governance and Social Security Reform (FGSSR). In its policy matrix for releasing the new loan, the ADB clearly required the MoF to "prepare draft of Public Accountants Law, including provisions imposing liability on auditors for negligence." (The Asian Development Bank, 2002b p.43). On 22 May 2001, the Finance Minister proposed the law to the President stating that "… there is currently no specific law that regulates the qualifications, responsibility and legal sanctions of the public accountant profession" (Letter from the Finance Minister to the President dated 22 May 2001). Following the President's approval of the proposal, the MoF set up the Inter-ministry Team on 8 January 2003 through the KMK number 16/KMK.06/2003. Included in the team were cross-governmental institutions such as the Ministry of Law and Human Rights, Bapepam (the capital market authority), the State Secretariat Office, and the Government Accounting Agency.

By mid-2004, the Inter-ministry Team had completed the second draft of PAL, which consisted of 13 Chapters and 47 Articles. The Finance Minister submitted the draft to the President via a letter dated 2 June 2004. In many respects, the draft resembled the provisions included in both the first draft of PAL and the 2002/2003 decrees. For

example, the MoF became the sole regulatory and supervisory authority of the public accountant profession. As in the 2002/2003 decrees, mandatory audit rotation was applied to both public accountants and KAPs. Overall, the Inter-ministry Team draft was a tougher regulatory regime. Some new proposals include the requirement for public accountants to renew their licence every five years (Article 3.2); for a professional association to be endorsed by the Finance Minister (Article 23.1, while in another provision (Article 23.2) it also ruled that the Minister would only recognize one professional association); and the restatement that the MoF holds the ultimate authority over the profession (Article 25). On the other hand, the draft also reiterated and affirmed public accountant professional status by stating that public accountants held exclusive rights over attestation services (Article 2.2) and, therefore, no other parties were allowed to offer such services (Article 40). The draft also ruled that public accountants reserved the right to receive fees for their services (Article 29) and were only liable for their service for a maximum of five years from the date of their report (Article 38). Some crucial provisions introduced in this category are summarized in Table 6-6.

Table 6-6: New provisions in the Inter-ministry Team draft of PAL (June 2004)

Article (penalty)	Provision
2.2	Attestation services are exclusive to public accountants
3.2	Public accountant licences are valid for 5 years
11.2	Minimum 2/3 (two-thirds) of total partners of a KAP partnership have to be public accountants
11.4	Minimum 2/3 (two-thirds) of total partners of a KAP partnership have to be Indonesian
12	Non-public accountant partners have to register with the Minister
13	At every hierarchal level, minimum 2/3 (two-thirds) of a KAP's professional workers have to be Indonesian
21-22	KAP can cooperate with and use the name of foreign accounting firms only with Minister's permission
27.3	KAPs have to submit annual financial statements

Article (penalty)	Provision
23.1	Professional associations must be endorsed by the Finance Minister
23.2	The Minister would only recognize 1 professional association
25	"The Minister delegates to the profession the authority of compiling the accounting and public accountant professional standards, and organizing public accountant professional examinations and CPE (continuing professional education)"
29	Public accountants are entitled to receive fees for their services
31.	Public accountants are prohibited from concurrently assuming other works/positions as: • a state official and/or • a director, manager, or employee at any governmental agencies, state-owned enterprises, political parties, educational institutions or any other legal entities. However, they are allowed to assume the positions of: • a lecturer in a higher education institution without any managerial role; or • a commissioner or member of a committee that is responsible to the commissioner (of an institution / a corporation)
32	In rendering attestation services, public accountants and KAPs have to maintain independence and be free from any form of conflict of interests. The article set out some conditions in which conflict of interests is assumed to exist
38	Public accountants are only liable for their service for a maximum of 5 years from the date of the report
40	No other parties other than public accountants are allowed to offer such services
Art. 39: Max. 6 years and or max. Rp300 millions	Public accountants who a. Fail to comply with professional standards and or any relevant statutory legislation in performing their services which caused third party losses (Article 26.6) b. Issue an audit opinion without basing it on valid, relevant and adequate audit evidence (Article 31) c. Commit an action which causes working papers or any other documents related to his/her work unusable (Article 32.1.h) d. Manipulate or help to manipulate data that is relevant to his/her work in performing services (Article 32.1.h) e. Give a false statement or false and/ or forged documents to obtain or renew public accountant licence, KAP operating licence and or licence to pen KAP branch
Art. 40 (1) • Max. 6 years and or max. Rp300 million for person/ individual • Max. Rp 3billion fine for	Any party whether a person or an entity that offers the services of a public accountant or works or acts like a public accountant when actually he/she/it is not Note: Exception is given to governmental or state agencies in performing their duties according to the relevant statutory legislations

Article (penalty)	Provision
non-person entities.	
Art. 40 (2) • Max. 4 years and or max. Rp200 mil. for a person/ individual • Max. Rp 3 billion fine for non-person entities.	Any party (a person or entity) who/that sets up and or runs an entity, organization or their equivalence which uses the term "Accountant", "Accountancy", "Audit", or "Auditor" which gives image that the entity/ organization is a KAP
Art. 41 Max. 6 years and or max. Rp300 millions	KAP partners other than the signing partners and KAP employees who are involved in an engagement of a service who: a. Conduct or help conducting data manipulation in performing the attestation service. b. Commit an act that causes working papers or any other documents related to the attestation service missing.

Source: Draft of PAL as submitted by the Finance Minister to the President (Letter from the Finance Minister to the President dated 2 July 2004).

Similar to the first draft of PAL, the Inter-ministry Team also included penal codes in the second draft, summarized and presented in Table 6-6. As the table shows, there are important differences between the first draft and the second draft of PAL. Firstly, the imprisonment and fine penalties for public accountants/KAPs violations were lower than the first draft. Secondly, similar to the 2002/2003 ministerial decrees, the Inter-ministry Team's draft linked some penalties with professional misconduct whereas many of the penalties in the first draft were linked to administrative violations. Finally, there were also penalties for parties other than public accountants and/or KAPs, especially for acting illegally or operating as if they were public accountants. This provision was a clear and strong provision that would grant public accountants state-backed professional status. Despite the differences, the two drafts retained one important similarity: these penal codes were in congruence with the ADB's demand for enhancement of Indonesian auditors' liability for negligence.

The ADB's involvement was beyond merely requiring the enactment of the new law in the policy matrix as it was also involved in the drafting process, reviewing and proposing amendments to the Government's draft. In December 2002, the ADB sent a 14-page document containing "proposed provisions for auditors' liability" (Letter from the ADB to the MoF dated 11 December 2002). The document commented on no fewer than nine articles of the then working draft of PAL and suggesting amendments in the forms of rewording of articles, adding provisions and, in some cases, complete omission and replacement of an article. Unsurprisingly, most of the comments were regarding auditors' liability, including some crucial recommendations that (1) public accountants must act without fraud, dishonesty, or negligence, and (2) public accountants who perform an attestation service are liable to pay compensation to anyone who suffers a loss because his/her opinion is misleading or inaccurate. Furthermore, the document also recommended some measures that would enable the Minister to enhance professional discipline such as suspending and / or revoking public accountant or KAP licences without having to wait for the profession's disciplinary procedures. Finally, ADB also recommended that the Minister should be able to (1) impose an administrative sanction in the form of forcing public accountants to "pay compensation to a specified person" and "to do or not to do a specified thing" in order "to ensure that the violation is not repeated or to rectify a situation that arises because of the violation concerned"; and (2) revoke a public accountant practice licence if she/he is criminally convicted.

Obviously, ADB's recommendations were not to be ignored. Based on the document, the Inter-ministry Team compiled a matrix comparing the recommendations of the

latest version of the draft as well as the comments from the AusAID consultant[82] on those recommendations. While the Inter-ministry Team believed that their current draft had in one way or another addressed ADB concerns, there were additional Articles added in accordance to the ADB's recommendations. More specifically, the Inter-ministry Team inserted new articles that clearly stated that public accountants and KAPs were financially responsible for the losses and damages occurred as a result of their professional negligence.

Changes in ministerial decrees governing the Indonesian accountancy profession continued with the drafting of PAL. In fact, the PAL initiative was more revolutionary because it was an attempt to introduce tougher provisions in a higher/stronger legislative hierarchy. The PAL initiative and MoF's insistence on escalating most provisions in the 2002 decree into the new act turned the uneasiness between the MoF and the profession into a full-blown power struggle.

6. 5. Power struggle between the IAI and the MoF

The crisis that hit the profession, nevertheless, was not caused merely by the Government's initiatives. In fact, the MoF's initiatives had gained momentum because the profession had already received public criticism for their perceived lack of professionalism. In early 2001, a high profile case involving public accountants erupted when BPKP[83] released the results of its peer review investigations into 17

[82] In addition to the ADB, the Australian Agency for International Development (AusAID) assigned an Australian consultant, Brian Waldron, to assist the MoF in the drafting of PAL between November 2001 and December 2003. Being a former practising accountant in Australia, the consultant's main responsibility was to give views on various issues related to the draft based on his experience and expertise in the Australian accountancy profession.

[83] Although the review was conducted by BPKP, the investigations itself was initiated by the Ministry of Finance (Bisnis Indonesia, 2001a).

auditors who audited the financial statements of 36 banks for the years 1995 to 1997. The investigation was triggered by the fact that most of these banks experienced liquidity problems and were suspended from operating during the *krismon*. The agency concluded that many of the auditors did not comply with the professional standards in performing the audit.[84] The IAI itself had to defend its position against the accusation of contributing to the Indonesian financial crisis (e.g. *Koran Tempo, 2001*, Bisnis Indonesia, 2001a). The fact that the MoF's sanctions came prior to any actions taken by BP2AP (short for *Badan Peradilan dan Pemeriksaan Akuntan Publik*, the IAI's disciplinary body) had incited strong reactions from the public[85] as well as the regulators.

In addition to the ADB pressure, these cases had given the MoF both the momentum and excuse to impose the regulatory reforms agenda, citing the need for better public protection. An important MoF officer highlighted the need for the IAI to allow greater public participation in the governance of the profession in order to restore public confidence (Kompas, 2002). As admitted by two other high profile MoF officers, the case was also one of the reasons the MoF decided to establish a compliance review programme as opposed to the IAI's voluntary quality review programme established in early 2002 (Media Akuntansi, 2002a). In a sense, the 2002 decree was perhaps the pinnacle of the MoF's efforts in "shifting the balance of the MoF's roles from mainly supporting the development of the profession to guarding the public interests" (Media

[84] In total, BPKP reported 129 instances of noncompliance (Bisnis Indonesia, 2001c; Republika, 2001). Violations were found in the area of documentation of audit evidence (62 findings); noncompliance with the reporting standards (42 findings); audit opinion not in compliance with audit standards (one finding), and other types of violations (11 findings). Based on those findings, the MoF reprimanded all the auditors/KAPs (Warta Ekonomi, 2001).

[85] The case also prompted the Indonesian Corruption Watch, a prominent non-governmental organization, to file a class action to the IAI's Honorary Councils for the slowness of the profession in taking disciplinary action against the auditors (Bisnis Indonesia, 2001b; Hakim, 2001).

Akuntansi, 2002a p.7). It was intended as "an effort to answer the problems of the declining public trust in the profession by repositioning the role of the MoF as well as the association" (Media Akuntansi, 2002b p.5). As the next sections will describe, these efforts had invited the profession to challenge openly the new provisions in the revised ministerial decrees and later the PAL draft. It will also show that fiercer efforts of overturning these provisions also occurred more discreetly.

6. 5. 1. The IAI's attempts to challenge regulatory changes

The enactment of the 2002 decree was immediately followed by the IAI's challenge. On 14 January 2003, the IAI sent a letter to the Finance Minister challenging the imposition of audit firm rotation. Among the complaints put forward was the contention that the IAI were not involved in the process leading to the issuance of the decree (Letter from Chair of IAI-KAP to the Finance Minister dated 14 January 2003). It was also argued that KAP audit rotation would create a "conflict of laws between the 2002 Decree which limits KAPs from accepting audit engagement and the 1995 Companies Act which rules that auditor appointment is the right of the shareholders" (p. 1). Finally, the letter also questioned the effectiveness of KAP audit rotation in achieving its intended aim of protecting public interest. Such ineffectiveness, according to the IAI letter, was because KAP rotation "is against the free market concept … whereas the global trend, with the existence of WTO and AFTA, is heading towards free market mechanism" and it "would also hinder market competition between KAPs, thus reducing audit quality; and create moral hazard amongst public accountants". Furthermore, the IAI also argued that KAP audit rotation would undermine financial control mechanisms in the country, both in the public and private sectors as it "does not solve the problem of audit failures in

detecting fraud and reduces audit effectiveness in sectors/companies which require specific industry expertise". Finally, the IAI also quoted that KAP audit rotation would increase audit costs, especially for "multinational corporations whose auditors may have been appointed by their headquarter offices" (p.2). Similar arguments were publicly echoed by some members of the profession (e.g. Bisnis Indonesia, 2001d).

