

International Financial Reporting Standards (IFRS) Convergence in Indonesia: Contextual Factors and Fair Value Implementation

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List of Acronyms and Abbreviations

AAO-IFI	Accounting and Auditing Organisation for Islamic Financial Institutions
AAS-IFI	Accounting and Auditing Standards for Islamic Financial Institutions
ACCA	Association of Chartered Certified Accountants
AEC	Asean Economic Community
AOSSG	Asian-Oceanian Standard Setters Group
ARA	Annual Report Award
AVA	ASEAN Valuer's Association
Bapepam-LK	Badan Pengawas Pasar Modal [Capital Market Supervisory Agency]
BI	Bank Indonesia [Central Bank of Indonesia]
BPS	Biro Pusat Statistik [Statistical Centre Bureau]
CA	Chartered Accountant
CPA	Certified Public Accountant
DSAK	Dewan Standar Akuntansi Keuangan [Indonesian Financial Accounting Standards Board]
EEG	Emerging Economies Group
ETAP	Entitas Tanpa Akuntabilitas Publik [Non-Publicly Accountable Entity]
EVA	Economic Value Added
IAI	Ikatan Akuntan Indonesia [Institute of Indonesia Chartered Accountants]
IAS	International Accounting Standard
IAMI	Insitut Akuntan Manajemen Indonesia [Indonesian Institute of Management Accountants]
IAPI	Institut Akuntan Publik Indonesia [Indonesia Institute of Public Accountant]
ICAEW	Institute of Chartered Accountants in England and Wales
IDX	Indonesia Stock Exchange
IFAC	International Federation of Accountants
IFASS	International Financial Accounting Standard Setters
IFRIC	IFRS Interpretation Committee Institutions
IFRS	International Financial Reporting Standards
IPD	Initial Professional Development
ISA	International Standard of Auditing
IVS	International Valuation Standard
IVSC	International Valuation Standards Council

KAP	Kantor Akuntan Public [Public Accountant Firm}
KAPD	Kompartemen Akuntan Pendidik [Compartment of Academic Accountants]
KEPAP	Kode Etik Profesi Akuntan Publik [Public Accountant Code of Ethics)
KEPI	Kode Etik Penilai Indonesia [Indonesian Valuer Code of Ethics)
KMK	Keputusan Menteri Keuangan [Finance Ministry Decision]
KNKG	Komite Nasional Kebijakan Governance [National Committee for Governance Policy]
MAPPI	Masyarakat Profesi Penilai Indonesia [Indonesian Society of Appraisers]
MIA	Malaysian Institute of Accountants
MOF	Ministry of Finance
OJK	Otoritas Jasa Keuangan [Financial Service Authority]
PSAK	Pernyataan Standar Akuntansi Keuangan [Statement of Financial Accounting Standards]
PMK	Peraturan Menteri Keuangan [Finance Ministry Regulation]
PPAJP	Pusat Pembinaan Akuntan dan Jasa Penilai [Centre for Supervision of Accountants and Appraiser Services]
PPPK	Pusat Pembinaan Profesi Keuangan [Finance Profession Supervisory Centre]
PRP	Professional Recognition Program
RWG	Regulatory Working Group
SA	Standar Audit [Audit Standards]
SAP	Standar Akuntansi Pemerintah [Government Accounting Standards]
SPAP	Standar Profesional Akuntan Publik [Public Accountant Professional Standard]
SME	Small Medium Enterprise
UU	Undang-Undang [Law]
WSS	World Standard Setters

ABSTRACT

IFRS has been adopted and implemented in more than 100 countries around the world. The purpose is to achieve comparability (Barth et al., 2012, Yip and Danqing, 2012), and reduce both capital (Li, 2010) and preparation (Doupnik and Perera, 2012, p. 93) costs. IFRS adoption and implementation are not without problems and challenges; especially in countries where IFRS implementation is subject to different economic, social and institutional constructs. Each jurisdiction adopting IFRS has its unique environment with respect to political, culture, legal and economic issues. Accordingly, IFRS convergence and implementation occurs through these localised contexts and dynamic processes.

