

The Influence of Auditor's Education Level, Accounting Education, Public Accountant Firm Size on Accounting Profession: Implication to Good Corporate Governance in Indonesia

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Abstract

The purpose of this study is to test empirically the influence of auditor education level, accounting education, the amount of public accounting firm to the accounting profession and its implications for the application of the principles of good corporate governance in Indonesia. The research method is descriptive verification by using quantitative approach. Data were collected through indirect communication techniques using questionnaires, limited interviews, and documentation studies in an effort to add explanatory elements to the survey results. There are 88 valid respondents from simple-randomized 500 public accounting firms in Java as samples. The result shows that there is a correlation between the accountant's education level with accounting education and the magnitude of public accounting firms with moderate level of influence. Coefficient of determination of education level auditor, accounting education, and quantity of public accounting firm simultaneously have positive effect on accounting profession. On the other hand, auditor's education level and the magnitude of public accounting firm partially have an insignificant influence on the Accounting Profession. The result also shows that there is influence of education level of auditor, accounting education, accountant public accountant level and accounting profession partially or simultaneously to the application of good corporate governance principles. Nevertheless, level of education of auditor and the magnitude of public accounting firm partially have an insignificant influence to the application of good corporate governance principles.

Keywords: Auditor's education level; accounting education; public accountant firm size; accounting profession; good corporate governance.

1. Introduction

The accounting profession is one of the professions needed and the enormous influence and relevance for the company in dealing with the complexities of the fast-moving business world. The more complex and the extent of corporate activity transactions will require the accountant to always anticipate with the implementation of a reliable accounting system. On the other hand, the growing number of stakeholders also makes the company, in this case its accountants, need to implement a better corporate governance system. The growing demand for transparency and accountability has prompted companies to be more cautious in stepping up and accountable for their activities more accurately.

However, it is not always expected that conditions will work well. There are several loopholes in the system and mistakes made by either the company's management, the public accountant or the auditor causing substantial losses to stakeholders and have an impact on the decrease of public confidence in the company as well as the accounting profession.

Cases of corporate failure that make big news like the Enron case, World.com in America, are only a small part of failing to realize good governance. Some of the cases included in the scandal seven corporate giants such as that expressed by Pratama (2015) emission Volkswagen scandal, Word.com accounting scandals, Enron accounting scandal, Ponzi scheme carried out Bernie Madoff scandal Riggan Libor, Petrobras corruption, fraud Accounting Olympus. Even around the beginning of 2015, we hear of a Toshiba accounting scandal. In news of CNN Indonesia July 20, 2015 reported fake financial statements, Toshiba will be punished by the government. In the case of Toshiba it was claimed that an independent investigator found that Toshiba has been exaggerating the increase in corporate profits (metro-news.com, 21 July 2015).

Similar financial scandals in Indonesia also occurred i.e. cases of PT Kimia Farma, Tbk, PT Indofarma, Tbk and PT Semen Gresik, Tbk. PT Kimia Farma, Tbk has been proven to do engineering financial statements by way of enlarge profit. Net income for the year ended December 31, 2001

reported overstated Rp 32.668 billion or 24 percent greater than the actual net profit (Capital Market Supervisory Agency - Bapepam, 2002).

The same case also happened to PT Indofarma, Tbk which reported a net profit of fiscal year 2001 amounted to Rp28.87 billion. Meanwhile PT Semen Gresik, Tbk cannot present consolidated financial statements in 2002, which caused a subsidiary of PT Semen Padang could not be audited because the company's internal chaos (Bapepam, 2003).

While the accounting profession in this case a public accounting firm in Indonesia had suffered unbelievably bad situation, there are nine public accounting firms get sanction from the government, at the end, public accountant will be frozen until 2016 based on the Ministry of Finance.

Based on these cases, this contextual situation requires attention in various aspects of professional development of accountants, including through a study. Compared with the existing regulations, cases of violations committed by accountants is really very ironic, because there has been an expectation gap between the situational aspects of the conditional aspect. In this case, there has been a gap between what is expected by the users of public accountant services and the practice of violations committed by some public accountants that occurred in the field.

The Indonesian Institute of Certified Public Accountants (formerly known as the Indonesian Institute of Accountants – Public Accountant Compartment) as a forum for public accountants has made a set of rules for public accountants to carry out their work always based on the Auditing Standards contained in the Professional Standards of Certified Public Accountant (SPAP). In addition, the government through Bapepam-LK continues to encourage public accountants to participate in upholding good corporate governance (GCG), especially in public companies listed on the Indonesia Stock Exchange. Nevertheless, the violations are still occurring.