Besides formal complaints, KAPs also tried to get around firm rotation by changing their names and partner compositions, hoping that they would be treated as a new entity and thus could avoid audit rotation (e.g. Bisnis Indonesia, 2002; Wulandari, 2007). Despite the objection from the IAI, the MoF insisted on enacting the provision. The MoF issued the 2003 decree as a response to KAPs' attempts at avoiding audit rotation and, more importantly, included the provision in the publicized Inter-ministry Team's PAL Substance[86]. As a reaction to this, the IAI sent another letter to the Finance Minister as a reaction to the substance of the PAL's draft document on 10 November 2003. The IAI reiterated its concern about the lack of involvement of its members in the process of PAL drafting. The reaction was rather strongly expressed:

> "In this *reformasi* era, we should hold high the principles of democracy and people sovereignty …. in accordance with the above principles [democracy and people sovereignty] and the principles of good practice of enacting legislation, transparency and public participation are key foundation ……. IAI as the organization of all public accountants who are part of Indonesian public and in accordance with the people sovereignty should have been actively involved in the drafting of the law." (Letter from Chair of IAI-KAP to the Finance Minister dated 10 November 2002 p.1-2)

The IAI went on criticizing the PAL substances, arguing that it had among other shifted many of the IAI's existing roles and functions to the MoF, and that it unjustly

[86] The Inter-Ministry Team's "Substances of PAL Draft" was officially published and disseminated through public hearings in several major cities throughout Indonesia between September and October 2003. The public hearings were the first occasions on which the proposed PAL draft went public, albeit in the form of concepts and not detailed provisions.

put too much emphasis on detailing public accountants'/KAPs' obligations and not enough emphasis on their rights. The IAI demanded that Minister include the IAI in the process of PAL drafting, and re-evaluating the substance of PAL "thoroughly in a correct and scientific way" (p. 5-6). The IAI also suggested the MoF reformulate the law in such a way that "the Government only regulates necessary and significant matters such as licensing" and "gives rooms to the association to develop into an independent, impartial, and exemplary self-regulatory organization" (p. 5-6).

As a response to the letter, the Inter-ministry Team held a limited hearing with the IAI-KAP on 12 November 2003. In the hearing, the team insisted that the drafting of PAL had been in accordance with Presidential Decree number 188/1998 and the existing regulations on the procedures for Government's initiative of proposing a new law (Minutes of meeting between the Inter-ministry Team with IAI-KAP on 17 December 2003 p.1). It was further explained that the Team "welcomes any comments and/or opinions from the association but they could not be part of the Team according to Decree number 188/1998" (p. 1 & 5). However, the team stated that "the comments may or may not be incorporated in the law and any disagreement will be brought to the higher structural level in the Team (i.e. the Steering Committee of the Inter-ministry Team - Author)" (p. 5). Finally, the team also explained that although the PAL draft assigned the ultimate regulatory authority to the MoF, some of its functions would be delegated to the association. The hearing on the 12 November was followed by another meeting on 17 December 2003 in which both parties agreed to discuss PAL draft in detail (Minutes of meeting between the Inter-ministry Team with IAI-KAP on 17 December 2003). A series of meetings thus took

place in early January and March in which each and every article of the PAL draft was discussed.

These meetings, however, did not fully assuage the disagreement between the IAI-KAP and the Inter-ministry Team. One of the IAI-KAP's remaining discontents was their inability to access the draft (Letter from Chair of IAI-KAP to the Inter-Ministry Team dated 8 March 2004); to which the team responded that the draft was still ongoing and there needed to be consultation with the team's steering committee (Minutes of meeting between the Inter-ministry Team with IAI-KAP on 17 December 2003). More importantly, the meeting did not reconcile the differences between the MoF and the IAI-KAP on some crucial provisions. On 7 May 2004, the IAI-KAP sent yet another letter to the Finance Minister, raising stronger objections to the draft. In the letter, the IAI-KAP again complained that "they have never been given the complete draft" and "the draft which was discussed with the Inter-ministry Team is significantly different from the substance disseminated in the public hearing" (Letter from Chair of IAI-KAP to the Inter-Ministry Team dated 8 March 2004). Mandatory KAP rotation remained the IAI-KAP's foremost objection and their most fundamental difference with the Inter-ministry Team. Objections were also raised to periodic renewal of the public accountant licence and the introduction of penal codes against public accountants/KAPs. They also challenged the proposed rule that the Minister was to endorse the professional association, arguing that "… the professional association is an independent organization recognized by the public and the state…. the relationship between the Government and the association should be equal as it has been so far" (p. 1). Finally, the IAI-KAP also raised objections to the provision that the authority of professional standard-setting was proposed to belong to the MoF',

citing the reason that "the practice of setting up professional standards has been in accordance with international standards and has been running independently under the authority of the association" (p. 2). Based on those objections, the association submitted an alternative concept of PAL to the Team.

Despite the IAI's objections and alternative draft, the Inter-ministry Team went on submitting and presenting the draft to the Finance Minister. The team argued that the submission of the PAL draft to Parliament by June 2004 was a required condition for the release of the second tranche of the ADB FGSSR loan totalling US$100 million (Memo from Chair of the Inter-ministry Team to the Finance Minister dated 29 June 2004). Shortly afterwards, the Finance Minister submitted the draft to the President. In the letter, the Minister emphasized that the PAL draft submission to Parliament was mandated by Inpres number 5 year 2003, the Government's "Exit Strategy" for terminating cooperation with the IMF (Letter from the Finance Minister to the President dated 2 July 2004). It is necessary to note that the submitted PAL draft did not incorporate many of the IAI-KAP's objections as it included provisions on regulating licence renewal, audit firm rotation, penal codes for public accountants/KAPs, the requirement for a professional association to be endorsed by the Minister, and the Minister's holding of ultimate regulatory authority over the profession (see Section 6.4.4).

The submission of the PAL draft to the President did not end the struggle. Following the MoF's submission, IAI-KAP sent another letter to the Finance Minister requesting a copy of the submitted PAL draft (Letter from Chair of IAI-KAP to the Indonesian Finance Minister dated 14 September 2004). Within the space of just two weeks, the

association also sent a letter directly to the State Secretary requesting access to the draft. In this letter, they reiterated some of their concerns, particularly the fact that they were not fully involved in the drafting process and thus wanted total involvement in the further processes of enacting the law which they believed were under the control of the State Secretary Office (Letter from Chair of IAI-KAP to the State Secretary dated 27 September 2004). The MoF finally sent the draft to IAI-KAP on 26 October 2004 (Letter from the MOF's Director General of Financial Institutions to Chairman of IAI-KAP dated 26 October 2004).

6. 5. 2. The IAI attempts to infiltrate the regulatory process

The MoF's decision to finally send the draft to IAI-KAP was also due to some political developments that boosted IAI-KAP's position, giving them the opportunity to launch an extraordinary attempt at infiltrating the drafting process. First, Indonesia went through yet another political transformation in 2004 as a result of the second post-crisis general election and the first direct presidential election ever. In October 2004, the new directly elected president was inaugurated and, shortly afterwards, he introduced his cabinet, including the new Finance Minister. The figure of the new Finance Minister was important to the struggle between the MoF and IAI-KAP: he had a collegial connection as lecturer at Padjadjaran University in the city of Bandung with one of the profession's leading figures. This had provided access for the profession to the highest position in the decision-making hierarchy in terms of the PAL drafting process.

The installation of the new cabinet and Finance Minister had seemingly influenced the PAL drafting process to the advantage of the profession. On 8 November 2004,

the State Secretary returned the submitted PAL draft to the Finance Minister and stated that "… with the formation of *Kabinet Indonesia Bersatu* (United Indonesia Cabinet, the name of the new cabinet - author), hereby we would like to ask your re-confirmation regarding the submission of the draft" (Letter from the Indonesian State Secretary to the Finance Minister dated 8 November 2004 p.1). Referring to the IAI-KAP's letter sent to him on 27 September 2004, the State Secretary also reminded the Finance Minister of the IAI-KAP's requests to be involved in the drafting process. The second event was the enactment of a new act regarding the legislative procedures (Act Number 10/2004) on 1 November 2001.

Following those events, the Inter-ministry Team asked IAI-KAP to submit any additional comments and/or suggestions relating to the draft. Referring to Act No10/2004, IAI-KAP dismissed the request and stated that "…we believe that there are more important things other than merely submitting comments on the existing draft. We would like to propose for the setting-up of a new team that includes all parties related to the profession which would then thoroughly review the existing draft ..." (Letter from Chair of IAI-KAP to the Inter-ministry Team dated 29 December 2004 p.2). The Inter-ministry Team did not change their stance and responded by describing all the steps it had taken in the drafting process until then (including the limited hearing/meetings with IAI-KAP between December 2003 and March 2004) and insisted that the procedures had not been contravened by any governing regulations, including the new Act number 10/2004 (Letter from the Inter-Ministry Team to IAI-KAP 5 January 2005).

On 12 January 2005, IAI-KAP finally replied and asked for more time before submitting any comments, to which the Team responded by setting a deadline of 28 February 2005. The IAI-KAP sent their "temporary response to the PAL draft" on 16 March 2005 in a fifty-page letter. Accompanying the letter was the association's version of the PAL draft. As with the previous letters, the comments revolved around the issues of audit firm rotation, drafting procedures, and authority of standard-setting and governing the profession. Perhaps a new suggestion in the letter was the proposal of setting-up an "independent regulatory body" to replace the MoF as the regulator of the profession, and thus "all the provisions and/or authority previously related to the MoF would be taken over by the independent regulatory body" (Letter from Chair of IAI-KAP to the Inter-ministry Team dated 16 March 2005, Appendix II p. 2). Under this version of PAL, the authority of licensing, developing and supervising the profession was split between IAI-KAP and the new independent regulatory body. More specifically, the independent body mainly handled the licensing of public accountants and KAPs; registering foreign accountants/foreign accounting firms; and supervising the profession (which included monitoring administrative compliance and conducting reviews). On the other hand, the authority to set up accounting and auditing standards; compilation of codes of ethical conducts; administration of professional examinations, CPE, and quality reviews, it was proposed, would be under IAI-KAP. Obviously, KAP audit rotation, licence renewals, and penal codes for public accountants/KAPs were omitted from the proposed law whereas public accountant audit rotation was extended from three to seven years and only made mandatory for auditors of public companies.

The IAI-KAP's reaction had forced the Inter-ministry Team to defend their position on the topics raised by IAI-KAP to the new Finance Minister. Regarding IAI-KAP's proposal of setting up an independent regulatory body, the Inter-ministry Team argued that such body was not necessary because "there has not been any complaint from the public regarding the current regulatory arrangements under the MoF"; this body "should only be set up based on the demand by the profession's wider stakeholders"; and the proposal "does not offer any significant advantage over the proposal in the current PAL draft" (Memo from Chair of the Inter-ministry Team to the Finance Minister dated 21 December 2005). Citing the reason of protecting public interests, the Team also insisted on keeping the provisions on KAP audit rotation and detailing the conditions where conflicts of interests would be deemed to have occurred (p.2). On the issues of penal code provisions, the Team argued that their inclusion did not contravene any existing law and was a common practice in other countries (p.2-3). Finally, licence renewal was also deemed necessary as "a mechanism of periodical check over public accountants' competence" (p.3).

By then, the struggle between the two institutions had already reached an unprecedented magnitude but was yet to reach its highest point. During the second half of 2005, the association launched a new and perhaps the most extraordinary attempt at exerting its influence on the drafting of PAL. On 15 September 2005, the Finance Minister formed *Tim Review Rancangan Undang-undang tentang Akuntan Publik* *or* 'the MoF's Team for Review on the drafting of the Public Accountant Law' (hereafter the Review Team) whose tasks were "to review the PAL draft; to recommend improvements on the draft based on the review and to conduct any other tasks related to the public accountant profession as and when required by the

Minister" (KMK number 445/KMK.01/2005). The influence of the profession in the Review Team was evident: the appointed Chair was the former Indonesian Finance Minister for the period of 1998–1999 (who at the time of appointment had joined Ernst & Young Indonesia as a consultant), the Team's secretary was assigned to the aforementioned colleague of the Finance Minister at Padjajaran University, and, finally, four of 11 members of the team were public accountants.[87]

Based on its described tasks and position, the Review Team clearly had the power of exerting enormous pressure upon the Inter-ministry Team. In October 2005, the Review Team met with the Inter-ministry Team for the first time and asked that they attend the consultative meetings with the Review Team. On 22 December 2005, The Review Team sent a memo to the Inter-ministry Team in which the Team submitted a version of the PAL draft (Memo from Secretary of the Review Team to the Inter-Ministry Team dated 22 December 2005). As in the IAI-KAP's draft, the Review Team's version also omitted licence renewal, KAP rotation, and MoF's endorsement of professional association. However, there were also major differences. First, the proposal of an independent regulatory body was abandoned. Secondly, auditor rotation was omitted altogether. In short, the Review Team's version of PAL draft was in many respects similar to the IAI-KAP version submitted to MoF on 16 March 2005. Once again, the Inter-ministry Team had to defend its position, this time against the Review Team. Based on the meetings with the Review Team in October, the Inter-ministry Team addressed the Review Team's version by quoting the entire previous defence to its position over KAP rotation. The Inter-ministry also quoted the

[87] There were six members from the MoF but most of them were economists, one member represented publicly listed companies and another member represented "entrepreneurs".

result of their survey conducted during the 2003 public hearing that "77% of all respondents and 64% of public accountant respondents agreed to the imposition of KAP rotation" (Memo from Chair of the Inter-ministry Team to the Finance Minister dated 21 December 2005 p.2-3). It also mentioned other industry-specific regulations that had already applied audit firm rotation which included regulations regarding audit on banks, public companies, SOEs and pension funds (p. 3). Other than those points, the differences over other matters remained the same.

