

## THE ROLE OF ENVIRONMENT DEVELOPMENT ON INSTITUTIONAL ACCOUNTING IN INDONESIA

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### ABSTRACT

*Some accounting rules and conventions sometimes are inappropriate, and misleading in the sense that they are unsuited to the needs of the accounting profession. Related to that experience, Indonesia should learn from its own experiences, which were originally influenced by the Dutch and have since become strongly influenced by the United States of America (USA).*

*This paper elaborated the Indonesian accountancy system on aspects of the environment, accounting principles and EFR practices. The environment factors are included such as economic, legal, social, political, and cultural aspects. Those aspects and intersection among them will be critically analyzed. The focus of interpretation and critical thinking will be in formulating accounting development strategy, as well as strategizing a relationship between accounting education and accounting profession.*

*The influence of political, legal and economic has a significant share on policies' setting in accounting theories and practices. For example, capital market institutions and practices promoted some accounting requirements to impose a quality standard in market accountability. This means there are a political, legal and economical support for implementing External Financial Reporting (EFR)'s approach, especially on greater disclosure and toward globalization incentives.*

**Keywords:** *Financial Accounting, Institutional Accounting Profession, EFR*

### PREFACE

Some accounting rules and conventions sometimes are inappropriate and misleading, in the sense that they are unsuited to the needs of the accounting profession and for the national economic development efforts. This phenomenon demanded a continuing research on the accounting theoretical framework and environmental influences on the establishment of accounting principles or standards and professional practices in Indonesia. This means that External Financial Reporting (EFR) as a product of the accounting profession practices

will be critically analyzed, in order to fulfill those demands.

As a starting point, the study will investigate Indonesia's own experiences, which were originally influenced by the Dutch and have since become strongly influenced by the United States of America (USA). The investigation will assess the strengths and weaknesses or deficiencies of existing systems within changing environment, learning how to overcome any problems which might have arisen in facing other influences, and how to

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adopt such a system to meet its own needs and environment.

This paper studies the Indonesian accountancy system including some aspects of the environment, accounting principles and EFR practices. The environment factors include such economic, legal, social, political, and cultural aspects. Then, based on the study of theoretical background, environment, accounting principles and standards, also EFR practices, author will highlight the impact of strengths and weaknesses of current system in accounting education and the profession in Indonesia.

This study will be based on secondary data, which are old and new documents, textbooks and other printed scripts. In theoretical framework, an emptiness of model is reflected on an innovation of a model on accounting and environmental changes in economic and business development. In this case, author modified an event study method to analyze the framework of Indonesian's accounting critical points.

## LITERATURE REVIEW

In this section, some aspects will be elaborated, in terms of theoretical point of view. Those aspects were recognized as significant aspects in Yunus (1992) 's unpublished thesis.

### Culture

Accounting as a social phenomenon cannot be separated from the sphere of philosophy and culture, a relationship that has been appraised since the work of Scott (1931). Arpan and Radebaugh (1985) mentioned that hundreds of cultural factors influence accounting practices, among the most important being: conservatism, secrecy, distrust and fatalism, attitudes toward business and accounting profession. Harrison and McKinnon worked on 'Culture and Accounting Change: A New Perspective on Corporate Reporting Regulation and

Accounting Policy Formulation' (1986). Gray worked on 'Towards a theory of cultural influence on the development of accounting system internationally' (1988). Parera studied 'Towards a framework to analyze the impact of culture on accounting' (1989).

According to Hofstede (1987), national value differences led to the identification of four underlying dimensions, which together explained 50 percent of differences in value systems among countries. This way of quantifying national cultures represents an accounting approach to culture. The differences that exist in organizational and occupational cultures play a role in the communication between accountants and other members of organization (Hofstede, 1987).

### Political systems

The implementation of political decisions will guide economic and social activities, which in turn will affect, directly and indirectly, the accounting system of the country (Leeds, 1981). The stability of the political power will affect directly the stability of the government, which itself influences accounting in a number of ways (Al Hashim and Arpan, 1988). Major change in Indonesian accounting when Soekarno, in the early 1960's, nationalized Dutch companies, and all Dutch experts fled, including accountants and professors. Indonesia's accounting system and education subsequently began to follow American pattern (Yunus, 1990).

### Economic aspects

There is always a time lag between what is happening in the economy and what is happening at accounting level, for the process of influence through institutions and the technical level of accounting is normally slow. Radebough mentioned (1975) that there are eight major that affect accounting, the first four of which deal with the nature of the enterprise

and direct user of information, while the remainder deal with academic influence, international influence, local environment characteristics and the role of government.