Nevertheless, continuous improvement is made by IAI (Indonesian Institute of Accountants). The establishment of the Indonesian Institute of Certified Public Accountants (IAPI) is a response to the impact of globalization. The IAPI is expected to meet all the requirements of the International Federation of Accountants (IFAC) associated with the profession and ethics of public accountants, as well as to meet the requirements demanded by IFAC as stated in the Statement of Member Obligation (SMO). In accordance with the Regulation of the Minister of Finance No. 17/PMK.01/2008 recognizes IAPI as a public accounting profession organization authorized to

conduct public accountant certification examination, preparation and publication of professional standards and public accounting ethics, and conducts sustainable education programs for all public accountants in Indonesia (Payamta, 2009).

Kurniawan and Indriantoro (2000) stated that corporate governance mechanisms are not yet effective for companies in Indonesia, and the concept of corporate management in Indonesia embraces two-board system (board of commissioners and board of directors) whereby in the execution of its duties both the board of commissioners and the board of directors are often Not clear even tend to blur. This is further exacerbated by the company's ownership structure which is likely to be owned by family and management and there is little separation between ownership structure and corporate management. This latter point is often the main problem, where the absence of a strict separation between ownership and corporate governance leads to corporate management Tend to only side with one of the owners only.

Survey describing company performance in Indonesia was conducted by Price Water House Coopers (PWC) and Jakarta Stock Exchange (JSX) (2002) stating that perception of public governance standard in Indonesia viewed from: auditing and compliance, accountability to shareholder, disclosure and transparency, and board processes are still low compared to Asian and Australian countries.

An interesting phenomenon today higher education in Indonesia is the low quality of graduates and does not suit the needs. This resulted in the unemployment rate of graduates of higher education in Indonesia which continues to increase from time to time. On the other hand foreign workers coming from higher education abroad continue to come to Indonesia to enter the power market in Indonesia. Lecturers as human resources of higher education play a key role in improving the quality of higher education graduates. Lecturers in higher education are an effort that must be done to be able to answer the problem of low quality of graduates.

The world of accounting practice and education in Indonesia has also undergone many changes since the emergence of accounting science in the era of the 1960s. Accounting education in Indonesia has undergone a fundamental change since the early 1990s (Payamta, 1999). Beginning with the change of Accounting Principles of Indonesia (PAI), it replaced with Financial Accounting Standards (SAK) at the IAI Congress in 1994 which also agreed on the birth of the Compartment of Educators Accountant. And at this time the financial accounting standards continue

to adjust with international standards called the International Financial Reporting Standards (IFRS) which has been fully adopted since 2012.

The changes are intended to improve the professionalism of accountants with adequate mastery of the three requirements for professionals, namely knowledge, skill, and character (Novin and Tucker, 1993). Because the accountants must have credibility in preparing and carrying out a review of the financial statements, then the results will be used by stakeholders as the basis for decision makers.

Accounting profession in Indonesia is expected to be able to improve the quality and cannot be separated from accounting education in Indonesia that provides the ability of knowledge and expertise in the field of accounting. To be able to provide good graduate quality accounting education must have a permanent lecturer in the field of accounting even if has a professor in the field of science accounting.

Based on the author's explanation above, the authors suspect that the principles of good corporate governance can run well in every business entity, if the role of accounting profession functions properly. For the accounting profession can play a good role is determined by the level of adequate auditor education, the quality of accounting education, magnitude and the number of public accounting firms spread evenly throughout the territory of Indonesia. Therefore, a research is needed to test empirically the influence and interrelationship between these variables. This makes the writer submit a research title: the influence of auditor education level, accounting education, the magnitude of public accounting firm to the accounting profession and its implication to the application of the principles of good corporate governance in Indonesia.

2. Literature Review

2.1 Auditing

Arens, et al. (2010: 4) defined *auditing as an accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent, independent person.*

2.2 Education Level of Auditor

A public accountant is a person entitled to hold a title or an accountant's name in accordance with applicable laws and regulations and has the permission of the Minister of Finance or other authorized officers to provide professional services to the general

public as stipulated in Regulation of the Minister of Finance No. 17/PMK.01/2008 on Public Accounting Services. Professional services are primarily intended to meet the needs of users of financial information such as: investors, creditor, prospective investors, prospective creditors, and government agencies.

