

Bookkeeping to Professional Accounting: A University Power in Indonesia

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Abstract

The paper is historical. It explores the development of accounting from the mode of 'bookkeeping' knowledge to a 'new' disciplinary power of accounting in Indonesia. It argues that after the independence of the Republic of Indonesia, 17 August 1945, a radical change of an accounting education discipline from the Dutch political administration to the indigenous Indonesian management was the main issue to a 'new' university system. The university became a 'powerful' system to transform bookkeeping tradition to accounting profession.

Introduction

During the last two decades, there has been a growing awareness by accounting researchers of the need to place the development of accounting in its social context (eg., Burchell, et al [1980, 1985], Cooper and Sherer [1984], Hopwood [1978, 1987], Hoskin and Macve [1986, 1988], Loft [1986], Miller and O'Leary [1987], Arrington and Francis [1989] and Hopper and Macintosh [1992], Sukoharsono and Gaffikin [1993], Sukoharsono 1995, 1996). This paper shares the growing concern of these studies that the roles of accounting and its effects are not predetermined in a narrow way as technical and calculative thinkings, but assume a variety of contingent forms within specific settings. Sukoharsono [1995, 1996] stated that when approaching accounting subject matters intellectually and analytically, it should be understood that accounting is not simply a set of neutral techniques but is part of broader social, political and economic processes.

The paper is historical. It seeks to explore and understanding of the relationship between accounting profession and Indonesian economy in the range of social and political contexts. The paper focuses on the case of Indonesian history after the Independence of the Republic of Indonesia, 17 August 1945, to the early years of Soeharto's new order. It argues that after 1945 radical change from the Dutch social

and political administration to the indigenous Indonesian management, accounting policies were developed which supported its effect on the development of Indonesian accounting profession and the birth of accounting discipline in a university education system.

Dutch Accounting Transition

Before 1945, Indonesia has been colonised by the Portuguese, the British, the Japanese and the Dutch, all of whom were attracted by the lucrative spice trade and natural resources. The Dutch stayed the longest, for about three and half centuries, and in order to maintain their dominance, the Indonesians were starved of political and economic power. They were also exploited for their cheap labour. All important political and executive positions were held by the Dutch, where as the Indonesians were employed in insignificant positions. The indigenous Indonesians' economic activities were confined to small businesses, usually family-owned or partnerships. These policies had grave political and economic consequences, because after independence in 1945, there was in adequate economic infrastructure and insufficient trained personnel to manage the economy and the country.

The independence led to the radical change of economic development. Foreign enterprises were gradually nationalised. Indigenous Indonesians were also encouraged to do businesses with its purposes to the welfare of the community. By the early 1960s, all foreign enterprises were under government control. Soekarno, the first President, saw Indonesia indulging in a policy of economic isolation and it also marked the beginning of the prominence of state enterprises.

It was not easy by Soekarno, the President, to manage the country in transition from the Dutch long-colonised management. For the first 20 years after its independence, Indonesia was marked by political turmoil, instability and economic decline. Instability in government management was a dominant scene in the early days of the independence. Soekarno had changed six times of different cabinets to the country to find a good combination serving the community up to 1955. The country was torn by secessionist rebellions and the economy deteriorated.

It was only after Soeharto came to power in March 1966 that a new order began to a thorough reorganisation of political and economic structures. A conscious effort was also made by the new order to encourage foreign investors to do businesses in Indonesia. Indonesia has, therefore, drawn increasingly close to the international atmosphere in business development and relations. However, for the fear of a recurrence of economic colonisation by foreigners, foreign ownership was restricted and their activities closely scrutinised. All business areas were not open to the foreigners, they limited only for few business sectors, such as oil mining, coal mining and other industries with more in capital intensive.

Accounting establishment and practices, during the early years of the independence were very weak. With one of the lowest per capita incomes in the world, the country has difficulty in starting where to begin its development. Wealth is unevenly distributed and the majority of the population live in relative poverty. Private capital investment is weak and the principal growth comes from the public sector. With this condition, of course, corporate reporting is not widely practised and is applicable to very few corporations, mainly those listed on the stock exchange and foreign enterprises. It is inhibited by an out-of-date Dutch commercial code adopted in 1848 and the government ownership of major Indonesian corporations.

The current Indonesian Commercial Code is based on the 1848 Commercial Code of the Netherlands with some minor amendments. Under this system, law is codified, and company legislation prescribes rules in detail for accounting and financial reporting. Unfortunately, many of the amendments that have been made in the Netherlands since 1848 were not incorporated in the Commercial Code in Indonesia. As a result, Indonesia, after its independence, is operating an out-of-date commercial code adopted in the nineteenth century that is incompatible with today development in business environment. It is interesting to observe that the Commercial Code was originally applicable to the Dutch and foreigners who invested their money during the Dutch management. Business activities by indigenous Indonesians were not obliged to the Commercial Code. Their businesses were conducted under the 'Adat Law' or customary law, where corporate reporting is unimportant. The Adat law played an important role in local business environment.

The Republic in Transition and Profession

The accounting profession is at a critical juncture in its development with many of its longstanding tradition being challenged by history. Larson (1977), one of the well known scholars on the development of modern professions, argued that profession has created an emerging history of mass-market society. A different cultural and political history has a different profession development. Indonesia is one of the example of the difference.

After the independence in 1945, accounting profession in Indonesia was not well developed. There was almost no accounting regulation. The birth of the modern accounting profession in Indonesia was ushered in by the passage of Law No. 34 of 1954 which concerns the right to public practices and the use of the accreditation of an accounting degree. The law is aimed to protect the public from professional accounting practices performed by those who do not have the right to provide such services. The law is also used to the designation of 'Akuntan' (Accountant) to persons holding a 'doktorandus' (Drs) degree from a recognised tertiary academic institution. The Drs degree, which was equivalent to American masters degree, was obtained by completing a university 'sarjana' course. It was offered for the first by the University of Indonesia in 1952.