In the country in which the economy is unstable, business society generally tends to adopt more conservative accounting practices, such as the significant use of reserves, major allowances for bad debts, and accelerated depreciation policy. Moreover, unstable economic conditions are usually followed by inflation problem, which influence accounting treatment (Al Hashim and Arpan, 1988). US experience of the economic impact of accounting standards provides some good examples of the relationship between economics and accounting (Solomon, 1978).

### **Social aspects**

Attitude towards time can, for example, shape accounting practices: with a longer view of time and a diminished sense of urgency, the balance sheet is likely to be given more importance than the income statement, and financial reports are likely to be published less frequently (Al Hashim and Arpan, 1988). Choi and Mueller (1984) used the term social climate as one of the environmental factors that have a direct affect upon accounting development. The development of public reporting and examination by independent auditors are efforts to discharge corporate social responsibility by individual enterprises, and the consumer culture is beginning to produce accounting changes (Choi and Mueller, 1984).

### **Legal aspects**

Nobes (1987) examining classification in legal system for comparison with international accounting classification proposed two criteria for determining whether two systems are in the same group. They are languages spoken and members of a group must be based on the same philosophical, political, or economic principal.

Nobes' work sheds some useful light on the linkages between legal system and accounting practices and development.

Since law in its various forms is essentially a function of right protecting the interest and, to some extent, curtailing the activities of a given individual or group, it becomes the basic of accounting system because the function of accounting will move in line with those of legal system. In most countries, the government has a very direct impact on accounting practices and development, in both determining and enforcing them (Al Hashim and Arpan, 1988).

In countries with a legalistic approach to accounting practices, the government plays an active role in the economic sector, but the accounting profession is often relatively weak. There is no difference between tax accounting and financial accounting. In some degree, the legalistic approach to accounting is found throughout the world, regardless of the stage of economic development or the level of development of the accounting profession. In this regard, the distinctions among countries are pervasiveness of the legal approach and whether other approaches are permitted (Arpan and Radebough, 1985).

### **Linguistic aspects**

Schreuder (1987) found the importance of language in accounting when he conducted research on accounting practice and culture in Europe, and he found that language played an important role in creating or reinforcing the pattern of segmentation of research in accounting.

### **International relations and other aspects**

A range of problems has risen in consolidation accounting, foreign currency transaction and translation, foreign exchange risk management, inflation accounting, taxation, transfer pricing, related parties transactions,

scope and level of disclosure, differences in accounting principles and practices among countries, and so forth. These all have great influence on the development of accounting, particularly EFR (Nobes and Parker, 1985, Gray, 1989, Gray and Robert, 1989).

Regional and international accounting organization are involved in promoting the development of accounting regionally and internationally, including the effort to harmonize accounting standards and practices between countries, often providing a private professional counter-point to the activities of intergovernmental organization (Gray, 1989).

## **THEORETICAL FRAMEWORK**

### **EFR and environmental influence**

Due to the breadth of the environmental aspects of accounting, it is useful to summarize them into significant areas which influence EFR in indirectly and directly. Most of the environmental aspects are in reality inter-related and not easily separable. Environmental aspects in general directly influence institutional aspect and technical aspect, which in term directly affect the EFR.

Aspects which have more direct affect on accounting and EFR, include: nature of business ownership (forms and operating and characteristics), size and complexity of business, level of management sophistication, foreign exchange rate, changes in consumer prices index, foreign investment and international trade and commerce which includes MNC's, international accounting firms, international financial markets and the role of supranational institutions. The institutional aspects of the EFR to the environment consist of preparers, users, auditors, and professional societies, accounting education and legal aspects.

A third class of environment aspects of EFR is the technical elements, which directly affect EFR. These include: objectives of

financial reporting; information needs for investment, credit and similar decision; accounting standards, auditing standards, code of professional ethics, and accounting practices; general education, vocational, higher education and professional continuing education, which cover systems, curriculum, and syllabi content; law, rules, and regulations concerning accounting.

### **Interaction between environment, EFR, and supporting authority**

Changing environmental conditions, influence EFR through the institutional and technical aspects. Institutional aspect also influence technical aspect by creating a demand for development of certain technical elements in the EFR to meet specific environmental needs at the time. In term, EFR practices can, some extent, affect the environmental aspect, as these EFR have many economic consequences, e.g. by influencing allocation of resources. In other words, there is an interaction between the environment, EFR, and the supporting authority as regards institutional and technical aspects.