It is important to note that the Review Team's memo on 22 December 2005 was signed only by the Secretary of the Team and that the submitted PAL draft was not completely finished. In other words, the Review Team seemed to be in a rush to get it sent to the Inter-ministry Team which may have been influenced by another political event at that time. On 5 December 2005, the President announced a new Finance Minister in his first cabinet reshuffle. The change effectively terminated the profession's access to the MoF's decision-making structure. While the installation of the new Finance Minister had undermined the position of the Review Team, it was not a clear boost to the position of the Inter-ministry Team either. As in the previous change, the figure of the new Finance Minister was one decisive factor in determining the direction of the new PAL. The new Finance Minister was a US-educated economist, who had acted as the IMF's executive director for Southeast Asia and a consultant on the Indonesian economy for USAid. At the same time, she was also an academic at the Faculty of Economics at the University of Indonesia who on several occasions had submitted opposition towards some of the Inter-ministry Team's concepts, particularly the KAP audit rotation (e.g. Letter from Head of Accounting Department of University of Indonesia to the Inter-Ministry Team dated 5 November

2003 and Letter from Head of Master of Accounting Programme - University of Indonesia to the Inter-Ministry Team 29 December 2003). Following an audience with the new Finance Minister at the end of 2005, IAI-KAP itself revived its efforts at overturning the KAP rotation provision stipulated in the 2002/2003 ministerial decrees. In addition to all the reasons stated in their previous letter dated 14 January 2003, IAI-KAP argued that the regulation had been proven ineffective and:

> "… had instead caused problems, indicated by various KAPs' attempts of avoiding audit rotation. Recent wave of KAP mergers are merely formality masks on their attempts of swapping clients. On the other hand, the going concerns of KAPs that do not have the option of merging another KAP are seriously threaten" (Letter from Chair of IAI-KAP to the Finance Minister dated 16 January 2006).

As an answer to the letter, the Inter-ministry Team submitted an equally powerful justification in defence of KAP audit rotation. The Team started its defence by arguing that the services of public accountants are used "not only by the management of the audited company but also a wide array of parties outside the company"; that public accountants and KAPs are the only independent parties that are allowed to access company records; and that they are the parties that various regulators relied on in performing their supervisory functions (Memo from Chair of the Inter-ministry Team to the Finance Minister dated 7 March 2006). The Team also argued that rotation is required because it would minimize auditor-client cosy relationships built through long audit tenure, and increase the degree of prudence of the existing auditor as their work will be reviewed by a new auditor. Another argument put forward by the Team was that it was also needed because "it is KAPs that are bidding in any tender for audit service, hence the independence of an auditor to his/her own KAP is not guaranteed". Finally, the Team also insisted that the provision does not violate the WTO agreement; that it has been applied in other countries; and that it is not against market mechanisms because "in Indonesia there are 885 KAPs and 429 public

accountants. In fact, without audit rotation, the market for audit service is controlled by a group of KAPs commonly known as the Big Four" (Memo from Chair of the Inter-ministry Team to the Finance Minister dated 7 March 2006 p.2). On 28 March 2006, the MoF sent a letter specifically quoting the above reasons to the IAI-KAP to officially respond to IAI-KAP's letter sent on 16 January 2006. Following this row, the Inter-ministry Team had the boost it needed when, in an internal meeting with her staff on 28 July 2006, the Finance Minister agreed to keep audit rotation, albeit with some modifications. The modification was that the rotation for public accountants was extended from three to five years. In effect, audit rotation was made applicable to both public accountants and KAPs every five years. Another modification was that a cooling-off period of two years was also made mandatory.

6. 5. 3. The mobilization of pressures from peer institutions

As on previous occasions, the modification did not put an end to the disagreement as IAI-KAP's efforts at challenging the provision and the PAL draft in general continued. In fact, during the second half of 2006, such efforts came not only from IAI-KAP but also from other institutions. One of the results was that the Inter-ministry Team was forced to hold another round of public hearings in several cities across Indonesia and carry out another audience with IAI-KAP, both at the end of 2006. Between December 2006 and January 2007, three institutions requested the MoF to review the audit rotation requirements. On 22 December 2006, the European Business Chamber of Commerce in Indonesia submitted their view on mandatory audit rotation directly to the Finance Minister. Somewhat echoing the concerns of IAI-KAP, the institution argued that mandatory audit rotation "is in conflict with the Indonesian Companies Act"; undermines shareholders' right of appointing auditors;

"restricts the proper functioning of a free market in audit services"; and increases audit costs (Letter from Chair of European Business Chamber of Commerce in Indonesia to the Finance Minister dated 22 December 2006). The letter was shortly followed by a similar request from the Foreign Bank Association of Indonesia, which stated that:

> "... according to the [Indonesian] Companies Act, the shareholders reserve the right of appointing the auditor. The requirement of mandatory audit rotation does not correspond with this right…. All foreign banks that we represent generally appoint their auditor globally. It is important for these foreign banks that they can execute their rights as guaranteed by the Companies Act.
>
> In our opinion, mandatory audit rotation can burden our members. Having the same auditor globally will abridge the process of group reporting in accordance with international standards and in a more cost-efficient way.
>
> On behalf of our members, we hope that exception is granted for foreign companies operating in Indonesia. Such exception is also applied in other countries … and also in Indonesian Banking Sector. Bank Indonesia, in particular, excluded foreign banks from mandatory audit rotation.
>
> We believe that every step taken to facilitate foreign investment and to protect the existing foreign corporations in Indonesia is very important for Indonesia's economic wellbeing within the global market" (Letter from Chair of Foreign Banks Association of Indonesia to the MoF dated 5 January 2007)

Responding to these requests, the Inter-ministry Team was adamant on their position. Its recommendation on these requests to the Finance Minister was to compile all the differences and continue with the next process of enacting the law. Referring to all the steps it had taken as well as the revisions made to the draft, the Team believed that:

> "... the draft has gone through a series of consultations and reviews within the Team. Revisions have also been made to accommodate comments/reactions obtained during public hearings… In our opinion, the draft is ready for submission to the Ministry of Law and Human Rights … Any unresolved differences arising from public comments and/or proposals could be included as notes for further discussion in the next stage." (Memo from Chair of the Inter-ministry Team to the Finance Minister dated 12 January 2007)

The Finance Minister nevertheless turned down the Team request, and stated that she wanted to meet with the Inter-ministry Team (Memo from Head of the Inter-ministry Team's Task Force to the MoF Secretary General dated 23 January 2007).

Another group that voiced concerns over the PAL draft was the University of Indonesia. Concurrent with the Inter-ministry's attempt to continue with the process of enacting the law, the faculty at the Accountancy Department of University of Indonesia (FEUI) submitted its view on the PAL draft in the form of an "academic paper" on 22 January 2007. In essence, the letter was a request to the Minister that "the submission of PAL draft should be delayed and the draft should be further consulted" (Letter from Head of Accounting Department - University of Indonesia to the Finance Minister dated 22 January 2007). The submitted academic paper explained the reasons and justifications for this request. While the justification in the paper was quite lengthy, many of its core points were in resonance with those of the profession. Unsurprisingly, the recommendations given included, inter alia, power sharing between the MoF and the professional association as well as abandoning both KAP rotation and penal codes for public accountants/KAPs.

Following this letter, the Inter-ministry Team and FEUI held a meeting on 2 May 2007 to discuss the draft. Some degree of consensus achieved in the meeting included the need for: (1) extending the regulations for cooperation with foreign audit firms to 'foreign audit organizations'[88], (2) reducing the proportion of foreign

[88] While "foreign audit firms" refer to any audit firms formed and located in a country outside Indonesia, a "foreign audit organization" refers to a form of cross-country affiliation of audit firms in which member firms have "equal rights and obligations" and "although its head office is located in a particular country, it does not mean that the organization/affiliation belongs to that country" (e.g. Kartikahadi, 2007 p. 57).

partners/professional workers in KAP (from one third to one tenth), and (3) lowering the requirement for becoming a non-public accountant partner (from passing the public accountants' code of ethical conduct examinations to just participating in a course on the same topic). However, disagreement also revolved around the same issues: audit rotation and the regulator of the profession. FEUI recommended the abolition of audit firm rotation and the reduction of the time requirement for public accountant rotation from five to three years. On the issue of the regulator of the profession, FEUI recommended the establishment of an independent committee whose responsibilities were to give advice to the Finance Minister on the violations of professional and ethical standards; and to actively supervise the profession including imposing sanctions. On this last matter, the Inter-ministry Team insisted on assigning all supervisory functions under the MoF.

6. 5. 4. The impacts of the struggle and the ADB's pressure

An obvious impact of the MoF–IAI-KAP power struggle was the delay in the submission of the PAL draft. At the beginning of the ADB Loan 1618 programme, the date for submission of the PAL draft to the Parliament was set "towards the end of March 2000" (The Asian Development Bank, 2000 p.5). A year later, the PAL drafting was still not completed and was highlighted as a "condition with problems" under Loan 1618 progress review (Letter from the ADB - Indonesia Residence Mission to the MoF dated 16 February 2001 and Facsimile from the ADB to the MoF dated 25 April 2001). As described in the previous section, the MoF had completed a draft in 2000 but apparently, it did not meet the ADB's requirement. On 22 May 2002, the ADB solemnly reminded the MoF that:

> "One of the outstanding conditions for the third tranche was the enactment of legislation making auditors liable for negligence in performing audits. A

> partial waiver of this condition will be requested for release of the third tranche at this stage, however ADB's Board of Directors will need demonstration of the progress and commitment for this action" (Letter from the ADB to the MoF dated 13 May 2002).

In particular, the ADB requested that the MoF provide a "written confirmation" of "the status of amending the draft… the date of establishment of the inter-ministry team… and the planned date of submission to the Parliament" (Letter from the ADB to the MoF dated 13 May 2002). The ADB also required the MoF to submit "a copy of the most recent draft bill and a list of the review team". As a response to the letter, the MoF promised that submission to parliament would be at the end of September 2002 (Letter from the MoF to the ADB dated 16 May 2002).

The promised deadline was not met as the Inter-ministry Team was not even established by the end of 2002 whereas, as stated earlier, the MoF Team's PAL draft of 2001/2002 was not accepted because it did not include the provisions for holding public accountants liable for audit negligence (The Asian Development Bank, 2002a). In November 2002, the ADB was promised a new deadline (September 2003) for the submission of PAL draft to the State Secretary (not the Parliament). Faced with this delay, the ADB requested a temporary solution in the form of a new ministerial decree which was fulfilled by the enactment of the Finance Minister Decree number 423/KMK.06/2002 or the 2002 decree:

> "A draft public accountants law will be expanded to include adequate provisions for liability for auditors for negligence, to be submitted to the State Secretary Office in 2003. As an interim measure, the Ministry of Finance issued a decree for Public Accountants in September 2002 including provisions establishing liability of auditors for negligence and expanding the scope of coverage to include financial audits, performance audits, and special audits." (The Asian Development Bank, 2002c p.16)

Realizing that Indonesia would not continue its cooperation with the IMF after December 2003, the ADB attempted to push the agenda throughout 2003. On 3 April 2003, the ADB requested the PAL draft in progress that included all the changes made from the previous drafts (Letter from the ADB to the MoF dated 3 April 2003). In June 2003, the ADB sent a special envoy whose task was "to review provisions and status of the draft law" (Letter from the ADB to the MoF dated 18 June 2003). Shortly afterwards, the ADB set a weekly timetable of what needed to be done between August and October 2003 and issued the reminder that "it is critical for the MoF to meet the schedule in order to disburse the Second Tranche of US$100 million" (Letter from the ADB to the MoF dated 8 August 2003). The weekly schedule detailed both the steps and the corresponding time frame to be met which in effect required the MoF to submit the PAL draft to State Secretary Office by "Week of 23 October (2003)". The ADB went on to mention that "this schedule requires a priority effort from your directorate that these dates are met …. as non-compliance to this condition would prevent the release of the second tranche…" and asked the MoF to confirm the schedule in writing. In its response, the MoF refused to give such confirmation and only stated that "the Government of Indonesia has mentioned in its exit strategy, which is the replacement of the Indonesia–IMF Letter of Intent, to submit the draft law to the parliament by June 2004" (Letter from the MoF to the ADB dated 28 August 2003). This proved unacceptable to the ADB which in a matter of hours responded by insisting that:

> "the exit strategy alone is not sufficient to meet conditionality of Second Tranche release. The draft Public Accounting Law, containing relevant provisions imposing liability on auditors, must be submitted to the State Secretary Office. …. submission of the draft law is required, not only a plan indicating future submission date." (Letter from the ADB to the MoF dated 28 August 2003)

The MoF finally and reluctantly confirmed that

> "We will do our best effort to meet the condition and we expect to submit the draft to the State Secretary Office by the first week of November, in line with your previous letter" (Letter from the MoF to the ADB dated 4 September 2003)

Despite the commitment, the schedule was still falling behind. By early October 2003, the MoF stated in its internal memo to the Executing Agency of the ADB's loans that submission in November was "impossible" and provided the reasons and the remaining steps needed in the drafting process. The MoF thus requested the help of the Government to negotiate and ask the ADB to alter the submission date to June 2004, in accordance with the exit strategy (Memo from the MoF to the Coordinating Ministry of Economic Affairs dated 2 October 2003). When the ADB checked the progress of the draft on 28 October 2003 (Letter from the ADB to the MoF dated 28 October 2003), unsurprisingly, the MoF replied that the draft would be submitted by the end of March 2004 (Letter from the MoF to the ADB dated 2 December 2003).

As mentioned in the previous section, the first attempt at submission was made in June 2004. However, the reactions from the profession had partly caused the State Secretary to send the draft back to the MoF and thus significantly prolonged the process. The second attempt could only be made three years later. On 18 June 2007, the Inter-ministry Team submitted a request to the Finance Minister to submit the PAL draft for the next stage (Memo from Head of the Inter-ministry Team's Task Force to the MoF Secretary General dated 23 January 2007). By the end of 2007, it was submitted to the Ministry of Law and Human Rights for harmonization and synchronization with the existing legislations (Detik Finance, 2007). Currently the draft is back with the MoF with a minor problem arising from the harmonization process i.e. an objection from Bank Indonesia to the provisions that allow the MoF to

access a bank's customer data included in the working papers of and/or obtained by the bank's auditor.

