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It's not all "debet" and "kredit" when an "akuntan" computes the "amortisasi" in accordance with "Prinsip-Prinsip Akuntansi Indonesia." Even the "konsolidasi" or "kas" (cash) and "bursa" (bourse) still rings with a familiar tone. It's only when we get to the "laporan keuangan" (financial statements) and the "aktiva tetap" (fixed assets) that we come to a realization that somehow Indonesian accounting and auditing is not directed from Stamford, New York City, or Washington, D.C.

Three Influences

Indonesian accounting and auditing practices reflect indigenous, Dutch, and American influences. The ten basic Indonesian auditing standards, for example, are almost a direct translation of the ten basic American standards. Similarly, Indonesian accounting principles list six key sources, four of which were published by the AICPA. The others are Australian and Dutch.

The Dutch influence is based on the colonial era, which officially ended with independence being declared on August 17, 1945, but in practice continued into the 1950's and beyond—much as British influence in the United States carried forward well beyond July 4, 1776. The indigenous influence, which is the most important, is not the product of a separate stream of accounting and auditing theory but is based on an adaptation of borrowed business traditions to the economic and cultural realities of Indonesia. Due to these factors, most of the major public accounting firms in Indonesia have expatriate advisors—from their international associates—working with them. With most of these advisors being Australian, American, or from the Philippines, the so-called "Anglo-Saxon" system is, as a practical matter, the major external influence on the scene today.

The Indonesian Influence

Another way of evaluating these influences is to categorize them in terms of time—that is, historical, colonial, and modern. The historic principles are those time-honored beliefs imbedded in the cultural habits of Indonesia: the desire to please, an oriental approach to defining truth, and respect for position and hierarchies. The colonial concepts are those surviving from the first prolonged exposure of Indonesia to European commerce, although many of these concepts have since been discarded or updated. One example of a concept which remains, is an emphasis on accuracy, which shows up in financial statements, bank statements, and tax assessments carried out to the hundredth of a Rupiah, a unit (U.S. $.0024) which is no longer circulated. The stress on legal form over substance is another such concept, although it has since been modified in western economies. As for modern concepts, they are readily seen in the direct borrowing of U.S. audit standards, the existence of computers, and the use of U.S. accounting textbooks.

Essentially, trying to understand a third world economy means grasping how the latest in modern technology has been blended with local cultural patterns and the pre-existing infrastructure. For example, the pace of change, as modern ideas impact the existing fabric, is necessarily uneven. It is at once too fast and too slow, since the slow pace at which foreign business methods can be fitted into the existing environment often makes even new ideas out of date. Finding a successful middle way that does not settle for a poor copy, but creates a new and better version, is the main task of technology transfer.

The American Influence

The influence of American accounting in Indonesia became significant in 1958, when Indonesia was having difficulties with the Dutch government and expelled Dutch nationals from within its borders. The University of Indonesia replaced the Dutch accounting faculty with Americans, who brought along their GAAP and GAAS to teach what they knew best. Although the Americans were gradually replaced by Indonesian faculty, the American concepts took hold and grew in influence, so that by 1973 Indonesian Prinsip-Prinsip Akuntansi and Norma-Norma Pemeriksaan (pemeriksaan means "examination") were heavily based on the American system.

By 1977 most of the major Indonesian universities teaching accounting were following the American system. Banners posted over streets to advertise private bookkeeping courses now exclaim "Akuntansi-Sistim Amerika." The newsletter of the Indonesian Accountants Institute (restricted to registered public accountants) borrows heavily today from the *Journal of Accountancy* of the AICPA. Most

Amerika

textbooks available on the subject of accounting and auditing either are printed in the U.S. or are borrowed, unofficially, from U.S. publications.

As might be expected, other countries in Asia which have been similarly exposed have also adopted U.S. accounting concepts. This would include Japan, South Korea, and the Philippines. Alternatively, British influence is strongly felt in Australia, Singapore, and Malaysia. Insofar as American accounting is itself an outgrowth of British concepts, all of these systems are highly compatible on a conceptual level.

Quite wisely, Indonesia has not attempted to borrow the whole range of accumulated "wisdom" with which American accountants are blessed (or cursed). Indonesian GAAP and GAAS are each about one hundred pages long, and, while modified from time to time, have not experienced the galloping growth rate of the assorted American sources.