It is difficult to measure the influence of the environment on institutional and technical aspects of accounting, nor is it easy to describe the scope and frequency of the demand for accounting theory, agreed standards, and specific disclosures. However, the development can be detected from written publications in accounting subjects, company reports, and published standards, which differ from one country from another. The development in the technical aspect is reflected in the content, timing, and presentation of EFR. The development of institutional aspect is reflected bylaw, rules, and regulation issued by controlling bodies, and development of education and research in accounting.

The content of EFR, as a result of the influence of its changing environment, reflects the needs of the environment. The more

complex the environment, the more complex the EFR, and also the more frequently it has to be presented. Because of the scope of the EFR, which is broader than that of accounting standards, the content of EFR can be a response to the changing environment. It is also difficult to measure the effect of EFR practices on the environment.

### **Framework for comprehensive analysis of environmental influences and EFR in Indonesia**

The analysis of the environmental influences will cover relevant elements of economic, political, social, legal, and cultural aspects which affect the establishment and development of accounting standards in particular and EFR in general. The analysis focuses particularly on economic aspects, through other aspects are discussed as necessary. The focus on economic aspects is important, because economic aspects have the most direct effect on the development of accounting.

The analysis of environmental influences on EFR will be performed in relation to the institutional and technical influences. The analysis of institutional influences will emphasize the role of government, the accounting profession, and accounting education. The role of the government will analyze legal requirements on the accounting and financial reporting, covering laws, rules, and regulation issued by government agencies, including accounting requirements for public companies in the stock market.

The analysis of technical influences will focus on the objectives of financial accounting and reporting, and the state of accounting standards. In assessing the accounting standard, we shall consider the standard-setting process and other aspects relevant to the construction and development of standards. In assessing the objectives of financial accounting and reporting we shall use relevant accounting theory which might be suitable for accounting development in Indonesia. The discussion of

the objectives of financial accounting and reporting includes the needs of users for information for economic decision-making.

### **ANALYSIS**

The analysis of the environmental development covers relevant elements of political, legal, and regulatory as well as economic and business aspects, which affect the establishment and development of institutional accounting. The analysis on institutional accounting includes the roles of controlling bodies, preparers, and users of EFR.

#### **Economics aspect**

When the currency crisis – that started in Thailand in mid-1997 – started to hit Indonesia, the monetary authority tried to defend the Indonesian rupiah (IDR) by widening the intervention band. However, the authority finally realized that the system could not cope with the continuing pressure against the currency and decided to adopt the free float system in August 14, 1997 (Husnan, 1999).

What it thought as currency crisis turned out to be more than that. The financial crisis devastated the Indonesian economy. It lowered purchasing power, increased interest rate and inflation, weakened the rupiah, and lowered the gross domestic product growth. Even 1998 considered the crisis considered no to have yet bottomed out. GDP growth registered at negative 13.7 percent and inflation rate at 77 percent.

The scale of financial crisis in Indonesia has exposed the weaknesses of governance of corporate sector. The nature of the crisis calls for an in-depth study of the governance of the corporate sector.

#### **Political aspect**

There are three developments of accountant role in the mid of 1999 (Kosasih, 1999). They are: (1) Government of Indonesia designated a

public accounting firm to examine the non-active General Attorney's bank account, (2) designated two public accounting firms to do special examination on three big state owned enterprises (Pertamina, Bulog, and PLN), and (3) Election Commission (KPU) assigned several public accounting firms to do special examination on political parties of 1998 election fund.

In 1997, the government established the Indonesian Banking Restructuring Agency (IBRA) to supervise the activity of problem banks. The agency set up an Asset Management unit (AMU) to directly manage problem loans on the banks under its supervision. To obtain clearer a picture of the banking sector, the government has requested that international auditors audit all banks.

At the end of 1997, the government and private sector formed a committee to help the corporate sector to deal with the crisis, particularly its debt problem. The committee was tasked to identify the amount of debts of the private corporate sector and to arrange negotiations between debtors and creditors to solve the debt problem. On September 9, 1998, the committee launched a new, more comprehensive scheme to tackle the issues of domestic and foreign corporate debt, called the Jakarta Initiative. The scheme aims to solve private sector debt through negotiation between debtors and creditors.