6. 6. Summary and conclusion

In many respects, the 1997 Asian financial crisis was a crucial factor in explaining the dynamics of the accountancy profession during the last decade. Unlike the previous periods, the crisis has caused the free-market capitalism agenda to prevail in post-1997 Indonesia. As explained by the stage theory, the last three decades have been a period of global financial era in the phases of free-market capitalist expansion in which countries are integrated into a single economic order through the institutionalization of cross-border capital markets. In this era, pressure on peripheral countries such as Indonesia to construct a fully compatible capital market came from multinational governmental institutions, viz. the IMF, the World Bank, and the ADB although other institutions such as the WTO, ASEAN, and APEC were also influential. Debts, grants, or "financial aid" were used as the means by which the necessary adjustment and update agendas were imposed. However, the liberalization agenda was only partially successful in shaping the Indonesian economy until mid-1997, largely due to the New Order's version of capitalist economic management supported by the material forces of the New Order's crony capitalists.

The 1997 Asian financial crisis was a turning point in the efforts to globalize the Indonesian economy as it fundamentally changed the power balance between domestic and global politico-economic forces in Indonesia. It had considerably undermined the structure of crony capitalism built by the New Order and given global capital interests a significant boost. The destruction of the New Order was perhaps the

biggest reason why global material and institutional forces of capitalism were able to exert their ideas of economic development in Indonesia. The cause of *krismon* itself has been a source of debate between the camps that blamed the domestic economic mismanagement and those who argued that Indonesia was a victim of the inherent volatility of the global financial system (see Hill, 1999; Khor, 1999 for a review of these arguments). Despite the debates, one should remember that global forces had also contributed to Indonesia's domestic conditions as the New Order built Indonesia's economy with the help of the global material (debts) and ideas (technical aid and programme) from the global institutions (the ADB and the World Bank) and Western creditors for 30 years before the crisis (e.g. Pilger, 2003). Regardless of the cause, the fall of the New Order signified the destruction of a social structure that rivalled and hindered global capitalism from prevailing in Indonesia. With the crumbling of the New Order as a rivalling material and ideal force, liberalization efforts significantly accelerated from 1997 as Indonesia had to tie herself to a series of policy commitments in order to receive urgent financial aid from the IMF.

The narrative in this chapter further supports the contention that the source of change in the Indonesian accountancy profession was the need of the global capitalists to integrate Indonesia into the global economy. Adjustments and updates in the area of supporting structures such as the accountancy profession were an inseparable part of the IMF's agenda. Under the New Order's crony capitalism built upon family businesses, there was no urgent need of an "independent" accountancy profession. Had this model of capitalism been able to survive the crisis, there would be every reason to doubt that considerable changes in the profession would have occurred, let alone at the rate and magnitude of changes in the last ten years. With the country

marching towards liberal capitalism, the ADB and World Bank's efforts towards improving the country's accountancy professional infrastructure encountered virtually no major obstacles.

As a result, the post-*krismon* period has been by far the most vibrant period in the history of the Indonesian accountancy profession. New professional standards were introduced and constantly revised; new routes to professional certification were introduced; and professional associations underwent significant transformations. The most intense dynamic, however, was in the area of regulation of the profession where the Government introduced several new regulations and attempted to promote the acceptance of these regulations into the new Public Accountant Law (PAL). These actions had initiated disharmony between the Government and the profession that led to power struggles between the two institutions over the last decade. All these major and unprecedented changes took place during a period of just over 10 years.

Despite the enormous progress of the last decade, the history of the profession over the last five decades tells us that future changes are far from certain. The next chapter will attempt to integrate the story in this chapter with those of the previous periods. Perhaps the whole story may enable us to speculate on how the transformation may unfold in the future.

Chapter 7

Summary, conclusion and reflections

7. 1. Introduction

The primary aim of this chapter is to provide a summary and to conclude and reflect on this study. Section 7.2 summarizes the main themes emerging from the narratives of the development of the Indonesian accountancy profession covered in previous chapters. Section 7.3 presents some conclusions that can be drawn from the story from its early emergence until the latest developments following the 1997 Asian financial crisis. Based on the two sections, some propositions regarding the future of the profession are offered in Section 7.4. Finally, Section 7.5 discusses some reflective points from the study in which the limitations of the study are evaluated and areas for further research are explored.

7. 2. Summary

This study has described and explained the historical development of the Indonesian accountancy profession from Indonesia's formal independence in 1949 until the present time. The study uses the world-system theory of globalization and Robert Cox's historical structure to identify the factors responsible for changes and transformations during the three major periods in the history of the Indonesian accountancy profession. In the first period, as in many other ex-colonized societies, the emergence and early development of the Indonesian accountancy profession was inseparable from the fact that as a newly independent country, Indonesia was a hotbed of various ideological, material and institutional forces trying to dominate the

country's rich natural resources. Combined with the diversity of nationalist aspirations of nation building, these forces created the most intense ideological battlefields in virtually every aspect of the new nation. Between 1949 and 1966, both capitalist and anti-capitalist ideological, material or institutional forces were present in Indonesia. It is undeniable that the establishment of the accountancy profession was an orchestrated effort of capitalist expansion (as evident in the passing of the act regulating the use of the accountant title in 1954 as part and parcel of the new capital market act). However, its progress was thwarted not by challenges from within the profession but, fundamentally, by the failure of capitalist forces to dominate Indonesia's socio-economic structure. This was especially true during Soekarno's era, when the country shied away from capitalist economic arrangement. Thus, unlike many other ex-colonies, the newly independent Indonesia had neither clear proximity to nor close support from any of the then superpower blocs in terms of strategies of economic development. Faced with ideological hostility and material rivalry during this period, the US had to use a subtle approach in spreading its influence of the new world order under its hegemony. Infiltration through educational cooperation proved to be the decisive factor in helping the US to overcome the ideological barriers. Its strategy in supporting the change in leadership radically changed the country's fundamental political and developmental ideology towards the West. With the country once again leaning towards economic openness of capitalism, the development of the profession resumed.

Despite the exciting start in the early years of the New Order under Soeharto, the profession failed to develop as might be expected during the 32 years of the New Order political regime. As in the previous period, the obstacle to full development of

the profession was the emergence of the New Order as an alternative structure to the Western capitalist system. With the help of the oil profit bonanza and societal sentiment against Westerners, the New Order developed its own developmental ideology based on economic growth and social justice. The two conditions also contributed to the New Order's success in nurturing domestic business groups to become powerful forces in the country. Many of these business groups were cronies and families of the key political figures in the country, thus rendering the New Order a politico-business regime. As a crony capitalism regime, the New Order did not see the need of building a strong and sophisticated accountancy profession as unnecessary and within this context, the development of the profession was once again compromised. On the other hand, most initiatives towards progress in the profession were due to external demand and stimulated by external parties, most notably the ADB and the World Bank. Such progress was notable in the first and last decades of the New Order era when foreign money was needed. However, the increasing power of the politico-business coalitions during the height of the New Order's power in the 1980s rendered the progress towards building a Western-like professional infrastructure of limited effects and intermittent at best. Some indicators show that the profession progressed relatively slowly despite the remarkable economic growth during the New Order regime. The size of the profession after 50 years, for instance, is relatively small compared with other countries. The membership of the association only increased from 30 accountants in 1960 to just below 6,900 in 2005 (IAI, 2007a). The number of public accountants only increased from 13 new public accountants per year during the 30 years of the New Order (11 in 1966 to 567 in 1998) to 77 new public accountants per year during the last 10 years (from 567 in 1998 to 1013 in 2009) (IAPI, 2009a; the MoF, 2004). The country's

profession is also smaller than those of countries with similar GDP per capita such as Pakistan and the Philippines and significantly smaller than those of Thailand, Malaysia and Singapore. With a population of around 225 million in 2008, there is only one registered accountant for almost every 6,000 citizens, one public accountant for 247,000 citizens and one public accounting firm to serve more than half a million of the population, (see e.g. The Asian Development Bank, 2003; IAPI, 2009a; the MoF, 2004; Tuanakotta, 2007).

In other words, failure to implant the more fundamental Western-like capitalist structure in Indonesia's economy prior to 1997 hampered the progress towards a modern accountancy profession. One of the most critical changes brought about by the 1997 Asian financial crisis was the destruction of the material power of the domestic conglomerates and the fall of the New Order in 1998. In effect, the crisis has considerably undermined the New Order's crony capitalism as the prevailing system of political economy in Indonesia. The Government's submission to the IMF's financial aid symbolized the invasion of liberal, outward-looking economic management. Predictably, reforms and restructuring in accounting and the accountancy profession were a priority to enhance the countries' governance and accountability system. As a result, the transformations of the profession in order to meet international standards significantly accelerated during the last decade. Both the government and the profession rapidly adopted steps towards the internationalization of the professional infrastructure: new professional standards were introduced and constantly revised; new routes to professional certification were introduced; and professional associations have undergone significant transformations. The strengthening of the profession was also propagated by the Government through the

introduction of tougher regulation of the profession, especially those related to external auditors. Such sudden and dramatic changes have sparked intense tension between the Government and the accountancy profession in general and public accountants in particular over the last few years.

7. 3. Conclusion

From the narratives of the historical development of the Indonesian accountancy profession for approximately the last five decades, several conclusions can be drawn. First, the development of the accountancy profession in Indonesia is located in the wider and more fundamental dynamic of the country's system of political economy. In other words, the dynamics of the profession are best explained by paying attention to the changes in the country's wider socio-political and economic structure. The narrative of the historical development of the profession during the last five decades shows that changes and transformations of the profession follow the political changes in the country, as evident in the changes from the Old Order to the New Order in 1966-67 or the fall of the New Order in 1998.

Secondly, the development of the profession is inseparable from Indonesia's historical and contemporary position within the global capitalist economic order. In the context of ex-colony countries such as Indonesia, progress and changes in the profession are mainly driven by external pressures, more specifically the demand for the country to keep up and serve the needs of the global expansion of global capital. According to the world-system theory of globalization, the method and agent of these changes are part of and depend on the "modernization" or "development" of the wider socio-political and economic context as required by the pertaining capitalist

order in each period in question. In the first period of analysis, for example, the emergence and consolidation of the profession was achieved by nurturing the profession's elites through educational cooperation established by the US through the Ford Foundation project from 1951. In the second and third periods, the transformation was parallel with the debt and aid programmes under the administration of the World Bank (in 1973 and 1988) and the ADB (in 1993, 1998 and 2002). As argued by the world-system theory, the change of the globalization agent was consistent with the restructuring of the capitalist relationship between states. The birth of the profession was framed within the neo-colonial period in which the US was dragging the world into her hegemony. On the contrary, changes in the second and third periods were no longer associated with the power of any particular nation but instead driven by the cross-border global capitalist class.

Finally, by utilizing the concept of historical structure, the study has shown that the development of the Indonesian accountancy profession was affected by the interactions between rivalling structures influencing the direction of Indonesia's political economy. Efforts to directly modernize the profession in the first two periods proved futile because of the limited success of capitalism in capturing the country's system of political economy. This failure was due to the existence of alternative sets of ideological, material and institutional forces in each of those periods. In the first period, Soekarno's Old Order was the ultimate alternative structure, amalgamating the rising ideological and material forces of the Soviet Union as an alternative global power, and local socio-political factors such as nationalist ideology, religion and language barriers. In the second period, despite not being confrontational towards capitalism, the New Order became the obstructive structure through its developmental

ideology, backed by the material forces of its crony capitalists and domestic conglomerates. The transformation into a global-oriented profession gained a significant boost when the New Order crumbled in the aftermath of the 1997 Asian financial crisis, giving way to the liberal capitalism agenda. Given such developments, the next section discusses the possible trajectory of the development of the profession in the future.

7. 4. Envisaging the future of the profession

Structural and institutional change towards global capitalism could reach its full potential only recently as the 1997 *krismon* has profoundly altered the power balance in Indonesia. With fundamental changes in the political system, it can be reasonably assumed that Indonesia's march to capitalistic economy will continue in the near future. Among the most crucial changes are the right of freedom to establish political parties, the right to direct presidential elections and the limitation of the presidential term (two consecutive five-year terms). The most recent presidential election in 2009 has shown that the technocrats have a greater political position in the Government as shown by the vice president figure (Boediono, an alumnus of the University of Pennsylvania's Wharton Business School - see e.g. Fitzpatrick, 2009; The Jakarta Post, 2009) and the President's choice of technocratic economists, most of whom are Western (US)-educated, in strategic ministerial posts (e.g. Purnomo, 2009; Qomariyah, 2009). These measures make it incredibly difficult for the New Order's crony capitalism to return since, as described in Chapter 5, the dominance of the President in such a political structure was central for this model of capitalism to persist. Despite having terminated cooperation with the IMF, Indonesia's level of foreign debts continues to rise from US$135.4 billion in 2003 to US$161.7 billion in

the third quarter of 2009, 60% of which are the Government's foreign debts (Bank Indonesia, 2009; BPS, 2009). Although the proportion of the debts to GDP has declined after the *krismon* from 96% in 1999 to 32% in 2009 (Bank Indonesia, 2009; INFID, 2009), the installments of the debts are still a heavy burden for the economy (e.g. inilah.com news portal, 2009; Palupi, 2009; Suara Karya, 2009). Such significant dependence on foreign debts certainly puts considerable pressure on the Government over its choice of economic management strategy and policies.