Instead, there has been an extensive simplification of U.S. standards. At times, the rules are spelled out more than are U.S. rules. Thus, Rule No. 1 states that financial statements prepared in accordance with GAAP must include an audit report prepared in accordance with GAAS. So while the American accountant agonizes over a mountain of "authoritative support" in a search for absolute truth among the footnotes, his Indonesian counterpart can simply rely on the auditor's judgment to fill in the gaps, since a financial statement without an auditor's judgment is clearly not in accordance with GAAP.

Of course, while such concepts are simply stated, they are not by American standards clearly defined. For example, Rule No. 1 also states financial statements must be consolidated—a concept Japan has only recently begun to accept—but it doesn't detail exactly what that means or how to do it. That aspect is left to the accountant, or more often to the auditor, who in turn refers to the literature with which he has become familiar in the course of adapting to changing needs. Alternatively, he uses his judgment. Thus, the concept of consolidated financial statements has been accepted, but the creative implementation of them is not rigidly controlled.

The future of American accounting influence in Indonesia will depend on a variety of factors: the availability of U.S. training, which has been limited in the past; the continued availability of American accounting literature; the existence here of American industry, which has not been increasing rapidly; and the willingness of American accountants to assist in the adaptation process.

The Dutch Influence

The Dutch accounting influence dates back to the period before the Japanese occupation in 1941. Following the war the Dutch tried to regain control of the islands, but, after a bitter struggle, were unsuccessful. However, through 1957, Dutch expatriates, including Dutch accountants, continued to have a strong influence on the economic affairs of the country.

Incidentally, it is important to differentiate between modern Dutch accounting and the 1930's accounting systems which continued to be used after the war—probably because the modernization of accounting in an ex-colony was not high on the priority list of a nation recovering from its own experience with foreign occupation.

The Dutch influence is felt strongly among the leaders of the accounting profession, most of whom were educated and trained by the Dutch before 1958. While the leading universities have been changing to American accounting and auditing, some have not. Many lower levels of accounting education still use a Dutch tradition rooted in the 1930's and updated primarily by means of articles in current Dutch publications. Even this updating is limited to those professionals old enough to have studied the Dutch language.

Tax laws, a strong influence on every country's accounting development, are also heavily rooted in the colonial era. The basic laws are the Corporation Tax Ordinance of 1925 and the Income Tax Ordinance of 1944; the latter was based on regulations prepared by the Dutch in the 1930's. While these laws were revised following independence, their underlying structure remains unchanged.

In many ways, Indonesia's accounting and auditing is similar to what was practiced in the early years of Anglo-American accounting. Some, therefore, argue that it is well suited to a developing economy and that to adopt modern accounting concepts would be out of step with the development of the rest of the economy. Moreover, since the typical Indonesian company today has weak internal controls, the Dutch audit style of the colonial period properly emphasizes a thorough, detailed audit. Often this means reexamining the documentation for close to 100 percent of transactions and a 100 percent test of clerical accuracy. From this base, the auditor presumably prepares financial statements with a high degree of confidence in their accuracy and completeness.

Education and Training

This independent reconstruction of the books does allow companies which would be considered hopelessly unauditable by American standards to have an audit—in the sense of a review of bookkeeping transactions. Since the audit staff neither requires the educational background nor commands the salaries of their American counterparts, this type of audit is both economically feasible and useful to the client. Added to the efforts of the audit staff is the analysis by the registered public accountant, who is highly educated. Starting with a minimum of the Drs. degree (roughly equivalent to a master's degree) and often a great deal of experience, this registered public accountant is as much an economist as an accountant, and his audit report is not restricted to an opinion on accounting principles. As was once traditional in the United States, the RPA is as much a business advisor as a specialist in reporting rules.

The high education requirement for an RPA varies from the American and British traditions. The latter emphasized experience and examinations as the road to qualification, and only recently began to emphasize a full-time university education. While Dutch accountants still have the experience and examination (with night courses) option as an alternative to the university route, Indonesians have been cut off from the traditional experience route, since local examinations have not been set up to replace those formerly taken in Holland. This has left the university route as the only practical route to becoming a registered public accountant.

With the educational requirements for registered public accountants so high, their number is low—about 1,300 for this country of over 130 million people. Of these accountants, about 80 percent work for the government or for government-owned enterprises. Only a few accounting textbooks in Indonesian are available; most are in English. While officially the country's second language, English does not occupy the place it does in former British colonies, where much of the economic life and higher education are conducted in English. In Indonesia, most sophisticated accounting knowledge is communicated with the assistance of a teacher who is himself not completely fluent in English. A strong grasp of modern accounting and auditing knowledge must therefore be painfully acquired. Insofar as one accepts the concept that modern accounting and auditing knowledge can be acquired only by education and extensive experience in a modern economic environment, then such knowledge is at this time rare in Indonesia. The tradition in former British colonies of sending young accountants to the United Kingdom for their apprenticeship has no practical equivalent today in Indonesia.