This Accounting Law was very important in that it paved the way for indigenous Indonesians to inspire to a professional qualification without the need to obtain formal education from overseas, as had been the case during the management of the Dutch colonial power. The Law is also as a basis of establishing a 'moral' accountability of the profession's members and society. For public, this Law is a public relation document designed to facilitate the self-interest of the profession. The objectives of the Accounting Law, as stated in the decree, are to express the profession's recognition of its responsibilities to the public, to clients, and to colleagues, to guides members in the performance of their professional responsibilities, and to express the basic tenets of ethical and professional conduct. The objectives position the members apart as a 'profession' with responsibilities to the public as well as clients and each other. The objectives also involve guidance for the performance of members, implying that the Law is a document to the professional is able to turn for resolution of issues in practice.

In the transition period after the independence, the Accounting Law provides a moral foundation for the profession and a basis for self-policing in accordance with a public service ideal. However, because of the typical transition situation, the Law was an unpopular decree where the population of business enterprises was still limited in number. Not all were used by the enterprises to report the detail financial activities. According to Briston's (1990) report, within the transition, most (if it is not to say all) companies were not compulsory to provide financial reports. If it was any, the financial reports were limited for a special use of the foreign enterprises and the state-own companies. As Briston (1990) also reported about the state own companies that the state of government accounting is as poor as that of corporate reporting. The government financial statements are normally late by at least three years. The law affecting government accounting is still based on the 1864 Dutch accountability legislation with few amendments.

The Political Significance of Accounting

Even though the birth of modern accounting in Indonesia can be traced back to the Dutch colonial era (ei., Sukoharsono, 1993), the idea of self-accounting regulation for indigenous Indonesians was just the issue of the decree of Accounting Law No. 34 in 1954. It is now commonplace to acknowledge in our modern era that State intervention and regulation is the major effect on the development of a profession. The effects lead to the subject opinion and claim that the State intervention by declaring a regulation could justify the social need and mass-knowledge production. With the Accounting Law 34 in 1954, indigenous Indonesians could begin their efforts on the development of accounting. It also brought a powerful force to bear the position of accounting knowledge in the society.

Based on the 1945 constitution of the Republic of Indonesia, Law has a high decree in the government regulation. The Law is a general and formal regulation on a certain aspect or area established by the government (the President) with the approval of the House of Representatives. Of course, before the 1945 independence and in particular before the 1954 Accounting Law, all regulations regarding economic and accounting matters in Indonesia basically refer to Commercial Code of 1847 and Civil Code of 1847 with little changes from its Dutch original. As pointed by Yunus (1992: 320).

Although Indonesian Company Law is based on the Dutch System, it has not kept with subsequent changes made in the Dutch Commercial Code. ... many amendments, supplements and changes made in the Netherlands, particularly with respect to the limited liability company from 1928 onwards, have never been incorporated into the Indonesian Commercial Code.

Consequently, before the 1954 Accounting Law, the Dutch 'limited' Commercial Code has become common practice in Indonesia. With this limitation, however, the Code provided a 'detail' guidance for bookkeeping requirements for private (mostly for foreign companies) and public enterprises concerning the preparation of balance sheets, profit and loss statements, and other analyses of source of application of funds (Enthoven, 1975). It is important to recognise that even though the Code has a limitation, it provided spirit to power the discipline of accounting in the community.

Another aspect of political accounting before the 1954 Accounting Law is the application of the 1925 Dutch Corporate Income Tax. This regulation strengthened the power of accounting discipline to be practised in the society. It also forced that managing financial bookkeeping for business enterprises was very important and could provide a better report on tax calculation. Although, the 1925 Dutch Corporate Income Tax have existed for some periods of times, it is not yet clear whether this legislation was successfully influencing the individuals to pay their income for government tax. An indication for the implementation of the Tax legislation was that the only medium to big enterprises paid their income taxes. Individuals and small companies, in most cases, were free of paying their taxes.

A rapid changing on the tax system in Indonesia was introduced in 1983, when the 1925 Dutch Corporate Income Tax was replaced by the *General Tax Provisions and Procedures Law No. 6, the Income Tax Law No. 7, and the Value-added Tax Law No. 8*. The laws are administered by the Director General of Taxes, Ministry of Finance, except for taxation of the oil and gas industry which is primarily administered by the State Audit Authority (BPKP). The laws specify certain guidelines which affect Indonesian corporations' choice of accounting policies. The laws were announced by the need to finance extensive non-revenue yielding services

(education, health, etc) and infra-structural projects (power, transportation facilities, etc), which generally the government is in a position to undertake.

Emerging Professional Accounting Body

The birth of the first Accounting Law of 1954 was not automatically for indigenous Indonesians building an accounting body. Before the 1954 Accounting Law and the 1945 independence, there was no single professional accounting body existed. During the Dutch colonial periods, Indonesia had never got any experience in building an accounting profession. Accountants who worked and served their professional skills during the Dutch periods in Indonesia never thought setting a professional body in Indonesia. They, perhaps, joined becoming a member of a professional accounting body in their own original nationality (in the Netherlands for the Dutch and United Kingdom for Englishmen). A history has told that the first accountants settled in Indonesian archipelago were the Dutch (see Sukoharsono, 1995 and Sapi'ie, 1980). They worked for the Dutch companies in Indonesia.

Throughout the twentieth century, accountants in the Netherlands have sought to represent themselves as a profession. Accounting was to be regarded as an occupation which involved professional judgement and technical skills. As reported by Abdoelkadir (1982), the Dutch government in Indonesia was concerned to have a state audit agency to control the internal financial mechanism of the government activities. As the fact, in 1907, van Schagen, the first government accountant, was sent to Indonesia from the Netherlands to open the State Audit Agency. It is not clear, however, to say that van Schagen was unsuccessful opening the Agency in that year. The Agency was opened to operate by 1915, after 9 years in waiting. It was very complex situation where pressure arguments to open the State Audit Agency was urgent. The year of 1912 was the influential year when the Amsterdam Stock Exchange opened a branch office in Batavia, (now Jakarta) Indonesia. This situation affected the Dutch government policy to immediate opening the State Audit Agency.