In the absence of a consolidated rival politico-economic structure, the IMF, the World Bank and the ADB had been able to push a far-reaching economic liberalization agenda in Indonesia. However, there are also elements of uncertainty that may cast doubt as to whether the economic liberalization will continue at a full rate in the future. First, capitalism has never been a popular ideology in Indonesian society, which means that there is essentially no political basis for pursuing such a policy agenda (Rosser, 2002). Anti-foreign-interest sentiment, for example, was still a vote-gathering issue in the recent 2009 presidential election. Secondly, the influence of the domestic conglomerate groups and the politico-business culture from the New Order cannot be dismissed fully as *krismon* did not destroy their economic power completely (see e.g. Aditjondro, 2002; Robison and Hadiz, 2004). Furthermore, while they have adapted to the post-*krismon* economic liberalization, their commitment to this agenda is not taken for granted (Chua, 2008). They support the democratization and liberalization of the economy as they see it as the most appropriate position to take, and there is no guarantee that the politico-business coalitions will not return in the future. The persistence of politico-business coalition culture is evident, for example, in the recent Bank Century bail-out scandal where large, politically

connected depositors in the bank allegedly influenced the Government's decision to save the bank, costing the country Rp 6.7 trillion, far beyond the amount agreed by parliament of Rp 1.3 trillion (e.g. Aswadi and Azhari, 2009; Duta Masyarakat, 2009; Maulia and Suharmoko, 2009; Witular *et al.*, 2009).

In effect, despite enormous progress and major changes during the last decade, there are also reasons to argue that the internationalization of the profession in the future is far from certain. Progress will depend on the transformation of the Indonesian society and state towards a capitalist socio-economic arrangement, which will provide fundamental demand for the profession. Without this fundamental change, the development of the profession in Indonesia will be intermittent at best, as evident during the last five decades of its history. Current conditions still show that demand for accountancy services has been created by statutory legislations, most of which are served by big international accountancy firms. On the other hand, users of the services of accountancy firms are largely institutions and corporations whereas individual users are virtually nonexistent. The profession's call for the Government's help to create a market for accountancy services still persist five decades after the formation of the profession (Media Akuntansi, 2007). Another source of uncertainty has been the termination of cooperation with the IMF as it means that pressure for change will be weakened. This is true, for example, in the case of the proposed Public Accountant Law which is still ongoing almost ten years after its initiation (e.g. Republika, 2009). In the meantime, the MoF issued another revision of the 2002/2003 decrees in early 2008. The revision was nevertheless both limited and minor in scope. Perhaps the most crucial factor is the extension of the time limit for KAP audit rotation from a maximum of five to six consecutive years (KMK number

17/PMK.01/2008 Article 3.1). The new decree also reintroduced cooperatives (in the form of *Koperasi Jasa Audit*, literally means "audit service cooperative") as a permissible form of business entity by which public accountants offer their services (Article 45). Finally, the decree also changed the Government-endorsed professional association of public accountants from the IAI to the IAPI (Article 58). Consequently, all regulatory authority functions such as the administration of the CPA exams and quality reviews were also transferred to the IAPI.

7. 5. Reflections

One of the aims of this study is to try to make sense of the history of the accountancy profession in its social, political and historical context. The history was told in the context of how the interaction between the structural forces of globalization and the rivalling structures that existed in different periods in its history shaped the Indonesian accountancy profession. In this section, some reflections on the limitations of this approach as well as possible areas for further research are offered.

7. 5. 1. Limitations of the study

It is now accepted that accounting history comprises myriad perspectives in establishing what constitutes fact and truth (e.g. Fleischman *et al.*, 2003). There is no benchmark to tell which interpretation of history is considered as the truth and/or which approach or method is the best. Each method and interpretation is always subject to criticism and limitations. This study is no exception.

Mainstream accounting research may find that the use of a particular set of theories (globalization theory and historical structure) in interpreting the history of the

Indonesian accountancy profession is problematic. Such an approach may be deemed subjective and not value-free. However, in reality there is no value-free explanation of social life. Any theory or methodology trying to explain the history of the accountancy profession, especially in the context of ex-colonized nations, is based on a particular assumption about the social relations between people and/or societies and the changes thereof. While mainstream accounting research assumes that the accountancy profession (and the economy/business in general) developed within a plurality and equality of power between people and nations, the critical perspective contests this assumption. Moreover, an explanation of social phenomena is always influenced by the theorist. A social theory "is always *for* someone and *for* some purpose" and is bounded by the perspectives of the theorist, derived from his/her social and political particularity of space and time (Cox, 1996 p.87). It is always commendable for a theory to recognize and reflect on its own perspective.

Secondly, the explanation offered in this study, which locates the development of the Indonesian accountancy profession in the juxtaposition of global capitalism and rivalling structural forces, may not address all aspects or questions concerning the history of the accountancy profession in Indonesia. As implied in the analysis, the approach may be deemed state-centric and concentrates on the politics and economic aspects of the development of the profession. While accepting this limitation, it is equally important to note that the offered explanation is the most appropriate considering the objective of the study and the socio-political history of Indonesia. Globalization theory has enabled the study to capture and make sense of the major social forces that have driven changes in the profession. Understanding the development of the profession in a country such as Indonesia without incorporating

power configurations between states would be incomplete, to say the least. Historical structure, on the other hand, incorporates the dynamics of the profession within the more fundamental structural changes (the "framework of action") over a long period.

7. 5. 2. Areas for further research

While this study puts emphasis on the influence of politics and economics on the accountancy profession at the state level, future studies may wish to explore the societal forces that may become the important sources of change in the profession. One of the most important impacts of *krismon* is the end of the New Order's ideological repression, which gives the opportunity to almost any kind of political and ideological aspirations to flourish. During Sukarno's Old Order period, Islamic movements were heavily involved in the political scene while Suharto's authoritarian political regime prevented the development of any Islamic identities (see Footnote 25). As a result, the resurrection of Islam in Indonesian socio-economic and political life has only emerged strongly in the last decade despite the fact that Muslims make up the majority of the population in the country. One of the areas that received attention following the resurgence of Islam is the economy, which was marked by the rise of Islamic financial institutions and the *sharia* capital market (see e.g. Akuntan Indonesia, 2007). In this regard, further research may take an interest in investigating the impact of Islam as a powerful force in Indonesian society on the development of the profession. Over the last decade, there has been significant development of Islamic accounting infrastructure in the profession. Today, the IAI has set up the Sharia Accounting Committee, which has issued *Standard Akuntansi Keuangan Syariah* (Sharia Financial Accounting Standards), a codification of a conceptual framework and six sharia financial accounting standards (IAI, 2009a), including the

conduct of the Certified *Syariah* Accountant Examination (IAI, 2009b). It would be interesting to speculate how Islamic-based accounting will influence the development of the profession in the future in relation to its conventional counterpart.

Shifting the attention from structural analysis to social agents involved in the profession may also form the basis for further research. Regarding the global actor, for example, it would be interesting to see whether there is a change/evolution in the inter-governmental regulatory institutions' (such as the World Bank and the ADB in the case of Indonesia) views on the benchmark model of accountancy and the accountancy profession in developing countries across different periods. The role and influence of big international firms is also an area for further exploration. In the case of Indonesia, at least until the last decade, the direct role of these firms in influencing the statutory legislation seemed to be undermined by the strong position of the government, a political culture inherited from the New Order. This may not be the case in future and in other areas such as the intra-professional regulatory functions. Finally, future research may want to look more closely into the reasons or motives as to why the policy makers in peripheral/ex-colony countries willingly adopt regulatory measures that are stricter than the model. In the context of this study, for example, this phenomenon is evident in the MoF's insistence on imposing audit firm rotation (see Chapter 6, in particular Section 6.4.4), a provision that even most model countries (including the US) are reluctant to impose.

Appendix 1: Act number 34 year 1954

PRESIDEN
REPUBLIK INDONESIA

UNDANG-UNDANG REPUBLIK INDONESIA
NOMOR 34 TAHUN 1954

TENTANG

PEMAKAIAN GELAR "AKUNTAN" ("ACCONTANT")

PRESIDEN REPUBLIK INDONESIA,

Menimbang : a. bahwa perlu menetapkan ketentuan-ketentuan untuk mengatur urusan akuntansi;

b. bahwa dirasa perlu memperlindungi gelar "akuntan" ("accountan") dengan undang-undang;

Mengingat : pasal 89 Undang-undang Dasar Sementara Republik Indonesia;

Dengan persetujuan
DEWAN PERWAKILAN RAKYAT;

MEMUTUSKAN :

Menetapkan : UNDANG-UNDANG TENTANG PEMAKAIAN GELAR "AKUNTAN" (" ACCOUNTANT").

Pasal 1

Dengan tidak mengurangi ketentuan dalam peraturan gaji resmi mengenai berbagai jabatan pada Jawatan Akuntan Negeri dan Jawatan Akuntan Pajak, hak memakai gelar "akuntan" ("accountant") dengan penjelasan atau tambahan maupun tidak, hanya diberikan kepada mereka yang mempunyai ijazah akuntan sesuai dengan ketentuan dan berdasarkan undang-undang ini.

Pasal 2

Dengan ijazah tersebut dalam pasal 1 dimaksud :

a. ijazah yang diberikan oleh sesuatu universitas Negeri atau badan perguruan tinggi lain yang dibentuk menurut undang-undang atau diakui Pemerintah, sebagai tanda bahwa pendidikan untuk akuntan pada badan perguruan tinggi tersebut telah selesai dengan hasil baik;

b. ijazah yang diterima sesudah lulus dalam sesuatu ujian lain yang menurut pendapat Panitia Ahli termaksud dalam pasal 3, guna menjalankan pekerjaan akuntan dapat disamakan dengan ijazah tersebut pada huruf a pasal ini.

Pasal 3

(1) Menteri Pendidikan, Pengajaran dan Kebudayaan mengangkat Panitia Ahli, yang bertugas mempertimbangkan apakah sesutu ijazah bagi menjalankan pekerjaan akuntan dapat disamakan dengan ijazah tersebut pada pasal 2 huruf a.

(2) Menteri Pendidikan, Pengajaran dan Kebudayaan bersama Menteri Keuangan mengatur susunan dan cara kerja panitia itu.

(3) Menteri Keuangan berhak memberi tugas lain kepada panitia tersebut dalam ayat 1 untuk menjamin kesempurnaan urusan akuntansi c.q. untuk mengatur lebih lanjut urusan akuntansi.

(4) Tiap-tiap akuntan berijazah mendaftarkan nama untuk dimuat dalam suatu register negara yang diadakan oleh Kementerian Keuangan.

Pasal 4

Menjalankan pekerjaan akuntan dengan memakai nama "kantor akuntan" ("accountantskantoor"), "biro akuntan" (Accountantsbureau") atau nama lain yang memuat perkataan "akuntan" ("accountant") atau "akuntansi" ("accountancy") hanya diijinkan jika pimpinan kantor atau biro tersebut dipegang oleh seorang atau beberapa orang akuntan.

Pasal 5

(1) Barang siapa yang melanggar ketentuan yang tercantum didalam pasal 4 dihukum dengan hukuman kurungan selama-lamanya dua bulan atau denda setinggi-tingginya sepuluh ribu rupiah.

(2) Perbuatan termaktub dalam ayat 1 adalah pelanggaran.

Pasal 6

Menteri Keuangan berhak menetapkan peraturan lebih lanjut untuk melaksanakan undang-undang ini.

Pasal 7

Undang-undang ini mulai berlaku pada hari diundangkan, dengan ketentuan, bahwa terhadap mereka yang pada waktu mulai berlakunya undang-undang ini sedang menjalankan pekerjaan akuntan dengan memakai nama tersebut pada pasal 4, ketentuan dalam pasal itu dan pasal 5 baru berlaku pada tanggal 1 April 1955.

Agar supaya setiap orang dapat mengetahuinya, memerintahkan pengundangan undang-undang ini dengan penempatan dalam Lembaran Negara Republik Indonesia.

Disahkan di Jakarta

pada tanggal 13 Nopember 1954

WAKIL PRESIDEN REPUBLIK INDONESIA,

MOHAMMAD HATTA,

MENTERI KEUANGAN,

ONG ENG DIE

MENTERI KEHAKIMAN,

DJODY GONDOKUSUMO

MENTERI PENDIDIKAN,
PENGAJARAN DAN KEBUDAYAAN,

MOHAMMAD YAMIN

Diundangkan

pada tanggal 2 Desember 1954.

MENTERI KEHAKIMAN,

DJODY GONDOKUSUMO

LEMBARAN NEGARA REPUBLIK INDONESIA TAHUN 1954 NOMOR 103

PENJELASAN
ATAS
UNDANG-UNDANG REPUBLIK INDONESIA
NOMOR 34 TAHUN 1954

TENTANG

PEMAKAIAN GELAR "AKUNTAN" ("ACCONTANT")

MEMORI PENJELASAN

Dalam masa puluhan tahun yang terakhir pekerjaan akuntan mempunyai arti yang selalu bertambah penting bagi masyarakat.

Hal ini disebabkan hubungan ekonomi yang makin sulit, meruncingnya persaingan, dan naiknya pajak-pajak para pengusaha dagang dan kerajinan, sehingga makin sangat dirasakan kebutuhan akan penerangan dan nasehat para ahli untuk mencapai perbaikan dalam sistem administrasi dan dalam pengawasan atas perusahaan, "kostprijsberekening" yang lebih tepat, dan pelaksanaan azas-azas ekonomi perusahaan.

Sudah tentu mereka hendak mempergunakan jasa orang-orang yang mempelajari masalah itu atas dasar pengetahuan dan mempraktekkannya, ialah para akuntan.

Akan tetapi kebutuhan akan bantuan akuntan yang makin besar itu mungkin menjadi alasan bagi banyak orang untuk mengemukakan diri sebagai "akuntan" kepada khalayak umum, dengan tidak berpengetahuan dan berpengalaman dalarn lapangan itu yang sederajat dengan syarat yang ditetapkan oleh Pemerintah bagi mereka yang telah mengikuti pelajaran pada perguruan tinggi Negeri dengan hasil baik.

Oleh karena itu Pemerintah menetapkan peraturan dengan undang-undang ini untuk melindungi ijazah akuntan, agar supaya pada pengusaha dan lain-lain - oleh karena pemakaian gelar "akuntan" yang tidak sah - tidak timbul penghargaan-penghargaan yang salah mengenai pengetahuan dan pengalaman orang yang menamakan dirinya "akuntan", yang dimintainya penerangan dan nasehat.