An auditor must have a minimum vocation education majoring in accounting. Since 2004, auditor must complete the master degree in accounting and must take profession program in accounting (PPA). Furthermore, to obtain a license to practice as a public accountant, must pass the certified public accounting exam (USAP) that was held by IAI and treasury department.

2.3 Accounting Education

According to National Education System, accounting higher education is divided into vocational and academic education. Vocational education programs emphasis on applied skills; moreover, academic education is higher education directed primarily at the mastery and development of certain disciplines of science, technology and/or art, which includes undergraduate and postgraduate programs.

The next educational path is professional education, i.e, profession program in accounting (PPA). PPA taken after the students graduated from bachelor degree in Accounting for only three semesters. They will get Accountant degree and have a state register number.

For someone who wants a career as a public accountant then he must follow the Certification Examination of Public Accountant (USAP). USAP is a certification exam organized by IAI profession organization. USAP is the main requirement for obtaining a Public Accountant's license from the Ministry of Finance.

There is an increasing number of accounting and financial rules that students must study and accountants, professional accounting bodies (IAI) are now becoming more concerned with accounting education such as the International Financial Reporting Standards (IFRS) adoption process since 2012. Sugahara et al. (2010) states that accounting association such as IAI maintains the importance of generic skills development awareness programs. It is also proclaimed by the International Federation of Accountants (IFAC). According to IFAC, the increasingly changing world economic environment demands professional accountants equipped with generic skills such as communication, teamwork, leadership, problem-solving skills, analytical and interpersonal skills (AngayKutluk et al., 2012).

2.4 Accountant Firm Size

Public Accounting Firm (KAP) pursuant to Regulation of the Minister of Finance number: 17/PMK.01/2008 concerning Public Accounting Services is that business that has obtained permission from Minister of Finance as a forum for Public Accountant in giving its services. The organizational range in the Public Accounting Firm generally includes partner, manager, supervisor, senior or in-charge auditor, and assistant. The position of the auditor's position at each Public Accounting Firm varies, but the structure is relatively the same.

Hierarchy of organizational structure in the public accounting firm in general can encourage the competence of an auditor. Individuals at each career level supervise and review other occupations at lower career levels within the organizational structure. An assistant staff, supervised directly by senior in charge, senior in charge is supervised by manager and partner. The size of the audit firm by Deis and Giroux (1992) is measured by the number of clients and the percentage of the audit fee in an attempt to keep the client from moving on to another Firm.

2.5 Accounting Profession

Professionalism is a field of work based on certain skills, skills, and honesty education. Novin and Tucker (1993: 28) identify professionalism as mastery in the areas of knowledge, skills, and characteristics (ethics). Furthermore, Novin and Tucker (1993: 28) provide an illustration that to make accountants, academics and practitioners achieve an adequate level of professionalism, they must master the above three points.

Professionalism is the attitude and behavior of a person in doing a particular profession. He mentions that a professional person, in addition to having technical expertise and competence, must have the seriousness and thoroughness of work, the courage to bear the risk, perseverance and fortitude, high integrity, consistency and unity of thought, words and deeds. In the Indonesian public accounting profession, public accounting professionals are listed in the book "professional standards of public accountants" issued by the Indonesian Institute of Accountants (IAI, 2001).

2.6 Good Corporate Governance

Good corporate governance (GCG) is a form of governance that focuses on the interests of shareholders and managers where market sentiment is more influenced by other factors outside of corporate

governance because principals and agents are more oriented towards short-term earnings (Shaw, 2003; 77). Stanley in Faisal (2002) stated that good corporate governance is good corporate governance through the implementation of business performance quality and business conformance quality with sustainable profit creation and continuous value creation process.

Principles of corporate governance by OECD (1999) include:

1. The legal basis required to ensure the effective implementation of good corporate governance (ensuring the basis of an effective corporate governance framework);
2. The right of shareholders and key ownership functions);
3. The equitable treatment of shareholders;
4. The role of stakeholders in corporate governance;
5. Disclosure and transparency; and
6. The responsibilities of the board.