In June 1998, the Indonesian Debt Restructuring Agency (INDRA) was formed to help the private sector to solve their foreign debt in a Mexican-style resolution. The scheme aims to provide debtors with US dollar loans that companies use to pay their Indonesian rupiah debts to the government at market exchange rates. However, the scheme was not success based on the lack of enthusiastic response from companies. In mid-September 1998, INDRA announced that not one of the 2,000 Indonesian eligible firms signed up for the scheme. At the prevailing exchange rate of Rp12,000/US\$1, few companies could meet

their obligation to pay interest under the agreement.

### **Legal and regulatory environments**

Pakpahan (1996) noted that in Indonesia, financial statement must be presented in accordance with financial accounting standards, as regulated by Chapter IV Act No 1 of 1995 on Limited Liability Companies.

Prasodjo (1996) also noted that the Act No 1 of 1995 on Limited Liability Companies protects every shareholder's right on fair stock price. Furthermore, he argued that the valuation of fair stock price needs the participation of accountants.

Income tax in Indonesia is progressive and applied to both individuals and enterprises (ASEAN Secretariat, 1999). A self-assessment method is used to compute the tax. Government Regulation No 45 of 1996 and Presidential Decree No 7 of 1999 stipulates that for new companies in certain industries that are categorized as pioneers, their companies' income tax could be borne by the government for a certain period.

A series of certain regulation (Insurance Act, Pension Fund Act, Limited Liability Enterprise Act, Election Act, Political Parties Act, Capital Market Act, and Banking Act) make corporates' annual financial statements are compulsory to be audited by public accountants. Basically, the objectives of those regulations are to demand management transparency in the arrangement of financial statement and to comply with the GAAP. Generally, these developments bring a positive impact on accountant profession, beside as a challenge for accountants to improve their competence (Kosasih, 1999)

Recently, in an effort to facilitate the restructuring of Indonesian companies, the government has promulgated several rules (Jakarta Initiatives, September 1998). Some of these rules revise prior regulations, while

others are new rules. The rules in question are as follows: (1) reevaluation of fixed assets (revision), (2) income tax on forgiven loans/haircut, (3) merger, (4) issuance of shares in different series of categories, (5) capital increases without preemptive rights, (6) repurchase of shares by issuers and public companies, (7) right issue, form and content of registration statement and prospectuses for a right issue, and (8) improvements in the exchange listing rules.

As of August 21, 1998, the Indonesian Institute of Accountants has issued SFAS No 52 with respect to Foreign Currency Reporting that makes it possible for a company to use foreign currency (functional currency) in its financial reports if certain criteria are met. The criteria indicated are as follows: (1) cash flow indicator, (2) selling price indicator, and (3) cost indicator.

A new rule was issued in response to the developments in the rupiah foreign exchange market as a result of the current national economic situation, as well as the SFAS No. 10 on Transaction in Foreign Currency that had been reviewed by Indonesian Institute of Accountants. Currently, the accounting treatment of exchange differences resulting from foreign currency transactions of issuers and public companies are governed by the terms of Interpretation No 2 on SFAS No. 10.

In July 9, 1999, Government of Republic of Indonesia released Government Regulation No. 64/1999 on Annual Corporate Financial Information. This regulation supersedes Government Regulation No. 24/1998, so limited liability companies with certain conditions, foreign companies, and state-owned enterprises (except Perjan and regional government-owned enterprises) must submit audited financial statement to the Ministry of Industrial and Trade (Media Akuntansi N0 2/I/1999). The audited financial statement includes balance sheet, income statement, statement of changes in equity, cash flow statement, and notes on financial statement

(including list of receivable/payable and equity).

Currently, Draft of Public Accountant Act has arranged and being discussed by the House of Representatives. This act will regulate (1) definition, (2) profession, services, and permission of public accountant, (3) office of public accountant (including establishment, cooperation, branch office, merger, acquisition, separation, liquidation), (4) organ of public accountant office, (5) right and obligation of public accountant, public accountant office, and board of management, (6) association of accountant profession, (7) construction and supervision to public accountant and public accountant office, (8) prohibition, sanction, and rehabilitation, (9) punishment, and (10) transfer stipulation.

The Bankruptcy Act of 1998 has been passed in August 1998 to protect creditors. It aimed to modernize the bankruptcy system and provide for the fair and expeditious resolution of commercial disputes. The Commercial Court has been set up to deal with bankruptcies. It was set up to handle corporate restructuring and debt settlement.