PENJELASAN PASAL DEMI PASAL.

Pasal 1

Dalam merancangkan redaksi undang-undang tersebut, pertama-tama timbul pertanyaan sampai manakah batasnya perlindungan menurut undang-undang itu.

Barangkali jalan yang sebaik-baiknya ialah mengadakan larangan menjalankan pekerjaan akuntan bagi mereka yang tidak mempunyai ijazah yang dilindungi oleh undang-undang.

Akan tetapi dapatlah diramalkan bahwa cara yang sebaik-baiknya dalam teori itu tidak akan memuaskan dalam praktek, karena itu berarti, bahwa harus diadakan definisi yang terang tentang lapang pekerjaan akuntan, sedangkan pelanggaran peraturan tersebut akan sukar diketahui.

Oleh karena itu dalam undang-undang tersebut dipilih suatu sistem, bahwa tiap-tiap orang bebas melakukan pekerjaan yang biasa dijalankan oleh akuntan, akan tetapi dilarang memakai gelar "akuntan" ("accountant") bagi mereka yang tidak mempunyai ijazah yang dilindungi oleh undang-undang.

Maka di waktu yang akan datang ini umum dapat membeda-bedakan dengan terang mereka yang berijazah sah dari orang-orang yang tidak berpendidikan teori, serta dapat mengambil keputusan sendiri tenaga manakah yang hendak dipergunakannya.

Pengecualian hanya diadakan bagi pegawai Jawatan Akuntan Negeri dan Jawatan Akuntan Pajak, yang menurut peraturan gaji yang berlaku memegang jabatan dengan pangkat "akuntan-pajak", "ajun-akuntan" atau pangkat lain serupa itu.

Pasal 2

Ijazah yang memberi hak memakai gelar "akuntan" ("accountant") ialah ijazah yang diberikan oleh sesuatu universitas negeri kepada mereka yang telah selesai mengikuti kuliah-kuliah yang bersangkutan dengan hasil baik pada Fakultas Ekonomi.

Di samping itu undang-undang ini memberi kemungkinan untuk mendapat pengetahuan teoretis yang diperlukan dengan jalan lain. Apakah ijazah yang didapat dengan jalan lain itu memberi jaminan cukup untuk dasar pengetahuan yang baik, dan dapat dianggap sederajat dengan ijazah dari universitas Negeri cq ijazah yang diberikan oleh badan lain untuk perguruan tinggi bagi melakukan pekerjaan akuntan, hal itu akan diselidiki oleh suatu Panitia-Ahli.

Pasal 3

Panitia-Ahli itu diangkat oleh Menteri Pendidikan, Pengajaran dan Kebudayaan, yang setelah mendengar pendapat dan pertimbangan-pertimbangan panitia itu, menetapkan apakah sesuatu ijazah dapat dipersamakan dan dihargai sama dengan ijazah akuntan yang dicapai pada universitas negeri.

Tidak perlu diuraikan lebih lanjut, bahwa hak untuk menetapkan apakah Sesuatu ijazah sederajat dengan ijazah yang diberikan oleh universitas negeri adalah hak Menteri Pendidikan, Pengajaran dan Kebudayaan.

Pengangkatan anggota-anggota panitia itu dilakukan setelah didengar pendapat dan pertimbangan Menteri Keuangan, Menteri Perekonomian dan Presiden-presiden universitas.

Dalam panitia itu duduk wakil-wakil dari lingkungan Kementerian Keuangan (Jawatan Akuntan Negeri, Jawatan Akuntan Pajak), Kementerian Perekonomian, Kementerian Pendidikan, Pengajaran dan Kebudayaan, universitas-universitas dan beberapa orang partikelir dari kalangan perusahaan.

Di samping mempertimbangkan berbagai ijazah Panitia-Ahli bertugas melakukan hal-hal lain, terutama merancang peraturan tata-tertib bagi para akuntan dan mengadakan pengawasan atas cara mereka melakukan pekerjaan.

Hanya yang namanya termuat dalam Register Negara yang diadakan oleh Kementerian Keuangan berhak atas gelar dan melakukan pekerjaan akuntan.

Pasal 4

Di mana dilakukan pekerjaan-akuntan, baik oleh seorang maupun oleh gabungan tidak dengan nama sendiri, melainkan dengan nama firma yang menggunakan nama orang ataupun tidak, jika dalam nama itu dengan cara apapun juga dipergunakan perkataan "akuntan" ("accountant") atau "akuntansi" ("accountancy"), maka orang itu atau sedikit-dikitnya seorang dari gabungan itu harus berhak memakai gelar akuntan.

Melakukan pekerjaan akuntan dalam bentuk perseroan terbatas (NV) menurut Pemerintah adalah kurang tepat. Tidak saja sifat perseroan terbatas itu kurang dapat digunakan untuk pekerjaan-pekerjaan yang sangat mementingkan hubungan perseorangan antara akuntan yang bersangkutan dan langganannya, akan tetapi teristimewa berhubung dengan rahasia yang harus dipegang oleh akuntan, maka bentuk perseroan terbatas itu adalah tidak tepat.

Pasal 5

Cukup jelas.

Pasal 6

Bilamana pelaksanaan undang-undang ini memerlukan peraturan lebih lanjut berhubung dengan kebutuhan-kebutuhan dalam praktek dan sebagainya, maka kuasa untuk merancangkan peraturan itu diberikan kepada Menteri Keuangan.

Pasal 7

Waktu sampai 1 April 1955 diperlukan sebagai masa peralihan bagi mereka yang sekarang ini menjalankan pekerjaan akuntan untuk menyesuaikan diri pada ketentuan-ketentuan dalam undang-undang ini.

Diketahui:
MENTERI KEHAKIMAN,

DJODY GONDOKUSUMO

TAMBAHAN LEMBARAN NEGARA REPUBLIK INDONESIA NOMOR 705

Appendix 2: The World Bank Loan Agreement INO-1618

CONFORMED COPY

LOAN NUMBER 3801 IND

LOAN AGREEMENT

(Second Accountancy Development Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated October 21, 1994

LOAN NUMBER 3801 IND

LOAN AGREEMENT

AGREEMENT, dated October 21, 1994, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; and

(B) the Bank has received a letter dated January 20, 1994, from the Borrower describing a comprehensive national accountancy development strategy to be implemented during the Borrower's Fiscal Years 1994 through 2000 (hereinafter called the Strategy).

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "PSSU" means the Project Support Services Unit established within the Borrower's Ministry of Finance as the PIU under the Loan Agreement dated October 6, 1988 entered into between the Borrower and the Bank for Loan No. 2940-IND (Accountancy Development Project).

(b) "Bank Indonesia" means the Borrower's central bank.

(c) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of twenty five million dollars ($25,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars, a special deposit account in Bank Indonesia, on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be July 31, 2000 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount

outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with the Strategy and an implementation action plan, satisfactory to the Bank, and appropriate administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) prepare and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan, of such scope and in such detail as the Bank shall reasonably request, for the future operation of the Project;

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account, for each fiscal year audited, in accordance with appropriate auditing standards by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of

expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, a situation shall have arisen which shall make it improbable that the Strategy, or a significant part thereof, will be carried out.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur.

ARTICLE VI

Termination

Section 6.01. The date sixty (60) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
c/o Director General of Budget
Jalan Lapangan Banteng Timur 2-4
P.O. Box 139
Jakarta 10710, Indonesia

Cable address:	Telex:
MINISTRY FINANCE Jakarta	DEPKEU-1A 44319 DJMLN-1A 45799

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:
INTBAFRAD Washington, D.C.	248423 (RCA), 82987 (FTCC), 64145 (WUI) or 197688 (TRT)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF INDONESIA

By /s/ Tjahjono
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Marianne Haug
Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Equipment:		100% of foreign expenditures;
(a) Data processing hardware	3,700,000	100% of local expenditures (ex-factory cost)
(b) Data processing software	1,100,000	and 65% of expenditures for other items procured locally
(2) Technical Assistance	12,600,000	100%
(3) Overseas Training	5,300,000	100%
(4) Unallocated	2,300,000	
TOTAL	25,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for individual consultants not exceeding $50,000 equivalent and for consultants' services with firms not exceeding $100,000 equivalent under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to implement the Strategy, inter alia, to: (a) modernize its accounting information system; and (b) enhance the credibility of financial information in the private and public sector through the development of accounting and auditing standards.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Modernization of the Borrower's Accounting Information System

(i) Development of an improved computerized accounting system for the Borrower's departments and agencies through, inter alia, provision of computer hardware and software, training and technical assistance.

(ii) Identification and adoption of appropriate information technology standards and development of data communication systems to facilitate the design and implementation of the Borrower's accounting information system, including feasibility studies, network design, pilot projects, computer software, training and technical assistance.

Part B: Private and Public Sector-related Accounting and Auditing Standards

Development and issuance of internationally accepted private sector accounting and auditing standards, and establishment of enforcement mechanisms for their utilization.

* * *

The Project is expected to be completed by January 31, 2000.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
May 15, 2000	480,000
November 15, 2000	495,000
May 15, 2001	515,000
November 15, 2001	535,000
May 15, 2002	550,000
November 15, 2002	570,000
May 15, 2003	590,000
November 15, 2003	615,000
May 15, 2004	635,000
November 15, 2004	655,000

May 15, 2005	680,000
November 15, 2005	705,000
May 15, 2006	730,000
November 15, 2006	755,000
May 15, 2007	785,000
November 15, 2007	810,000
May 15, 2008	840,000
November 15, 2008	870,000
May 15, 2009	900,000
November 15, 2009	930,000
May 15, 2010	965,000
November 15, 2010	1,000,000
May 15, 2011	1,035,000
November 15, 2011	1,070,000
May 15, 2012	1,110,000
November 15, 2012	1,150,000
May 15, 2013	1,190,000
November 15, 2013	1,230,000
May 15, 2014	1,275,000
November 15, 2014	1,330,000

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* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

Goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Indonesia may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to all contracts for equipment the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than $100,000 equivalent each, or (b) contracts for the employment of individuals estimated to cost less than $50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contracts value to $100,000 equivalent or above, or (e)

amendments to contracts for the employment of individual consultants raising the contract value to $50,000 equivalent or above.

SCHEDULE 5

Implementation Program

1. The Borrower shall maintain the PSSU within its Ministry of Finance, headed by a qualified officer and assigned with such functions, responsibilities, staffing and funds as shall be required to adequately coordinate and monitor the various activities under the Project.

2. The Borrower shall, in a manner and substance satisfactory to the Bank:

(a) by June 30, 1996, adopt and, thereafter, implement or cause to be implemented the detailed approach and workplan for professional accountant qualifying examinations;

(b) by July 31, 1996, complete the requirements documents for the Government Accounting System Second Release (GAS R.2.0);

(c) by May 31, 1997, adopt at least 15 accounting and 15 auditing standards;

(d) by September 30, 1997, complete the enrollment process of at least 18 candidates for the overseas degree training program;

(e) by October 31, 1997, adopt and, thereafter, enforce or cause to be enforced at least 30 new rules and 10 disclosure guidelines for the regulation of Capital Markets;

(f) by November 30, 1997, complete and, thereafter, implement or cause to be implemented a pilot data communications system;

(g) by November 30, 1997, complete the acceptance tests of GAS R.2.0; and

(h) by July 31, 1999, adopt at least 40 accounting and 16 auditing standards.

3. By November 30, 1997, the Borrower shall, in consultation with the Bank, carry out a mid-term review of Project implementation to assess the achievement and sustainability of the objectives of the Project and, thereafter, take all such corrective measures as may be required to achieve the objectives of the Project.

4. The Borrower shall: (a) cause its departments and agencies responsible for carrying out the Project or any part thereof to furnish to the PSSU monthly progress Project implementation reports; and (b) through the PSSU, furnish to the Bank semi-annual summary progress Project implementation reports of such scope and in such detail as the Bank shall reasonably request. For these purposes, the Borrower shall adopt and maintain systems and procedures satisfactory to the Bank for monitoring the various activities under the Project.

5. By October 31 of each year, commencing on October 31, 1994 and thereafter until the completion of the Project, the Borrower shall prepare and furnish to the Bank, for its review and comments, its proposed annual work program and budgetary allocation for carrying out the Project during the forthcoming Borrower's Fiscal Year, and, thereafter, taking into account the Bank's comments, implement such programs and budget allocations.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1, 2, and 3 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to $1,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories of the Project, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

Appendix 3: Samples of the ADB letters to the Government of Indonesia

ASIAN DEVELOPMENT BANK
Indonesia Resident Mission

Our Ref.: 002/SC/L/00
18 September, 2000

Honorable Ir. Prijadi Praptosuhardjo
Minister of Finance and Empowerment
of State-Owned Enterprises
Ministry of Finance
Jl. Lapangan Banteng Barat 3-4
Jakarta

Honorable Minister:

Loan 1618-INO: Financial Governance Reforms: Sector Development - Program Loan

Thank you for meeting Mr. Geert van der Linden, Director Programs (East) Dept., Mr. Vladimir Bohun, Director Infrastructure, Energy and Financial Sectors Dept. (East) and others including myself, of the ADB team on Tuesday, 12 September 2000. While our discussions were very useful, I am writing this letter to follow up on the implementation of these critical reforms under ADB's Financial Governance Reforms: Sector Development - Program Loan.

As you are aware, the Government needs to take several steps to meet pending conditions for release of the third tranche of the captioned program loan. These are actions to curb money laundering; enable life insurance companies to manage private pension fund assets; ensure that auditors are made liable for negligence in performing audits; and to make company directors liable for all board decisions and for presenting false information in annual reports.