2.7 Framework and Development Hypothesis

The auditor has the power to detect errors and objectives of corporate management and reporting irregularities. An independent auditor can play its role effectively and maintain good governance whereby the auditor can remove the bias from the company's financial statements. But some argue that there are still many auditors who lack the skills or willingness to provide quality audits, thus ultimately quality auditors have a positive impact on the implementation of good corporate governance.

This study predicts that the lack of quality auditors is related to the accounting education background of the auditor. Accounting education is provided by universities or colleges or accounting institutions through undergraduate programs and accounting profession education programs. The university curriculum or higher education in accounting field should be comprehensive and in line with market requirements (Bahraminasab and al., 2012) that are dynamic and rapidly changing to produce graduates who will become potential accountants and experts in their fields (Angaykutluk et al., 2012).

Krishnan (2005) concluded that the independence and deep understanding of the financial statements of the audit committee is closely linked to their ability to resolve internal control issues within the company.

Chuntao Lie, Frank M. Song and Sonia M.L. Wong (2005), using a data panel to examine the relationship between the size of the Firm and audit

quality in China, concludes that larger firms tend to provide higher quality audit services. Various studies (DeAngelo 1981; Davidson and Neu, 1993; Dye, 1993; Becker et al., 1998; Lennox, 1999) found a positive relationship between the size of KAP and audit quality, KAPs of which resulted in higher audit quality because there was an incentive to maintain reputation in the market. In addition, large KAPs already have extensive and large client networks so that they are independent of or not afraid of losing clients (DeAngelo, 1981).

Research conducted by the author is about the influence of auditor education level, accounting education, the amount of public accounting firm to the accounting profession and its implications for the application of the principles of good corporate governance in Indonesia. This research is supported by the theory of entity theory (Paton 1992) in Hendriksen (2000: 348) suggests that the company is seen as a separate economic unit operating primarily for the benefit of equity holders.

Novin and Tucker (1993) provide one idea that being an accountant, academician or practitioner achieves an adequate level of professionalism must master the field of knowledge, skills and characteristics (ethics). To be able to prepare a qualified accountant, what should be done is to equip prospective accountants through higher education in accordance with the profession (Baridwan, 1998; Wirakusumah, 1998; Indriantoro, 1999). Larger KAPs tend to provide higher quality audit services (Chuntao Li, Frank M. Song and Sonia ML Wong, 2005; Defond, Wong and Li, 2000; Citron and Toffler, 1992 and Ireland, 2003; Krishnan and Scahuer 2000). It also increases the credibility of the profession through increased independence, competence and public trust. (Baush and Lomb, 1995, Sumbeyan, 2000). Thus, the implementation of good corporate governance, improving the quality of audits conducted and increasing the credibility of the profession through increased independence, competence and public confidence.

The hypotheses of this study are as follows.

Ha₁: There is a relationship between the level of auditor education, accounting education, and the size of the public accounting firm

Ha₂: There is an influence between the level of auditor education, accounting education, and the amount of public accounting firm partially or simultaneously to the accounting profession.

Ha₃: There is an influence between auditor education level, accounting education, the amount of public accounting firm and accountancy profession partially or simultaneously towards the application of the principles of good corporate governance.

3. Research Methodology

3.1 Research Type

This research was conducted by collecting data circulating questionnaires, to the auditors who work in public accounting office in Java Island. The questionnaire used in this study is Likert scale with the weight of values 1 to 5. With the description of the value of the options are: Strongly Disagree = 1; Disagree = 2; Hesitate = 3; Agree = 4; Strongly Agree = 5.

Interviews and document observations are conducted on the Leadership of Public Accounting Firm to obtain supporting document data about the auditor related to the research variables.

3.2 Population and Sample Research

The population in this study is all auditors who work in public accounting firm in Indonesia. Based on data directory of Indonesian Institute of Certified Public Accountants (IAPI) in 2016 the total number of auditors listed as members of IAPI holders of 1067 public accountant-active licenses and spread over 525 Public Accounting Firm throughout Indonesia (<http://iapi.or.id/>, Accessed May 25, 2016).

The sample is a portion of the population that is expected to represent the characteristics of the population. The sample in this study is a public accountant based in Java. The sampling used in this study using random sampling method based on data directory of the Indonesian Institute of Certified Public Accountants in 2016.

4. Result

Based on the survey results show a statistical description of each variable can be presented in Table 1 as follows.