Standards and Controls

In Indonesia, the primary use of financial statements is to support tax returns. The colonial Dutch tradition of conservatism, combined with the client's desire for low reported earnings, makes it impossible for a U.S. accounting approach to survive in the traditional marketplace. The client doesn't want it; the profession, following traditional and acceptable accounting practices, doesn't insist on it; and the tax authorities, also working from a Dutch tradition, do not require it. Modern accounting in this environment is about as useful as a new sports car on an island with no paved roads or gas stations.

On the auditing side, the prevalence of poor internal control, a tradition of maintaining two or more sets of books for different consumers of financial information, and differing interpretations of personal integrity limit the market for auditors in the U.S. mold—except those firms which exist outside the traditional sector, mainly joint ventures with expatriate management. The traditional sector sees no need for U.S. style auditors, since Indonesia's limited local private capital is primarily invested in owner-managed or family enterprises. As a result, the traditional auditor, assisting in the preparation of financial statements for the tax authorities and providing *independent* economic counsel to the owner-manger, can and does thrive where his U.S. counterpart would be without one client.

On the other hand, the auditor in Indonesia has a particularly difficult role to play in encouraging the improvement of auditing standards. With neither a strong disciplinary mechanism to deal with competitors who may have lower standards, nor a government body that requires reasons for changing auditors, the Indonesian auditor who wishes to raise the standards of the profession must rely on his ability to persuade or educate others. He simply does not have the weapons that are available to his counterparts in developed economies.

Cultural factors also make it difficult to introduce U.S. (and international) auditing and accounting standards. Indonesian society fosters a tradition of non-confrontation, a respect of authority, and an emphasis on personal relationships over abstract and impersonal principles. Thus, an audit process based on challenge and accounting based on increasingly rigid rules is difficult to implement. For example, the Indonesian accountant must often apply standards the client may not be pleased with and then confront the client with the result in the name of an abstract set of principles which has little to do with their personal relationship. His only recourse, therefore, is to find some way to implement those principles he considers pertinent and to do so in harmony with his people's cultural values.

A New Capital Market

On August 10, 1977 the first Indonesian capital market opened with the public issuance of 5 percent of the shares of P.T. Semen Cibinong, a U.S.-Indonesian joint venture cement manufacturing company. This client of Darmawan & Co. (member firm of Touche Ross International) previously filed financial statements with the Securities and Exchange Commission of the U.S. as a significant subsidiary of its American parent, Kaiser Cement and Gypsum Corporation. The accounting principles used in both cases were the same, although the filing for the Indonesian prospectus was in the Indonesian language and the SEC filing was in English. Although the SEC requirements were generally more restrictive than those of its Indonesian counterpart, no conflicts between the two sets of financial statements arose.

At this writing, there is only one company listed on the Indonesian stock exchange, yet the existence of the exchange is an indication of a changing need in the accounting profession. Initially, this need will exist side by side with

the traditional approach. As the economy develops, however, and small family-owned businesses are replaced with larger more efficient ones and with more absentee capital institutions, the traditional approach will become less important and the concepts borrowed from the North—as Western influence is called—will become more important. The existence of a stock exchange will, by its very nature, encourage absentee ownership of capital and the creation of more rigid rules and standards. However, there must be an awareness that it will also create an atmosphere of rising public expectations. If the United States experience is any criteria, there will be misinterpretation, misjudgment, and even misdeeds leading to progressively stricter corrective action. One may hope that the American experience that produced the need for SEC regulation in the 1930's will not be duplicated in Indonesia. Unfortunately, it seems likely that only by experience will this nation learn to separate those types of restrictions which reflect a purely Western culture and those which are truly required by Indonesia's economic development.

An extensive accounting technology exists for companies whose shares are sold in a public market. But the task of adapting this technology to third world economies has just begun. Each country will have to make its own mistakes and correct them in its own way. Of course, countries which have developed such technology should provide others with whatever assistance they can. In the final analysis, however, the transfer of accounting and auditing technology is not really a transfer—it is the borrowing of a few bricks to build a new house, which may resemble but cannot be, as the builders cannot be, exactly the same as what came before.