The subsequent development of the 1954 Accounting Law was the emergence of the first professional accounting body, *Ikatan Akuntan Indonesia* (The Indonesian Institute of Accountants) in 1957. The first chairman of the Institute was Professor Soemardjo Tjitrosidojo, Professor of Accounting, University of Indonesia. The number of membership of the first Institute establishment was only 9 members (Tjitrosidojo, 1982). The number was very small comparing to the total of the companies, even more to the whole population of Indonesia. The objectives of establishing the Institute are

1. To protect the status of the Indonesian accounting profession
2. To promote the accounting profession to the public to support the national development of the Republic of Indonesia
3. To develop accounting science

4. To safeguard a body of Indonesian accountants and to develop the skill and responsibility of the member of IAI [the Indonesian Institute of Accountants]
5. To support and create positive actions regarding National Development of Indonesia

Tjitrosidojo (1982) reported that in the early years of its establishment, the Institute faced several problems to be professional. The problems were (1) lack of qualified accountants with regards to the 1954 Accounting Law, (2) lack of a standardisation of foreign accounting degree compared to Indonesian accounting degree to be called as an accountant, (3) lack of number of people having a qualification of accounting skills, and (4) limited formal accounting education in universities. Tjitrosidojo, the former first president of the Institute had a difficult time to manage them. During his time as the President, there were many accounting practitioners operating under different names to accounting office. The names to be equivalent to the accounting office were *administrative office*, *accounting office*, *public accounting office*, and *tax consultant office*. Some run by qualified accounting skills, others were headed by unqualified accounting skills or even non-accountants.

The early development of the Institute was very slow. From 1957 to 1959, only thirteen registered accountants in Indonesia (Yunus, 1992). This number was very unfortunate compared to the growing businesses after the independence of Indonesia. Of course, the condition needed to be solved immediately. However, because of the political situation which was unstable, the development of people holding a registered accounting degree was still limited. Up to 1965, the number of registered accountants was 232. Again, the number was very small in promoting the professionalisation of accounting. This led to the lack of recognition from businesses, government and academic community.

A dramatic change for Indonesian accounting profession was made when the economic and political situation of the Republic of Indonesia was under the President of Soeharto in 1966. The liberalisation of economic environment for both domestic and foreign companies led to an increased demand for services of professional accountants. The services, such as managing financial records, preparing financial reports, budgeting, taxation, feasibility studies, auditing, and various type of management services, were important in the contribution of liberalisation of Indonesian economy. An American influence was very strong in the Soeharto era. American investors and joint venture in businesses between Indonesians and American increased significantly. In 1967, one year after Soeharto took the power, the first partnership between a local and international firm was established. Santoso Harsokusumo accounting firm joined with an American accounting firm, Arthur Young, under Indonesian Accounting Law. The subsequent year the Philippine firm, SyCip, Gorres and Velayo (SGV) established a partnership with Utomo, a local accounting firm.

In 1973, a very important event had been made by the Institute for the first time to adopt professional accounting standards through a national congress in Jakarta. The congress made a decision to set an Indonesian Accounting Principles, or similar to GAAP of Indonesia and Generally Accepted Auditing Standards, and Code of Professional Ethics of Indonesian Accountants (Yunus, 1992). As Yunus reported, in the year of 1973, three committees were appointed to manage the Congress decision: (1) Accounting Principles Committee, (2) Auditing Standards Committee, and (3) Code of Ethics Committee. Abdoelkadir (1982) pointed out that the appointment of the three committees was not free of American influences. Most of Accounting principles, Auditing standards and Code of Ethics were derived from a translation of US accounting regulations.

The American Influence

In the early years of the 1945 independence, the Dutch accounting practices were very dominant in Indonesia. Since the Soeharto, the Second President, took the power, the direction of political and economic was changed. Soeharto's policies preferred to look at America and other Western countries as 'mirrors' in the development of the Republic of Indonesia. Foreign-operated enterprises, e.g., banks, insurance companies, and manufactures, then, began to run their businesses in Indonesia. As Enthoven (1973) observed, since the end of World War II, US concepts on accounting have dominated in many developing countries, such as in Latin America, Asia and Africa. Enthoven (1973) argued that countries which have been exposed to various foreign accounting system over the years tend to be reluctant to build their own systems, or to accept ideas and fundamentals that are conducive to such systems. Indonesia is one of the cases which the history of the Dutch colonial power has made a difficulty to Indonesia setting their own model of accounting. Subsequent developments after the Dutch occupation, US came with 'huge' promising investment and modernisation made Indonesia shone.

From 1951 onward, US began to give loans and grants to Indonesia for developing infrastructure including for updating and upgrading accounting education in Indonesia. With these loans and grants, the US influence cannot be ignored. The influence of the US accounting concepts on Indonesian universities is one of the processes to be 'westernism'. A university link became the target in the process of its influence. Hadibroto (1962) observed that there was a critical start to be relying on 'western' which was through university. University became an influenced agent to be 'US'. The University of Indonesia and of Gadjah Mada were the first formal education institutions influencing by US. The University of Indonesia developed a joint project with the university of California at Berkeley, whereas the Gadjah Mada University in Yogyakarta was with University of Wisconsin (Hadibroto, 1962).

Perhaps, a very monumental suggestion agreeing to the influence of US on Indonesian accounting was said by Hadibroto in his dissertation of 1962 entitled *A Comparative Study of American and Dutch Accountancy and Their Impact on the Profession in Indonesia*. He suggested that the accounting profession in Indonesia should change its orientation to the American system (Hadibroto, 1962). Even though some of his findings and suggestions are open to question, the process to be influenced by US on accounting education, professional accounting practices and some government regulations on accounting, auditing and taxation could not be stopped.

Hadibroto (1962) is not alone suggesting the change of Dutch accounting influence to US system. Briston (1978) is one of among other scholars in giving a similar opinion to Hadibroto. Briston pointed out that US influences cannot be ignored by developing countries, such as Indonesia. With US system, Indonesia could have a better position in the direction to be multinational, international in accounting firms, and general economic policies (Briston, 1978). American textbooks were also factors affecting developing countries to learn more about modern accounting system and accounting profession. As a fundamental aspect of economic development, accounting cannot be separated from the influence of the environments which is susceptible to rapid change in developing countries, such as Indonesia. To develop an accounting profession with meeting to the need of the country within a changing environment is not easy matter, especially in view of their lack of accounting expertise in the country. For this reason, it is not a big deal for Indonesia importing an accounting model from developed countries, especially US accounting system, with different historical background, philosophy, and other social environments.