Unsecured creditors could proceed against a debtor in default based on loan covenants and through the legal process of collection against the debtor's assets. However, the enforcement of the law is the disappointment to those who hoped that it would hasten corporate restructuring and the settlement of domestic and foreign corporate debts. Only 17 cases had been filed with the court by late November 1998. Just two companies had been declared bankrupt and the court dismissed three suits (Husnan, 1999).

### **The influence of environment on the controlling body**

The government plays the strongest role of all the organizations in making and imposing the rules and regulations relating to EFR requirements for the companies or business

organizations. Many laws, rules, and regulations related to accounting and EFR requirements have been introduced, either by creating new ones or revising the old laws and regulations in order to cope with current needs. However, many accounting requirements are still based on outmoded laws, which are not suited to the current environment.

The impact of political development especially has created the prerequisite conditions for the development of the accounting profession. The political stability and a certain degree of maturity of political culture have made possible the development of accounting rules and regulations by the profession, with support from the government agencies concerned.

The liberalization policy in economics and business, and the maturity of democratic institution, has played a part in creating a favorable climate for development of professional accounting organization and institution. The development of social organization, which involves many strong primary groups in the economic and business sector have paved the way for development of the accounting profession.

The important economic features which influence the development of the accounting profession both short term and long term, are the policy of the government to liberalize the economy through deregulation with the aim of creating the favorable economic climate for domestic and foreign investment, sound competition, and strengthening international economic relationship.

Regarding the legal environment, many legal factors influence accounting, including the Commercial code, Act on Limited Liability Companies, Taxation Law, and various rules and regulation in economics and business. Due to adoption of the Old Dutch laws, Indonesia's legal system is classified as Romanic-Dutch. In Romanic or Code legal system, there is emphasis on codification of accounting standards and procedures as more

appropriate to the economic, political, and social environment (Choi and Mueller, 1984). However, such codification does not yet exist in Indonesia. Few requirements for private and public companies concerning accounting, auditing, and disclosures have been included in the Commercial Code. Thus the legal system is still in a weak position to support the development of the profession. In addition, there is no link the Commercial code with the Accountant Act.

International relations also influence Indonesia's accounting profession. Although accounting and accounting profession are inter-linked, the internationalization of the accounting profession is progressing more slowly than that of accounting itself. Some reasons of this are: (1) opposition of national regulation and licensing of the profession, (2) barriers to the international movement of human resources, and (3) outright protectionism of a developing country (Choi and Mueller, 1984).

Turning to political and social aspects, the operation of the capital market in Indonesia is in line with the democratic ownership of economic units through the free market mechanism for buying and selling shares and securities. The main problem is to maintain fair play in the mechanism of capital market operation in order to achieve the principal objectives, which have been laid down by the government. It can only be maintained and developed by establishing and developing professional organization and institutions associated with the system, one of which is a strong and reliable professional accounting organization and institution.

The impact of international relationship on the economy and politics, without doubt, also influence the capital market. To face this situation, the rules and regulations of the market, including accounting information requirements, should be adjusted in order to attract foreign investors to invest in Indonesia through the capital market, and to make

financial and accounting information reliable for them. From the accounting point of view, the international capital market operation needs a comprehensive EFR presentation for the foreign investors. The problem is that the investors in every country have different accounting standards as the basic of the EFR they are accustomed to read. There are several possible solutions for the requirements of EFR for an international market, i.e.: (1) the EFR should conform purely to national accounting standards and practice, (2) EFR should be adjusted to comply to the IAS, (3) EFR can be presented in multiple form, with the simultaneous preparation of several differently-based financial reports. Considering the position and the development of accounting in Indonesia, multiple financial reporting seems to be more attractive and reliable for foreign investors.

### **The influence of environment on the preparer of EFR**

As cultural aspects which influence companies' EFR, in the medium-sized companies, although there is a separation of the function of the lower and upper tiers reflected in the establishment of separate Finance and Accounting Department to prepare EFR, the role of the top tier or the Director of the company is still very strong. In the large company, the responsibility for preparing EFR rests with the lower tier, usually under the responsibility of the Accounting Department or Controller of the company.

In the Persero or state-owned limited liability company, the main objective of which is profit making, the separation of the responsibility in preparation of EFR between the lower tier and the top tier within the organization is very clear, and the general attitude of management is more or less the same as in a large private company. In the Perum or public utility enterprise, although there is a separation function of the Accounting Division within the

organizational structure, is still difficult to distinguish between the responsibility of the lower tier and that of the top tier in publishing EFR. In the Perjan or government agency, there is no separation of responsibility in publishing EFR between the top tier and the lower tier.