Profile of an Indonesian Auditor

What is the professional equivalent in Indonesia of an audit supervisor? Quite different from the U.S. counterpart. For example, a staff employee will rarely have five years of public accounting experience, have earned the Indonesian equivalent of a CPA (Registered Public Accountant), and be responsible for the administration of several audits.

Instead, the "backbone" of Indonesian accounting is the first assistant, who generally has many years of audit experience and ranges in age from under 30 to over 60. These professionals are not registered public accountants and generally do not expect to become so, unless methods of qualification are changed.

Registered public accountants, on the other hand, are difficult to find and harder to retain. With the exception of its partners, all of Darmawan & Co.'s RPA's, for example, have been with the firm less than one year. They are all Drs. (five years of university education) and have completed at least three years of government service as accountants. For most of them, their age and prospects—but not their public accounting experience—best approximate those of U.S. audit supervisors.

For about $13,000 per annum, plus a company car, Darmawan's registered public accountants arrive at work at about 8:00 a.m. and officially quit at 3:00 p.m. Office dress is less formal than in the U.S. Usually, these professionals wear neither jackets, nor ties, although most client offices are air conditioned.

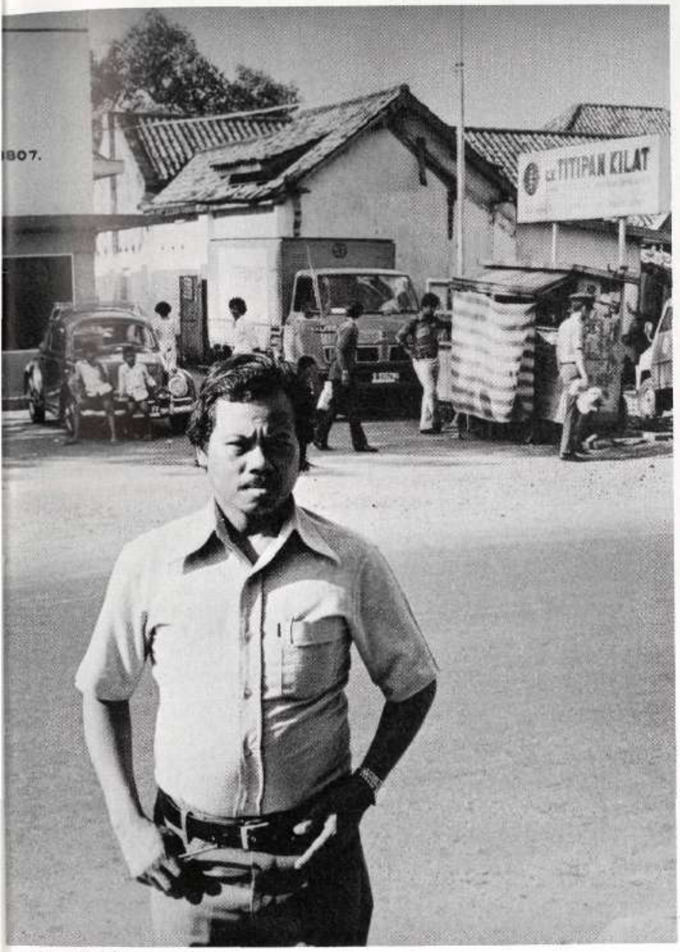
Sounds attractive? The other side of the coin is that life is expensive. A small car costs about one year's salary (gross). Western-size housing costs about three times the New York City cost, and is inferior. Moreover, one also works on Saturday from 8:00 to 1:00. And while out-of-town travel is infrequent, it can include riding a small boat for a few hours through the jungles of Kalimantan (Borneo to geography buffs).

Personal relationships between staff and clients are very different from that on the American scene. In the U.S., supervisors are often less than five years younger than new partners and less than five years older than new assistants. All levels generally have common educational backgrounds and aspirations.

The structure in Indonesia is not as mobile. The age and experience of staff people working for the registered public accountant vary widely and they will have little hope of moving into the RPA category. This does not mean that personal relationships are distant. In fact, the structure is relaxed because close competition is not a problem. Everything fits into place, and those places are relatively stable.

The future offers an intriguing question. As yet, there are no guidelines or precedents, no average number of years to manager or partner. Can the opportunity, indeed, be open? There are less than 130 registered public accountants in public practice in a country of about 130 million people. As Indonesia moves toward an economic take-off, RPAs in public practice can still think of themselves as "one in a million."

How long will that figure hold?



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