With respect to the US accounting influence, the golden ages of the Dutch accounting domination were ended. Since the establishment of the New Order under Soeharto's power, Indonesia's foreign policy underwent a substantial transformation. Relation to US in building a new liberal economy and political openness was strengthened. As Hil pointed out, at the first years of a new era of Soeharto, a political economy has been directed to US concern. A number of US accounting experts including US accountants were invited to become government consultants. The process of large-scale of foreign aid and investment was become an essential policy to be a first priority (EIU, 1988).

Accounting Profession and Academia

The accounting profession and accounting academies in universities have a symbolic relationship. Since the 1945 independence of Indonesia, accounting profession and academies went to side by side. The accounting profession needs a steady stream of new graduates with high qualification to meet its staffing needs. The accounting academies of the universities need steady demand for graduates for their continued existence. Both have a mutual relationship that cannot be separated. The

accounting profession gives its stamp of approval in the form of accreditation of accounting graduates. The accounting academies are aware of the needs of the profession and do their best to satisfy the market and society. As said by White (1991), accounting academies have to continually improve their quality for public satisfaction. Without this awareness, accounting will lose its identity and integrity.

Historically, accounting academies began when the system of bookkeeping was taught at the first time in Indonesian High Schools and Special Schools. As Abdoelkadir (1982) reported, the *Handelschool* or the *Middelbare Handelschool* (Dutch schools specialising in trade and commerce) were the Dutch schools where bookkeeping was included in the curriculum in the years after the First World War. The schools, of course, limited Indonesians to study in it, except for those who had a high social class, such as the children of the head of a district or the children of a wealthy businessman (Abdoelkadir, 1982:29). Additionally Yunus (1992) also indicated that private teachers in bookkeeping were given by Dutchmen who worked for the Tax Office, the Audit Office, or the Treasure. The lectures were given after hours in Dutch and using Dutch bookkeeping textbooks. For final exams and certificates, they had their own programs (see, Yunus, 1992:272).

'Bookkeeping' to Accounting

Semarang, Central Java, was the first city in Indonesia introducing 'modern' bookkeeping. In the city, the *Bond van Vereniging voor Handel Onderwijs* (Trade Teacher Association) was established to regulate the training of bookkeepers outside formal school on 20 March 1925. The study of Sapi' ie (1980) provided a good understanding on how the first *bookkeeping* taught in Indonesia. The purpose of *bookkeeping* during the Dutch colonial era had been a portrayal of possible profits by means of comparing financial statement balances at the beginning and end of transactions than existed previously. After the 1945 independence of Indonesia, accounting has still attached prime value of this concept, but the approach has been changed. Profit calculation is no longer a simple comparison of financial values at the beginning and end of a transaction or series of transactions, or based on the price obtained and the price paid for a commodity; it relates to a complex set of allocations and valuations pertaining to the operational activities of the entity or its aggregates.

It was actually the 1954 Accounting Law - with its complex phenomena - which brought about the move towards the development of accounting, which constitutes the basis of Indonesian accounting development. Chatfield (1974) pointed out that the emergence of extensive industrial operations cannot be said as an initiator of accounting development. Similar to Chatfield's argument, the extensive industrial development in Indonesia was only one of other supporting aspects to accounting development. There was a need, for example, to keep records, and the difficult problem of valuing durable means of production arose, while the requirement came up for professionals to audit the financial statements. As funds for investment became

larger and the need to protect creditors and shareholders became widespread, they gave support to the development of a professional body.

The transformation of bookkeeping into accounting was also largely influenced by the enterprise and the enterprise structure. The enterprise, with its outside interests and the clear distinction between ownership (financing) and management required, largely for distribution purposes, correctly managed split between capital and income gradually had to be developed. The use of machines and the importance of other fixed assets within manufacturing enterprises during the large scale of investment in Indonesia led to the significant accounting development. Depreciation accounting became a vital component, due to the increasing importance of durable assets of the entity. Up to that time depreciation was treated in connection with the variation in holding fixed assets (particularly manufacturing machines).

Again with the 1954 Accounting Law, accounting became an influential discipline to control the activities of enterprises. Hadibroto (1962) said that the spirit of accounting discipline in Indonesia was the 1954 Accounting Law. They could provide a way of distant control to the life of enterprises through auditing and calculating the distribution of their income (cf., Hadibroto, 1987 and 1990). It cannot be denied that accounting could give the rise of a proper distinction between capital and income, and the related problem of valuation. With this distinction, accounting, then, provides a confidence to the absentee ownership within enterprises. A control at distance could be implemented as a new mechanism of the complex phenomena within an enterprise to be managed. Thus, while enterprises, with their absentee ownership, stimulated the growth of business, they create many problems of recording and of preparing financial statements, and thus again challenged accounting and stimulated its growth and development.

Auditing as a Key to the profession

Auditing, meaning the examination of financial records with the aim of passing a judgement on the figure presented, became a profession and a separate discipline in Indonesia only after the 1954 Accounting Law. It is just a 'new' profession if it is compared to England or Australia. In England, the birth of auditing can be traced back to the middle of the nineteenth century (see, Brown, 1968), whereas in Australia it was appeared in 1886 when the earliest accounting profession was founded in Adelaide (Graham, 1978). Originally, the auditing practice in Indonesia is closely related to the Dutch accounting; however, because of the absence of an accounting association, the development of the practice was very slow.

Tjitrosidojo, the former First President of IAI (1982) commented that auditing was designed as a check upon the honesty of persons charged with financial responsibilities, both in the private and governmental institutions. He also mentioned that auditing played an important role in verifying fiscal responsibilities

(Cf., Tjitrosidojo, 1982). In later development, auditing, gradually, started to emphasise the scrutiny of records and the verification of the underlying statements or evidence.

Auditing is generally associated with the accounting profession which provides the examination of financial records as required for legislative, statutory and other purposes. However, its objective in the development process should go beyond the verification of financial data and cover the whole evaluation of the information system. The evaluation should encompass past, present and future economic activities related an enterprise's phenomena. Auditing should also assess whether the envisaged economic development objectives and policies have been attained, and make recommendations for improvements. This will require that auditor understands financial and economic development matters, and is able to pass judgement on their accounting information aspects. As indicated by Hadibroto (1962), auditing in the public sectors, auditors were required to have a familiarity with administrative procedures; for social aspects, they had to comprehend the various inputs and outputs and its relationships; and in regard to economic planning a familiarity with planning techniques is desirable. In the case of all these areas, the auditors should be able to give an opinion and set forth suggested changes (Hadibroto, 1962).