In the local government owned companies, for the large companies, the attitude to management tends to be the same as in the Persero, but for the medium and small sized local government owned companies, it is more liked that in the medium and small private companies.

In the co-operatives, because most of their operations still depend on government subsidies or facilities, whether given directly or indirectly, the attitude towards publishing EFR, until recently, tended to be like that in medium and small size local government owned companies.

As the result of political environment in Indonesia, limited liability companies, the management applies modern management methods and an open management system, and all of these enhance the possibility of producing management and financial reports for shareholders, with greater disclosure.

The economic environment has brought the development of business organizations or companies in terms of number and size as well as management sophistication, to a level where accounting information is vital for management for decision making. It has impelled the companies to strengthen their accounting information concerning their operations, for multiple purposes, including the preparation of EFR.

### **The influence of environment on the users of EFR**

The development of the political and social environments toward greater democracy also leads to a greater demand for public infor-

mation. This climate has some impact on the accounting information needed by the owners and investors, in the terms of the level of disclosure required from the EFR.

The transformation from agrarian to an industrial economy has led to the introduction of modern management approaches on business organizations, which in turn require more advanced accounting information and more advanced analytical tools on which to base investment decisions. The position of EFR is vulnerable when the currency is unstable, reflected in unstable exchange rate, and the inflation rate is high. This situation will be unfavorable when the interest rate is high. The combination of unstable exchange rate, inflation and high interest rate, reduce the reliability of financial and accounting information.

Some Indonesian cultural elements, which may strongly influence the bankers and creditors, are large power distance, conservatism, strong uncertainty avoidance, and collectivism. The conservatism of the bankers is seen in their keeping secret the result of the evaluation of the information given by the borrower, and being very prudent in evaluating financial information through the client's EFR, which has been submitted to support a credit application.

The expansion of bank credit business in Indonesia, coinciding with the influence of international economic and business relationships which brought capital and modern banking management system, has influenced the requirements of EFR, as a prerequisite for granting credit, making them more specific and requiring more detailed disclosure. This situation has in turn influenced the development of auditing practices by the public accounting firms, and also had impact on the improvement of EFR through the improvement of accounting standards.

### **The influence of environment on the educational institution**

Historically, Indonesia's modern education system was influenced by the Dutch education system long before independence. In the accounting field, the Dutch educational system strongly influenced the bookkeeping system at the sub-professional level. The Dutch accounting influence in the higher education and professional levels has vanished since the 1980's when the American accounting approach began to be adopted in Indonesia.

Turning to linguistic aspects, because accounting is a very practically oriented subject, the development of accounting terms and other symbols of communication in it, is also a part of the development of Bahasa Indonesia. There should be a bridge to fill the gap between accounting educational institutions and accounting practice. The bridge can be formed in terms of institutions with greater emphasis on practical accounting orientations, i.e. professional accounting educational institutions.

The international environment's influence on educational institutions in Indonesia is great, especially in the field of accounting, where terminology has been imported from the Western countries. As a result of the development of international economic and business relation, there have been some conflicts of influences on the development of accounting in Indonesia, though this does not seem to have significantly reduce the pressure of America's influence on accounting educational institutions. This pressure has been increased by the World Bank program for accounting development. Influence has also come from IFAC, CAPA, and IASC, which might convey different guideline or standards of professional and educational accounting institutions, but seem basically to be importing American concepts. Because of these strong

environmental influences, US accounting has deeply influenced Indonesian accounting education, particularly at the higher or tertiary level, and in some professional aspects, though other important aspects of professionalism, such as the qualification and competence process and CPE have not been influenced.

### **The influence of environment on the activities of international organization in Indonesia**

Indonesian accountants have joined many international accounting organizations at both regional and international levels, though as yet there has been little thought of action, or making a real contribution to the efforts or programs of the organization concerned. This attitude, of course, can be modified through a learning process so that the Indonesian accounting society can eventually play a greater role in the international arena.

### **CLOSE NOTES**

The political, legal, and economic influences have given the government a very strong role in setting policies for accounting education and professional practices. The capital market has strong power to impose the requirements for capital market mechanism, and will influence the accounting profession's development. Politically, legally, and economically, there are sound trends in willingness to publish EFR, moving to greater disclosure, and the influence of the MNC operation combined with the international accounting from practices has had a positive impact on preparers willingness to publish EFR.

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