ADB would appreciate an assessment urgently from the Government on the measures taken by Government and the likely dates within which such measures are likely to be completed. For your convenience of reply, a table of the pending reforms has been attached.

We look forward to hearing from you soon.

Yours sincerely,

Jan P.M. van Heeswijk
Director
Indonesia Resident Mission

Attach.:

Cc.: Directors PED/IED
Managers PE1/IEFI

SC/rj SC-L-02

Gedung BRI II, 7th Floor, Jl. Jend. Sudirman Kav. 44-46, Jakarta 10210, INDONESIA
Phone: (62-21) 251-2721 (Hunting), Fax: 251-2749, Telex: 65018 ADB IA
Postal Address: PO Box 99 JKSA, Jakarta, INDONESIA

03 01:45p Comm Center 4

ASIAN DEVELOPMENT BANK

MANILA, PHILIPPINES

FAX NO. (63-2) 632-2380 OR (63-2) 632-2381 OR (63-2) 632-2382 OR (63-2) 632-2383 CCITT GROUP 3 & 2 AUTO

(IF NOT RECEIVED CLEARLY, PLEASE CALL (63-2) 630-2094, TELEX 29066 ADB PH 42205 ADB PM or 63587 ADB PN)

FACSIMILE TRANSMISSION COVER FORM

To :	**Mr. Mirza Mochtar** **Director for Supervision of Accountant and Appraiser** **Ministry of Finance**	From :	Julie Rogers Senior Financial Sector Specialist email:jrogers@adb.org
Fax No. :	**(62-21) 3452670**	Approved by	Ayumi Konishi Director, SEGF
Country :	**Jakarta, Indonesia**	No. of pages :	1 **URGENT**
Date :	**28 August 2003**		

Subject: **Financial Governance and Social Security Reform Program - Second Tranche Release / Draft Public Accountants Law**

Dear Mr. Mochtar,

Thank you very much for your fax of 28 August 2003 regarding the draft Public Accountants Law and conditionality for Second Tranche Release under the Financial Governance and Social Security Reform Program.

We are very happy to know that submission of the draft Public Account Law to Parliament by June 2004 was included by Government in the Government's Exit Strategy (replacement of IMF Letter of Intent). The Exit Strategy alone, however, is not sufficient to meet conditionality for Second Tranche Release. The draft Public Accountants Law, containing the relevant provisions imposing liability on auditors, must be submitted to the State Secretary Office. This is an outstanding reform under the former Financial Governance Reforms Sector Development Program approved in 1998. So, you can appreciate that submission of the draft law is required, not only a plan indicating a future submission date.

We look forward to your urgent reply as to the planned date for submission of the draft law to the State Secretary Office.

Thank you.

Best regards,

Julie Rogers

Julie Rogers

cc: Darmin Nasution, DGFI (62-21) 3847434; Mulabasa Hutabarat, (62-21) 3849504
Jannes Hutaglalung (62-21) 3511186; Eddy, Purwanto, CMEA, (62-21) 3521850
Drs. Anshari Ritonga, DGBudget (62-21) 3457490
Edi Karsanto (62-21) 3812859; Nyomen Serutama (62-21) 3846402, DGBudget
Syahrial Loetan, Bappenas (62-21) 334203 (telefax); O'Brian Saragih; Teni Widuriyanti
Ms. Rita O'Sullivan, OGC, Mr. Said Zaidansyah, Edith Lavina, Thatha Hla, SEGF

Appendix 4: The IAI letter to the State Secretary Office

IKATAN AKUNTAN INDONESIA
KOMPARTEMEN AKUNTAN PUBLIK

The Indonesian Institute of Accountants
Public Accountants Compartment

No.854/IX/S/XIII/2004

Jakarta, 14 September 2004

Kepada Yth :
Bapak DR. Boediono
Menteri Keuangan Republik Indonesia
Jl. Lapangan Banteng Timur No.2
Jakarta 10710

Hal : **Permohonan Draft Rancangan Undang-Undang Akuntan Publik**

Dengan hormat,

Pertama-tama kami atas nama Ikatan Akuntan Indonesia – Kompartemen Akuntan Publik (IAI-KAP) sebagai wadah organisasi Akuntan Publik di Indonesia, menyampaikan rasa terima kasih yang sedalam-dalamnya dan juga penghargaan setinggi-tingginya kepada segenap jajaran Departemen Keuangan Republik Indonesia khususnya tim Panitia Antar Departemen yang telah menyisihkan waktu dan tenaganya guna merampungkan Draft Rancangan Undang-Undang Akuntan Publik (Draft RUU AP).

Seperti yang kita harapkan bersama, bahwa RUU ini dapat menjadi cikal bakal dari terwujudnya suatu regulasi yang komprehensif dan dapat memperkuat profesi Akuntan Publik di Indonesia yang pada gilirannya akan mendukung perekonomian yang sehat, efisien, transparan dan *accountable*. Sebagai sebuah regulasi yang akan berfungsi untuk mengatur praktik Akuntan Publik di Indonesia hendaklah regulasi tersebut dapat dipahami, diterima dan didukung oleh segenap pihak yang diatur dan yang terkait dalam regulasi tersebut, seperti akuntan publik, asosiasi akuntan, dan pihak pemakai jasa (*stakeholders*).

Agar kami selaku Akuntan Publik dan organisasi Akuntan Publik di Indonesia sebagai pihak yang diatur dalam RUU tersebut dapat memahami, menerima bahkan mendukung terwujudnya RUU tersebut hingga menjadi Undang-undang Akuntan Publik yang kredibel, sudah merupakan kewajaran jika kami mengetahui isi Draft RUU AP secara menyeluruh sebelum memasuki pembahasan di tingkat lanjutan, sehingga kami dapat memberikan masukan dan saran secara proporsional yang dapat memperkuat isi dari Draft RUU AP tersebut.

Sehubungan dengan hal tersebut diatas dan merujuk kepada surat kami terdahulu No.495/III/S/XIII/2004 tanggal 8 Maret 2004 (terlampir) khususnya butir (1) dan No.622/V/S/XIII/2004 tanggal 7 Mei 2004 (terlampir), kami bermaksud menyampaikan permohonan agar kami dapat diberikan Draft Rancangan Undang-Undang Akuntan Publik yang hingga tanggal surat ini dibuat belum pernah kami terima.

GRAHA AKUNTAN Jalan Sindanglaya No. 1, Menteng, Jakarta 10310, INDONESIA
Tel. 62-21 3190 4232, ext. 211, 7072 1651-53, 7279 6770, 918 0587, 724 8755 Fax. 62-21 725 5085, 724 5078
Homepage : http//www.akuntanpublik.org, E-mail : iaikap@akuntanpublik.org

IKATAN AKUNTAN INDONESIA
KOMPARTEMEN AKUNTAN PUBLIK

Demikian surat permohonan ini kami sampaikan. Meskipun kami menyadari kesibukan segenap jajaran Departemen Keuangan RI khususnya tim PAD yang sangat padat, namun kami sangat mengharapkan dapat memperoleh dokumen tersebut dalam waktu dekat.

Atas perhatian yang Bapak berikan kepada profesi Akuntan Publik, kami mengucapkan terima kasih.

Hormat kami,

IKATAN AKUNTAN INDONESIA
KOMPARTEMEN AKUNTAN PUBLIK

Tia Adityasih
Ketua

Dedy Muliadi
Sekretaris II

Tembusan Yth,
1. Menteri Kehakiman dan Hak Azazi Manusia Republik Indonesia;
2. Panitia Antar Departemen Penyusunan RUU Akuntan Publik;
3. Dewan Pengurus Nasional – Ikatan Akuntan Indonesia.

TA/ts-yl

Appendix 5: A sample of the IAI letter to the Finance Minister

IKATAN AKUNTAN INDONESIA
KOMPARTEMEN AKUNTAN PUBLIK

The Indonesian Institute of Accountants
Public Accountants Compartment

No.354/XI/S/XIII/2003

Jakarta, 10 November 2003

Kepada Yth :
Bapak DR. Boediono
Menteri Keuangan Republik Indonesia
Departemen Keuangan Republik Indonesia
Jl. Lapangan Banteng Timur No.2
Jakarta 10710

Hal : **Tanggapan atas Substansi Rancangan Undang-Undang Akuntan Publik**

Dengan hormat,

Sehubungan dengan pelaksanaan sosialisasi substansi RUU Akuntan Publik di beberapa kota yang dilakukan bulan Oktober 2003, dengan ini pertama-tama perkenankanlah kami atas nama Ikatan Akuntan Indonesia – Komparteman Akuntan Publik (IAI-KAP), sebagai wadah organisasi Akuntan Publik di Indonesia mengucapkan terima kasih atas inisiatif dan pemikiran pemerintah, dalam hal ini Departemen Keuangan sebagai pembina akuntan publik, yang telah melakukan penyusunan substansi RUU Akuntan Publik tersebut melalui pembentukan Panitia Antar Departemen (PAD). Dengan adanya Undang-Undang Akuntan Publik, tentunya kita semua berharap akan memperkuat profesi akuntan publik di Indonesia yang pada gilirannya akan mendukung perekonomian yang sehat, efisien, transparan dan *accountable*.

Setelah kami mengikuti sosialisasi tersebut dan berdasarkan masukan dari anggota IAI-KAP dalam beberapa pertemuan pembahasan substansi RUU Akuntan Publik, dapat kami sampaikan komentar dan tanggapan sebagai berikut:

1. ***Due Process* Substansi RUU Akuntan Publik**

Dalam era reformasi sekarang ini sudah sepatutnya kita menjunjung tinggi asas-asas demokrasi dan kedaulatan rakyat sebagaimana yang diamanatkan dalam Pembukaan Undang-Undang Dasar 1945, dimana pada alinea 4 menyatakan bahwa: *"... Negara Republik Indonesia yang berkedaulatan rakyat dengan berdasar kepada Ketuhanan Yang Maha Esa, Kemanusiaan yang adil dan beradab, Persatuan Indonesia, dan Kerakyatan yang dipimpin oleh hikmat kebijaksanaan dalam Permusyawaratan/Perwakilan, serta dengan mewujudkan suatu Keadilan sosial bagi seluruh rakyat Indonesia".*

Jl. Sisingamangaraja No. 59, Kebayoran Baru, Jakarta 12120
Telp. (62-21) 722-2989 (Hunting), 727-96770, 918-0587, Fax. (62-21) 725-5085
Homepage : http://www.akuntanpublik.org, E-mail : iaikap@akuntanpublik.org

Sejalan dengan pola dasar pemikiran diatas dan dengan asas-asas Pembentukan Peraturan-peraturan Negara yang Baik *(beginselen van behoorlijke regelgeving)*, dan untuk memenuhi aspek filosofis yang mengemuka pada era reformasi sekarang ini, maka aspek transparansi dan partisipasi publik merupakan landasan yang sangat penting untuk dilaksanakan dalam pembentukan suatu peraturan perundang-undangan. Landasan tersebut merupakan pula suatu wacana agar peraturan perundang-undangan yang akan dibentuk, (dalam hal ini RUU Akuntan Publik) dapat membawa pengaruh yang positif terhadap perkembangan profesi dan kondisi perekonomian yang kondusif, dan mendorong sektor privat untuk berkembang. Untuk memenuhi tujuan itu, maka pembentukan RUU Akuntan Publik seharusnya didukung pula oleh pihak yang akan diatur (akuntan publik) dan semua pihak yang terkait, yaitu asosiasi akuntan / Ikatan Akuntan Indonesia (IAI), pihak pemakai jasa atau *stakeholders*.

Seperti yang kita ketahui dalam proses penyusunan Substansi RUU Akuntan Publik, pihak asosiasi akuntan publik, dalam hal ini IAI atau IAI-KAP tidak pernah dilibatkan dalam proses tersebut. Bahwa IAI-KAP yang mewadahi akuntan publik sebagai bagian dari rakyat Indonesia yang terkena dampak langsung dari RUU Akuntan Publik tersebut sesuai dengan apa yang menjadi pengertian Kedaulatan Rakyat, seharusnya diikut-sertakan secara aktif dalam proses penyusunan draft RUU Akuntan Publik tersebut.

2. Essensi dari Substansi RUU Akuntan Publik

a. Regulator

Dari uraian penjelasan dalam pelaksanaan sosialisasi substansi RUU Akuntan Publik tampak dengan jelas bahwa di dalam RUU Akuntan Publik, Pemerintah sebagai Regulator akan mengambil sebagian besar peran dan fungsi asosiasi akuntan publik, yaitu antara lain hal-hal yang berhubungan dengan masalah perijinan, pembinaan/pengawasan, pemberian sanksi, sampai penyusunan standar, serta penyelenggaraan ujian dan pendidikan/pelatihan.

Keterlibatan Pemerintah yang terlalu besar dalam profesi tidak memberikan keleluasaan bagi asosiasi profesi untuk berkembang menjadi asosiasi yang mandiri juga berakibat pada ketidak-adilan terhadap rakyat Indonesia secara keseluruhan, karena pengambilalihan tersebut berdampak pada pembiayaaan pembinaan dan pengaturan asosiasi profesi dan pelaksanaan profesi ditanggung oleh rakyat Indonesia secara keseluruhan.