The development of auditing, then followed by the growth of Indonesian accounting profession, was a new phenomena under the influence of the US. A significant US influence in the early years of Soeharto power was the release of the Co-operative Law No 12/1967 and the Government Regulation No 19/1969. The Co-operative Law No 12/1967 regulates co-operative organisations and private owned entities, whereas Government Regulation No 19/1969 concerns with government owned companies. The former regulates an adoption of several types of companies that could be owned by private which are basic partnership, open partnership, limited partnerships and limited liability company. The later is dealing with the distinguished forms of government companies which are Persero (state owned limited liability company), Perum (public utility enterprise), and Perjan (government agency). With these regulations, an adoption of control mechanism for the various types of companies was possible through auditing procedures. A foreign counterpart through joint venture agreement and multinational corporations became a fashion to be built. This trend has also been strengthened by the policy of economic liberalisation through the decree of 1967 concerning the Foreign Investment Law.

The Indonesian accounting profession gained a momentum to be involved as an active discipline in the development of Indonesian economy was the response of the government through the release of the decrees related to the power of accounting in 1960s. Accountants were called to have a major responsibility providing a professional skill in managing and evaluating enterprises' position of its wealth and income. Briston et al (1990) commented that at the business enterprise level, well-audited financial statements by professional accountants could help to gain the

confidence of investors and creditors. Additionally, audits are able to restrict unproductive savings and investment practices, and enhance the efficient use of capital. It also has a clarifying and confidence-building impact, they discourage misappropriation and misallocation of funds, enhance efficient administration, and stimulate the collection and allocation of funds. They tend to have a beneficial effect on a country's flow of productive capital from internal and external sources. Although in general the development of auditing in Indonesia was associated with private enterprise activities with the influence of US companies, it equally applied to public sectors under government control. In the public sectors, it referred to the statutory obligation and control function to provide information about financial administration of government operations.

Educational Elite

The development of Indonesian accounting profession is cannot be separated to accounting education. Accounting education has its own value stressing on developing communication, interpersonal and intellectual skills, and on broadening the knowledge base. These values are fairly well recognised by the society as formally regulated by the government under the decree of Tinbergen Report (United Nations, 1970) states

Education - encompassing as it does not only the imparting of knowledge in the ordinary sense but the development of a whole new scientific and cultural outlook - is a powerful instrument for economic growth. It is also inevitable that the pressure to secure education will continue to mount in developing countries, for it is through education that people seek to improve their lot.

One of the aims of education is to provide students for a profession. Since the 1945 independence, the Republic of Indonesia relies on formal academic study in colleges and universities than apprenticeship, to prepare future members of the accounting profession. The first formal system of education was introduced by the Dutch in 1925 of the Trade Teachers Association (Bond Van Vereniging Voor Handel Onderwijs), which conducted bookkeeping courses classified as Bond A and Bond B. The courses were equivalent to basic and intermediate accounting courses. The Bond A certificate holders were trained to work in small trading companies, and the Bond B tended to work in large trading companies having many branches. For the final evaluation, the course conducted a final examination and issued its own certificate (see. Abdoelkadir, 1982).

A University Domination

The traditional mode of preparing for business occupation in the early years after the 1945 independence was on-the-job training or apprenticeship. However, the development of the economy and politic after the left of the Dutch regime required an

increasingly higher level of preparation. A mode of a formal education in university was adopted. The University of Indonesia was the first tertiary institution to offer accounting courses under the Faculty of Economics in 1952. A more comprehensive and systematic accounting program was taught to meet the standard requirement by the business community. As pointed out by Tjitrosidojo (1982), the accounting education pattern must take into account economic aims and means. To cater effectively to the need of a 'new' socioeconomic development of Indonesia, a distinct accounting body of knowledge was required. A transformation from the Bond method of accounting education to a university adoption was a significant development in accounting education in Indonesia.

The establishment of a university system which provided educational opportunities for all was enthusiastically received by indigenous Indonesians who saw in university a means to improve their economic status and a leverage to achieve upward mobility. Demand for higher education grew particularly in the years after the World War II as students stampeded into colleges and universities to make up for the loss of educational opportunities during the Dutch occupation power in Indonesia. Enthoven (1975) pointed out that the adoption of a university system enlightened the development of accounting in Indonesia. With the system of university, a comprehensive program of accounting courses could be possible to be applied such as general knowledge of economic development, specific technical accounting skills, auditing practices, culture and other knowledge related to the accounting discipline.

The accounting profession in Indonesia has benefited in a big way from the offer of accounting course of outside of Jakarta, such as Padajajaran University in Bandung (1961), Sumatra Utara University (1962), Airlangga University in Surabaya (1962), Gadjah Mada University in Yogyakarta (1964) and Sriwijaya University in Palembang (1964) (see, Briston et al. 1990). The phenomenal growth of the university system for accounting programs has been one of the more significant social developments in Indonesia. Indigenous Indonesians educated as high a proportion of its people as the western countries. In general, accounting was taught within the Faculty of Economics, where the specialisation in accounting occurred after the second or third year of a five-year master's (Sarjana) program. The Sarjana Muda (Bachelor's degree) program covered a two- or three-year period of study. Upon completion of the Sarjana program at a university, the graduates were awarded a Doctorandus (equal to Master) degree and were eligible to register as a accountant after completing three years of employment in government offices. With this development, universities became a dominant institution producing accountants and also became a dominant place to train young accountants to do a job training.

The Structure of the Indonesian Accounting Education System

Education for accountants essentially comes at various levels for different tasks: the technical, the policy and the research. In the three different tasks, the

technical education aimed to train the students to apply accounting fundamentals, rules, and procedures is typically taught in the undergraduate program or the first year of a two-year graduate program. The professional policy, environment, and interaction education, aimed at relating accounting information to others, involves the study of professional ethics and organisation operation, and enables the students to relate to diverse interests and group. The third level of accounting education is accounting research methodology aimed at creating new accounting knowledge (Enthoven, 1981).