Table 1. Descriptive Statistics

	Mean	Std. Deviation	N
TPA	19.9545	2.92398	88
PDAK	31.6591	2.86832	88
BKAP	26.6477	3.52019	88
PFAK	42.3864	3.18557	88
GCG	45.3409	4.49747	88

Source: Descriptive Statistics Results with SPSS 21 (processed by author, 2017)

Table 1 shows that the average level of education of auditors was 19.95 with a standard deviation of 2.92; Average of accounting education 31,66 with standard deviation 2,87; The average KAP amount is 26.65 with the standard deviation of 3.52; The accounting profession averaged 42.39 with a standard

deviation of 3.19; And applying the principles of good corporate governance (GCG) averaging 45.04 with a standard deviation of 4.50.

Table 2. Correlations

		TPA	PDAK	BKAP	PFAK	GCG
TPA	Pearson	1	.574	.432	.307	.345
	Correlation					
	Sig. (2-tailed)		.000	.000	.004	.001
	N	88	88	88	88	88
PDAK	Pearson	.574	1	.559	.436	.496
	Correlation					
	Sig. (2-tailed)	.000		.000	.000	.000
	N	88	88	88	88	88
BKAP	Pearson	.432	.559	1	.251	.299
	Correlation					
	Sig. (2-tailed)	.000	.000		.018	.005
	N	88	88	88	88	88
PFAK	Pearson	.307	.436	.251	1	.629
	Correlation					
	Sig. (2-tailed)	.004	.000	.018		.000
	N	88	88	88	88	88
GCG	Pearson	.345	.496	.299	.629	1
	Correlation					
	Sig. (2-tailed)	.001	.000	.005	.000	
	N	88	88	88	88	88

Table 2 shows that accounting profession has the highest correlation with the implementation of good corporate governance that reaches 62.9 percent; followed by accounting education with the implementation of good corporate governance which reached 49.6 percent; education level auditor with the implementation of good corporate governance reached 35.5 percent; and the magnitude of public accounting firm with the implementation of good corporate governance reached 29.9 percent.

The relationship between the auditor's education level, accounting education, and the size of the public accounting firm

Based on the results of research states that there is a relationship between education level auditor, accounting education, and the magnitude of public accounting firm can be accepted, can be seen the results of correlation coefficient value between education level auditor with education accounting is 0.574 means have a unidirectional correlation and have the closeness or level of relationship. The value of correlation coefficient generated between education level auditors with KAP magnitude is 0.432 means has a unidirectional correlation and has a close relationship or level of relationship. And the value of correlation coefficient generated between Accounting Education with Magnitude KAP is 0,559 means has a direct correlation and has a close relationship or level of relationship.

The influence between education level auditor, accounting education, and the amount of public accounting firms partially or simultaneously to the accounting profession.

Based on the research results can be seen that the coefficient determination education level auditor, accounting education, and magnitude public accounting firm simultaneously have a positive effect on accounting profession. However, partially the auditor's education level and the magnitude of public accounting firm have influence on accounting profession but not significant. The amount of influence of education level auditor, accounting education, and public accountant accounting professional accounting reached 19.5 percent, the rest of 80.5 percent influenced by other factors.

The influence between education level auditor, accounting education, the amount of public accounting firms and the accounting profession partially or simultaneously to the application of the principles of good corporate governance.

From the research results prove that there is influence of education level auditor, accounting education, accountant public accountant level and accounting profession partially or simultaneously to the application of the principles of good corporate governance. However, the level of education of auditor and the magnitude of public accounting firm influences partially the application of good corporate governance principles but not significant. The magnitude of influence of education level auditor, accounting education, accountant public accountant and accounting profession level toward the implementation of the principles of good corporate governance reached 45.8 percent, the rest of 54.2 percent influenced by other factors.

5. Conclusion

Based on the results and discussion of this research, it can be concluded as follows:

1. Stating that there is a correlation between the accountant's education level with accounting education and the magnitudes of public accounting firms with the degree of fairness is still at a moderate level.
2. Coefficient of determination of education level auditor, accounting education, and magnitude of public accounting firm simultaneously have a positive effect on accounting profession. However, partially the auditor's education level

and the magnitude of public accounting firm have an influence on the accounting profession is not significant.

3. There is influence of education level auditor, accounting education, accountant public accountant level and accounting profession partially or simultaneously to the application of good corporate governance principles. However, the level of education of auditor and the magnitude of public accounting firm influences partially the application of good corporate governance principles but not significant.

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