Padahal sekarang ini penyusunan standar profesi, pengawasan mutu profesi maupun sebagian besar pengawasan pemberian izin dan pengujian profesi telah dilaksanakan oleh asosiasi dan dengan biaya asosiasi secara mandiri. Hal tersebut telah berjalan selama ini sebagaimana mestinya.

b. Ketidak-seimbangan antara hak dan kewajiban AP & KAP

Dalam substansi RUU Akuntan Publik, tuntutan terhadap kewajiban Akuntan Publik (AP) dan Kantor Akuntan Publik (KAP) lebih diutamakan tanpa diimbangi dengan pemberian hak-hak yang setara khususnya dalam menjalankan profesi, hal tersebut akan mengakibatkan timbulnya kewajiban dan tanggung jawab yang tidak seimbang yang harus dipikul oleh AP & KAP.

c. Tumpang tindih antar UU dan peraturan yang berlaku terhadap AP & KAP

Selama ini, dalam berbagai peraturan perundang-undangan yang berlaku, AP & KAP telah menjadi suatu objek yang bahkan dapat dijatuhi suatu sanksi pidana maupun perdata, misalnya dalam UU Pasar Modal, dan Peraturan Bank Indonesia. Adanya berbagai peraturan perundang-undangan yang mengatur tentang AP & KAP akan menimbulkan adanya kekacauan dan ketidakpastian hukum apabila terjadi pelanggaran. Selain itu pengaturan yang berbeda-beda akan mengakibatkan pula kebingungan bagi para pelaku dan pelaksana, untuk menentukan peraturan perundang-undangan yang mana yang harus diberlakukan bagi AP & KAP.

d. Ketimpangan dalam pengaturan

Dari sosialisasi substansi RUU Akuntan Publik, tampak bahwa Pemerintah berencana untuk membuat UU yang ruang lingkupnya tidak mengatur secara keseluruhan, namun atas sebagian materi diatur secara rinci, sehingga tidak dapat diprediksi secara tepat bagaimana rumusan yang akan dimuat dalam tiap-tiap pasalnya. Apabila perumusan ke dalam pasal-pasal bersifat sangat kaku, maka hal ini kurang sesuai dengan perkembangan profesi yang cepat berubah, sedangkan UU diharapkan dapat berlaku untuk jangka waktu yang lama.

3. **Keterbatasan Waktu dan Biaya**

Di dalam sosialisasi substansi RUU Akuntan Publik dijelaskan bahwa draft RUU Akuntan Publik belum ada (sedang dalam proses), sehingga tidak dapat dilakukan pembahasan rinci dari rumusan pasal per pasal dalam draft RUU Akuntan Publik. Hal ini sangat penting karena apa yang tertera dalam substansi belum tentu dijabarkan secara jelas dan tepat dalam pasal-pasal RUU Akuntan Publik.

Di lain pihak kami mendengar rencana Pemerintah untuk menyerahkan draft RUU Akuntan Publik tersebut kepada DPR pada tahun 2003 atau awal tahun 2004 untuk dilakukan pembahasan. Mengingat bahwa sampai saat ini draft RUU Akuntan Publik belum ada, kami khawatir bahwa Pemerintah kurang memperhatikan isi dari draft RUU Akuntan Publik yang telah disusun dengan biaya yang harus ditanggung oleh rakyat Indonesia.

Inpres 5
Juni '04

4. **Perbandingan dengan UU Profesi lainnya**

Dalam pembentukan RUU Akuntan Publik, seharusnya pengaturan tentang hal-hal yang bersifat pengaturan kelembagaan, kewenangannya diserahkan kepada asosiasi yang bersangkutan yaitu IAI-KAP. Pengaturan yang bersifat kelembagaan yang bertujuan untuk mengatur anggotanya, merupakan pula peraturan yang bersifat intern *(interne regelingen)*, dapat menjadikan peraturan tersebut berlaku secara fleksibel, dan dapat mengikuti jalannya zaman yang sangat cepat berubah.

Salah satu contoh adalah ketentuan-ketentuan dalam UU Advokat yang banyak menyerahkan pengaturannya kepada asosiasi advokat itu sendiri. Padahal asosiasi akuntan publik lebih banyak memerlukan pengaturan intern karena sifat profesinya, seperti standar akuntansi yang selalu harus dimutakhirkan dan dibakukan karena selalu ada perubahan. Sebagai contoh akuntansi dan *auditing* (pemeriksaan) dalam perbankan, perbankan syariah, kode etik dan acuan-acuan pelaksana profesi lainnya (standar profesi) dibutuhkan pemutakhiran. Hal ini memerlukan pelaksana tenaga ahli yang handal dan berpengalaman yang hanya ada dalam asosiasi profesi akuntan publik.

5. Kesimpulan

1. Dari uraian tersebut di atas, kami berpendapat bahwa profesi akuntan publik membutuhkan undang-undang atau peraturan/regulasi yang dapat melindungi dan mendukung pelaksanaan tugas sebagai akuntan publik.

2. Agar supaya undang-undang Akuntan publik ini bisa berjalan dengan efektif, perlu dirumuskan secara tegas ketentuan-ketentuan yang mengatur pihak terkait lainnya, yang terlibat dalam penyusunan/penyajian laporan keuangan yang akan diaudit oleh Akuntan Publik; sebagai pihak yang bertangung jawab terhadap kewajaran penerapan prinsip akuntansi dalam laporan keuangan yaitu manajemen Perusahaan.

3. Dari hasil sosialisasi substansi RUU Akuntan Publik dapat disimpulkan bahwa, materi/isi yang digunakan dalam penyusunan substansi tidak dapat diandalkan sebagai materi untuk penyusunan RUU Akuntan Publik, karena antara lain:
   - Ruang lingkup pengaturan tidak memadai.
   - Substansi RUU Akuntan Publik tidak dapat menunjang/melindungi profesi, bahkan dapat melemahkan.
   - Belum melalui *due process* yang semestinya

6. Permintaan IAI-KAP atas nama Anggota

1. Agar pelaksanaan pembentukan undang-undang berjalan dengan efektif, kami mengajukan permintaan agar PAD melibatkan asosiasi profesi sebagai Tim di dalam proses pembuatan undang-undang tersebut. Hal ini diajukan oleh karena berdasarkan informasi pada saat sosialisasi substansi RUU Akuntan Publik , sampai saat ini draft RUU Akuntan Publik tersebut belum dibuat.

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2. Perlu dilakukan tinjauan substansi RUU Akuntan Publik secara menyeluruh dan melalui proses yang benar dan ilmiah sehingga hasil UU tersebut dapat berlaku untuk jangka waktu yang lebih lama, berbobot serta mempunyai daya dukung terhadap profesi dan kepentingan *stakeholders.*

3. Pengaturan terhadap profesi Akuntan Publik tidak harus dilakukan oleh Pemerintah semuanya, tetapi sebaiknya Pemerintah hanya mengatur hal-hal yang perlu/ signifikan, seperti perijinan. Hal-hal lain yang bersifat pengaturan kelembagaan sebaiknya diatur oleh asosiasi profesi.

   Undang-Undang ini seharusnya memberi ruang yang cukup dengan iklim yang sehat untuk mendukung perkembangan asosiasi akuntan publik ini dalam perannya di profesi, masyarakat dan international. Menjadi *self regulatory organization* yang independen, mandiri, dan dapat diteladani.

Kami berharap komentar dan tanggapan tersebut dapat menjadi masukan bagi Bapak, demi tercapainya tujuan kita bersama yaitu memberikan landasan hukum yang kuat bagi akuntan publik di dalam melaksanakan tugasnya dan menjaga kepentingan publik.

Demikian tanggapan ini kami sampaikan dan atas perhatian Bapak, kami ucapkan terima kasih.

Hormat kami,

IKATAN AKUNTAN INDONESIA
KOMPARTEMEN AKUNTAN PUBLIK

Tia Adityasih
Ketua

Ikah Moeslimah
Sekretaris I

Tembusan Yth :
1. Menteri Kehakiman dan Hak Azazi Manusia Republik Indonesia.
2. Panitia Antar Departemen Penyusunan RUU Akuntan Publik.
3. Dewan Pengurus Nasional Ikatan Akuntan Indonesia.

TA/I

Appendix 6: Suharto's family wealth

A6-1: The wealth of Soeharto's children

Name of Son / Daughter	Wealth*	Business corporations
Siti Hardiyanti Rukmana ("Tutut")	700	Citra Lamtoro Gung Group
Bambang Trihatmojo	3,000	Bimantara Citra
Hutomo Mandala Putra ("Tommy")	800	Humpuss Group
Sigit Harjoyudanto	800	Humpuss Group
Siti Hutami Endang Adiningsih ("Mamiek")	30	Manggala Krida Yudha
Siti Hediati Hariyadi ("Titiek")	75	Various

Adapted from Colmey and Liebhold, 1999. Note: * Wealth is US$ million as of 1998.

A6-2: Charities related to President Soeharto

Controller	Foundation names	Business activities (selections)
Soeharto	1. Yayasan Supersemar; 2. Yayasan Dharma Bhakti Sosial (Dharmais); 3. Yayasan Dana Abadi Karya Bakti (Dakab); 4. Yayasan Amal Bhakti Muslim Pancasila; 5. Yayasan Serangan Umum 1 Maret; 6. Yayasan Bantuan Beasiswa Jatim Piatu Tri Komando Rakyat, (Yayasan Trikora); 7. Yayasan Dwikora; 8. Yayasan Seroja; 9. Yayasan Nusantara Indah; 10. Yayasan Dharma Kusuma; 11. Yayasan Purna Bhakti Pertiwi; 12. Yayasan Dana Sejahtera Mandiri	Solely or jointly invest in: 1. Mass media (Gatra magazine) 2. Banking (Bank Duta; Bank Windu Kentjana; Bank Umum Nasional; Bank Bukopin; Bank Umum Tugu; Bank Muamalat Indonesia) 3. Manufaturing (PT Multi Nitroma Kimia; PT Indocement Tunggal Prakarsa; PT Nusantara Ampera Bakti; PT Wahana Wirawan Wisma Wirawan; PT Fendi Indah PT Kabelindo Murni; PT Kalhold Utama; PT Kertas Kraft Aceh; PT Kiani Lestari; PT Kiani Murni; PT Sagatrade Murni) 4. Agriculture & food supply (PT Teh Nusamba; PT Gunung Madu Plantations; PT Gula Putih Mataram; PT Werkudara Sakti) 5. Civil aviation (Sempati Airlines, Mandala Airlines) 6. Foresty and timber: 7. Some of the above firms are holding companies which have investment in mining (including Freeeport), insurance, automotive, and hotel industry
Tien Soeharto (wife)	13. Yayasan Harapan Kita; 14. Yayasan Kartika Chandra; 15. Yayasan Kartika Djaja; 16. Yayasan Dana Gotong Royong Kemanusiaan	Have shares in companies such as PT Bogasari Flour Mills; PT Bank Windu Kencana; PT Kalhold Utama; PT Fatex Tory; PT Gula Putih Mataram; PT Gunung Madu Plantation; PT Hanurata; PT Harapan Insani; PT Kartika Chandra;

Controller	Foundation names	Business activities (selections)
		PT Kartika Tama; PT Marga Bima Sakti; PT Rimba Segara Lines; PT Santi Murni Plywood; RS Harapan Kita. The biggest is PT Bogasari mills, a flour mill which became a conglomerate in the instant food industry. The company was founded by Liem Sioe Liong and Sudwikatmono (Soeharto's nephew) to monopolize the trading of wheat originating from the US food aid programme under Public Law 480 in 1971.
Soeharto's Trusted Persons	17. Toyota Astra Foundation, 18. Yayasan Astra Dharma Bhakti, 19. Yayasan Dana Bantuan Astra, 20. Yayasan Dharma Satya Nusantara 21. Yayasan Abdi Bangsa, 22. Yayasan Amal Abadi Beasiswa Orangtua Bimbing Terpadu (ORBIT)	
Sons/ daughters and their husbands/ wives	23. Yayasan Tiara Indonesia, 24. Yayasan Dharma Setia, 25. Yayasan Bhakti Nusantara Indah, alias Yayasan Tiara Putra, 26. Yayasan Bimantara 27. Yayasan Bhakti Putra Bangsa; 28. Yayasan IMI (Ikatan Motoris Indonesia) Lampung; 29. Yayasan Badan Intelejen ABRI (BIA), 30. Yayasan Veteran Integrasi Timor Timur; 31. Yayasan Hati, 32. Yayasan Taman Buah Mekarsari (TMB) 33. Yayasan Bunga Nusantara	Owner of PT Abdi Bangsa, publisher of *Republika* national newspaper and *Ummat* magazine
In laws and their families	34. Yayasan Tri Guna Bhakti, 35. Yayasan Pembangunan Jawa Barat, 36. Yayasan 17 Agustus 1945, 37. Yayasan Pendidikan Triguna; 38. Yayasan Balai Indah	Yayasan Balai Indah co-ordinates trade and export activities in some Asian & European countries. This business is conducted with the help of some conglomerate groups such as Texmaco Bakrie Group, and Nugra Santana.
Distant relatives	39. Yayasan Mangadeg, operated by distant relatives of Tien Soeharto in Solo; 40. Yayasan Kemusuk Somenggalan, operated by	Mangadeg was set up to handle royal cemetery but has stakes in various business such as 1. PT Gunung Ngadeg Jaya which owns stakes in PT Semen Nusantara

Controller	Foundation names	Business activities (selections)
	relatives of Soeharto in Kemusuk Yogyakarta.	cement factory; Gajah Tunggal cable factory, PT Kabelmetal Indonesia, 2. 3 joint venture companies with Korean Miwon groups; 3. PT Pasopati, operated by Bob Hasan, owns shares in PT Karana Lines dan PT Garsa Line (timber transport companies) 4. Hotels (Sahid, Kartika Chandra, 5. Forestry consession (PT Sahid Timber). 6. Livestock Farm (PT Rejo Sari Bumi) which also has shares in PT Gunung Madu Plantations and PT Gula Putih Mataram (sugar refinery), Yayasan Kemusuk Somenggalan has forestry concession in Suriname, Brazil and Guyana through MUSA (Mitra Usaha Sejati Abadi) Group.

Adapted from Aditjondro (2004). Note: *Yayasan* is Indonesian for foundation. PT, short for *Perseroan Terbatas*, is Indonesian for limited company (Ltd.)

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