All education systems in Indonesia are under the policy of the Ministry of Education and Culture. This is called as a national education policy. Without an exception, accounting education has to follow the national policy. A very significant development of the national policy on accounting education was a government policy regarding the uniformity of accounting education in the higher education in 1975. The main objective of the uniformity was to ensure that accountants graduated are of the same standard of curriculum and syllabi throughout the country. The government gave a very strong contribution to the development of accounting. Briston et al (1990) reported, during the 1970s the government of Indonesia took an initiative to collaborate with several overseas institutions to improve the quality of the accounting courses in the universities. The overseas institutions were the Ford Foundation, the UK Overseas Development Administration, USAID and World Bank.

Figure 1 depicts a structure of the accounting education system in Indonesia. The structure is in general adopted from the western education system, mainly from the US influence with a little modification on the demand of social, economic and cultural differences of Indonesia. There are two different accounting education systems: formal and non-formal programs. For the formal accounting education, the degree is offered by Department of Accounting within the Faculty of Economics with three level different degrees: S-1 (Sarjana/ Bachelor); S-2 (Master); and S-3 (PhD). The degrees are similar to the western education system. Another formal accounting education system also offers Diploma from level I to IV. The level of the Diploma system is indicated a duration of its study. Level I (one) is indicated a one-year duration of its program, whereas level IV (four) is indicated a four-year study duration.

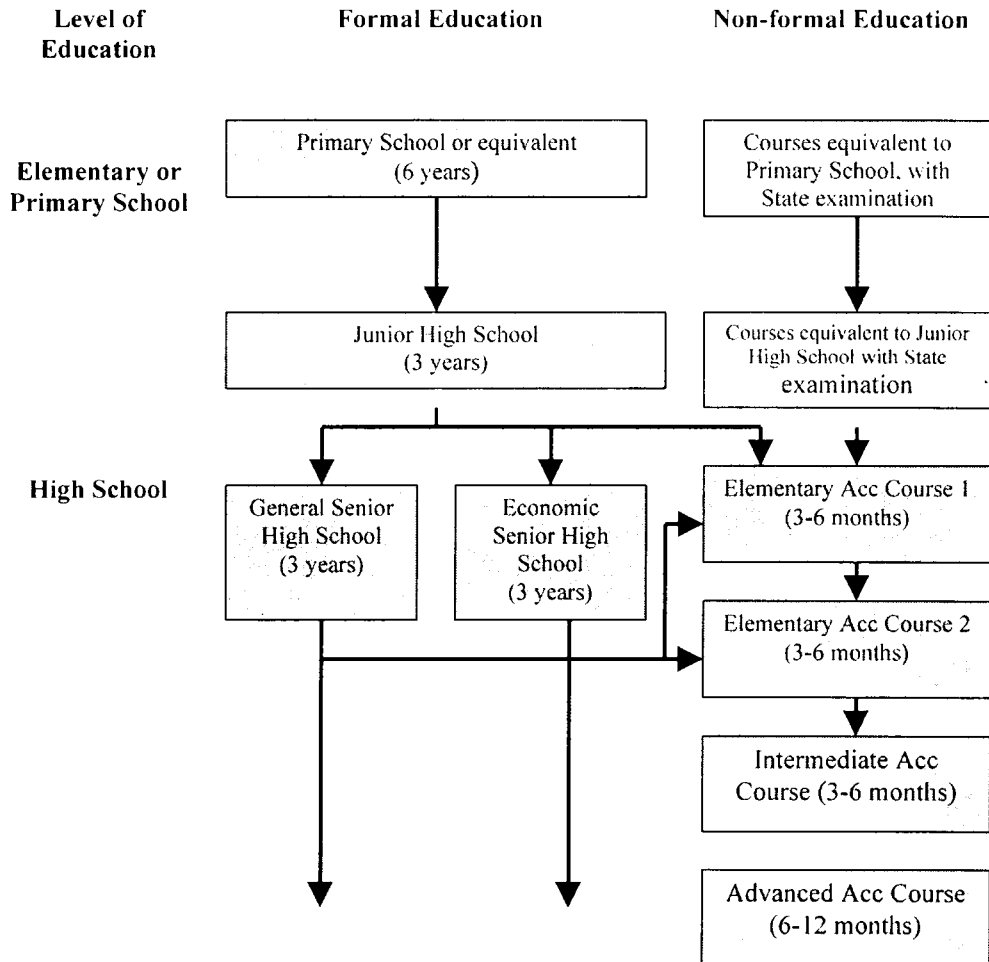
Figure 2 depicts a process of accounting education to the profession in Indonesia. As discussed in the previous section, accounting education and training in Indonesia does require a comprehensive and systematic approach, covering all levels and institutions of accounting. A great diversity of accounting programs presently exist. From the Senior High School, the students graduated can choose to continue a further study of one of several education programs in accounting. Universities, either states or private owned, have a standard of the national curriculum. Programs, course contents and methods of teaching at the universities are also based on the national policy of the Ministry of Education and Culture.

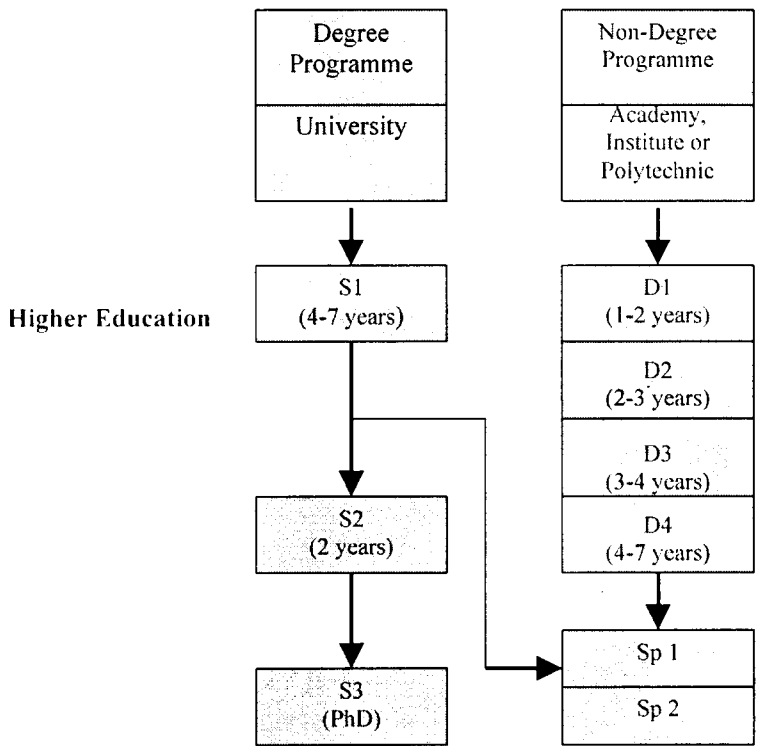
Education for government accountants is carried out by State School for Government Auditors (*Indonesian*, STAN) owned by the Ministry of Finance. STAN has been approved by the Ministry of Education and Culture as an academic institution with Sarjana degree status, but the School does not offer the Drs (Doktorandus) degree. Upon the completion and practical service, the students become 'registered accountants' according to Accounting Law 34 of 1954. The School was introduced by the Ministry of Finance in 1957, when the government (through the policy of Ministry of Finance) asked for an urgent need of government auditors for auditing the enterprises owned by the government.

STAN has a unique school system which is differentiated among other accounting school (e.i universities, academies or institutes in Indonesia). The system is that students who are successfully pass the initial selection examination must sign a contract stating the following:

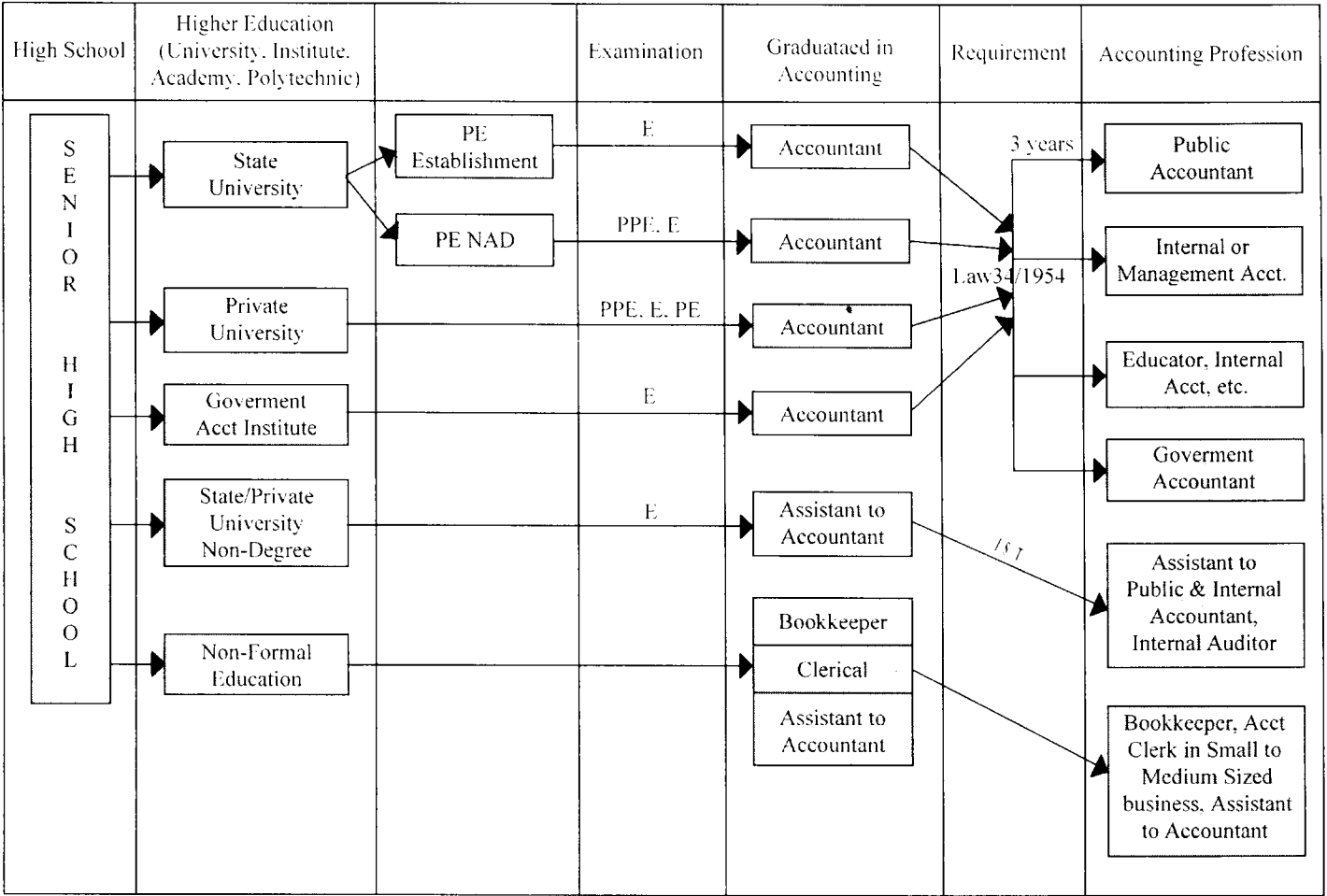
1. Applicants have to complete the study for Diploma III in six semesters
2. The students will be evaluated every two semesters; if they do not meet the requirements, they will be expelled out
3. The students will work for the government for fifteen years anywhere in Indonesia, after completing the Diploma III programme
4. The students has to pay the equivalent of US \$ 10,000 to the government if they do not meet the working period requirement
5. The students will be appointed as civil servants after successfully completing two semesters of study and will have equal rights with other civil servants (See also, Prentice, 1986 and Briston et al, 1990).

Since the 1957, the majority of registered accountants in Indonesia up to 1978 was graduated from STAN. As of 1978, the state universities and STAN had graduated 1,763 accountants. Of the number, 642 accountants was graduated from STAN. Several private universities have also offered accounting courses, but they were not automatically qualified by the Law 34 of 1954. To be an registered accountant, the student of the private universities had to undertaken an additional professional examination given by Committee Experts nominated by the Minister of Education and Culture





Adapted from Yunus, 1992



Notes:

- E : Examination
 LE : Local Examination
 PPE : Pra-Professional Examination
 NE : National Examination
 SE : State Examination
 NAD : New Accounting Development
 IST : Internal Short Training
 PE : Professional Examination

Accountants in the Enterprise and The 'Booming' Privatisation

One of the earliest changes in Accounting after the Soeharto's power with US influence was the de-regulation of internal accounting. Without the need for government regulation and planners to control economy activities, enterprises were free to develop their own systems of management planning and control. Since the development of accounting course in a university system, there are numbers of accountants graduated from private and public universities working as internal accountants. Numbers of contributions are given by the accountants setting and developing the 'new' enterprises. As White (1991) indicated, accountants in the enterprises are free to adapt an effective and efficient model of management to meet their own internal accounting purposes. Fieldwork in enterprises (see Briston, 1986) indicates that individual enterprises were developing management planning and control systems in different ways depending on the expertise of, and advice given to, enterprise management. Sometimes, internal accounts have developed through industrial networking. For example, accountants in the oil industry have collaborated in designing a suitable policy of management accounts specially for companies for the oil industry.

Investment Law and Regulation

Indonesian privatisation has created new forms of corporate governance and new systems of accountability which potentially increase the importance of financial reporting. The stewardship role of the accountant may become more obvious once the intentions of the new shareholders created by the share privatisation programme become clearer. With the issues of the Investment Law in 1967 and 1968, one year after the Soeharto took power, the role of accounting in the enterprises became much obvious. The 1967 Investment Law, then amended in 1970 and 1974, is deal with foreign investments which regulate the following:

1. All foreign investments are entitled to accelerated depreciation (for a period of four years from when the expenditure is incurred) For most items this is calculated at 25 percent on a declining balance basis.

2. Repatriation of profits is permissible though capital may not be repatriated while the project is benefiting from concessions.
3. Joint ventures with Indonesian partners have been compulsory since 1974.
4. Under the above conditions, foreign investors were exempted from corporation tax for two to six years for projects in priority sectors (such as companies oriented to export, utilising local raw materials and consumer goods) (Cf., Yunus, 1992).

With the issues of the Investment Laws, a number of new manufacturing industries owned by foreigners in majority of shares were built. BAPPENAS (National Development Planning Agency) reported that the total of foreign projects and investment since the issues of 1967 and 1968 Investment Laws to 1974 was 589 projects with the investment value of US \$ 2,486.9 millions (BAPPENAS, 1989). For domestic investment projects with the same period of 1967 to 1974, the total of investment value was of US \$ 1,258.7 billions with 1,946 projects (BAPPENAS, 1989). The total of investment value for both domestic and foreign projects was a very significant increase compared to prior to the issue of the Laws.

With the significant increase of the investment value and the creation of new companies, a demand for internal and external accountants was needed. As Enthoven (1978) pointed out, the existence of accounting profession in Indonesia could not be separated to the inflows of investment and the development of new corporations from both foreign and domestic funds. The developments affected the preparation of accountants dealing with their services. Satisfactory financial reporting was a major issue demanding the management of the enterprises to help them in the safeguard of the assets of the shareholders. As noted by Enthoven (1978), accountants were needed for ensuring that the net capital structure of a business enterprise does not erode, and that profits do not include capital consumption. Income had to be measured perfectly. Of course, all these tasks belong to accountants with professional skills.

Capital Market Regulation

The capital formation process is highly dependent on the effectiveness of government regulation and institutions which funnel the money-capital flows. Again with the 1945 independence of Indonesia, legal systems were possible to be pronounced. Shortly after 1945, in 1952 laws governing the capital markets were promulgated. As stated under the Capital Market Law, its function is to provide a mechanism where savings are collected and channelled into credit and investment streams. The Law was immediately used to regulate trading in the Batavia Stock Market. However, because in the mid of 1950s there was political turbulence, the stock market was virtually shut down in 1958, following the nationalisation of the Dutch-owned companies.

The development of soundly functioning capital market is largely a problem of creating a proper environment where economic, political, financial and fiscal policies play a big part. Capital market s cannot be developed overnight by passing laws. Indonesia was the case. With the political turbulence, capital market could be smoothly operated, and the 1958 was the culmination to close its operation.

Soon after the year of Soeharto's new order, plans were made to re-establish the short-term money and long-term capital markets. Several organisation, including the institute of Indonesian Accountants (IAI, *an Indonesian abbreviation*), were involved in setting up the regulatory foundation for the subsequent operation. The team was not a voluntary basis, but they were ordered by the Minister of Finance decree. Their works were financed by a special budget of the Ministry of Finance and Bank Indonesia (Central Bank of Indonesia).

Considering the stable conditions of political and economic development in Indonesia in 1970s, a Presidential Decree No 52 of 1976 was issued to regulate the modern management of capital markets. With the Decree, two bodies were created to do the management of capital markets in Indonesia. The first body was the Capital Market Executive Agency (*Badan Pelaksana Pasar Modal, or BAPEPAM*) whose role is to supervise the operations and development of corporate securities markets in Indonesia. The second was PT Danareksa, a national investment trust company, whose its function is to hold in trust securities investments intended for eventual distribution to indigenous Indonesians. The principal advantage of the Decree was that the shares and bonds traded are fair, publicly known quality. It was important that strict, independent, and unbiased laws and procedures were established for the selection of companies to be listed on the exchange. Accounting in this process played an important role in order to protect savers and investors in the markets (see also Yunus, 1992). An effective internal accounting and auditing set up, and adequate external accounting reporting procedures were the main issue to run the markets. Dorrance (1971:26) in an International Monetary Fund report stated that "... the development and acceptance of accounting criteria serve to improve the efficiency of capital markets ... if a debtor wishes to draw on the facilities of a wide capital market, he must be prepared to make details of his financial affairs public ..." With the Dorrance report, it strengthened the role of accountants and accounting knowledge to the operation of capital markets.

Conclusion

Essentially, the study is concerned with a broader, and to some extent new, involvement and dimension of accounting profession in the social and political context. This may be visualised as an extension of traditional accounting. Sound accounting may be seen as a form of investment, able to generate better future outputs. A specialised area of accounting is geared to spur a national building. For the development of accounting and the national building (the Republic of Indonesia), this

historical progress is of no small interest. Although, an understanding of bookkeeping and basic financial accounting is necessary, the greatest need is for sound professional accounting such as cost and benefit measurements, the presentation of qualitative information and statements for administration, project and program evaluation, planning, budgeting purposes, auditing and decision making.

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