This thesis undertook an empirical investigation to explore the localized context that influenced both IFRS implementation and the assessment of fair value within Indonesia. This study used qualitative research methodology to provide an understanding of the critical factors that enabled or inhibited IFRS implementation, and used the accounting ecology framework proposed by Gernon and Wallace (1995) as a framework for analysis. It then utilised the concept of institutional work (Lawrence and Suddaby, 2006) to provide an understanding of how local actors conduct purposive actions in the process of fair value institutionalisation. Finally, the concept of modernity (Giddens, 1990) within accounting was deployed to explain the construction of fair value and its relationship to the concept of reliability.

This study offers three conclusions about the implementation of IFRS within an Indonesian context. First, successful IFRS implementation is influenced by the local accounting environment. Using the accounting ecology framework, this study finds challenges surrounding IFRS implementation within Indonesia, including the lack of legal backing and enforcement, the lack of coherent regulations and the difficulties in implementing complex standards such as fair value, as well as the lack of professional competence in being able to execute professional judgement. This highlights the importance of strengthening law enforcement and synchronising regulations. Regulators must have the same orientation as professionals in interpreting how accounting standards and practices in Indonesia will be developed and applied. The problem of professional competence is triggered by the lack of adequate and appropriate training, education, and IFRS practical guidance for users, including preparers, public accountants and other professionals including appraisers. Hence this study argues that ongoing developments, as well as education and training programs for professionals, are critical in being able to enhance professional competence.

Second, the unique local context influences fair value implementation, especially its institutionalisation within an Indonesian setting. Institutionalisation of fair value is a process involving the efforts and roles of local actors who have their own interests and who seek legitimacy. The purposive actions of individual or collective actors and their sectional interests, and the search for legitimacy that motivate these actors, influence the institutional and local context in which IFRS ultimately operates. Using the concept of institutional work (Lawrence and Suddaby, 2006), this thesis finds actors undertake political, technical and cultural actions (Perkmann and Spicer, 2008) which shape how IFRS and fair value become institutionalised. The effects of the political, technical and cultural actions are stronger when these actions are deployed concurrently. The combination of these three actions will influence the institutionalisation of IFRS and fair value in the Indonesian context more than a single type of institutional work. Moreover, successful institutionalisation requires actions from actors from different levels and affiliations.

Third, IFRS and fair value are current accounting systems that reflect a ‘modernity’ as suggested by Giddens (1990), one which explains the complex social inter-relationships between actors. Fair value involves the transformation of physical and text information into a monetary account, which involves a process of subjectivity, judgment, estimation and calculation. Actors that possess expertise, including managers, appraisers and auditors, are then involved in the fair value valuation and verification process. The fair value regime reflects modernity in accounting as it requires trust among experts who have a specific understanding and construction of fair value based on the local context of no-active market and absence of adequate professional competence. The regime of fair value has also changed the conception of reliability, from one of economic reality to social construction of consensus. Real market value as a basis for fair value cannot be obtained, rather, only a consensus of estimates between actors involved in the process (Power, 2010, Jeppesen and van Liempd, 2011, Machado et al., 2015).

In practical terms, the Indonesian experience of IFRS implementation provides lessons for other emerging economies which are implementing IFRS.

Declaration Page

I certify that the research described in this thesis has not already been submitted for a higher degree to any other university or institution. I certify that to the best of my knowledge, this thesis has acknowledged all sources used and any help received in the preparation of the thesis and meets the requirements of the National Statement on Ethical Conduct in Human Research (Human Research Ethics approval Reference number: 5201500198).

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Chapter 1: Introduction

This chapter provides an overview of a study of IFRS implementation within an Indonesian context, including the motivation for and background to the research, and establishes the overarching research questions and objectives. This thesis follows the thesis by publication format, constituting three individual research papers, in publication format, coalescing around a central theme. An overview of the thesis and the themes of the papers are provided in this chapter. The chapter provides a description as to how the papers are separate but interrelated, to explain the implementation of IFRS convergence within an Indonesia context, with a particular focus on fair value implementation. This chapter also explains the research methods and conceptual and theoretical framework applied in the thesis.

1.1. Overview

There has been calls for higher quality accounting standards to increase comparability and reduce financial reporting differences (Doupnik and Perera, 2012). The International Accounting Standards Board (IASB) have developed International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) to address the need for higher quality financial reporting. Currently, more than 100 countries around the world have implemented, or are currently implementing, International Financial Reporting Standards (IFRS). IFRS has been promoted as increasing comparability (Barth et al., 2012, Yip and Danqing, 2012), as well as reducing both the cost of capital (Li, 2010) and cost of financial statement preparation (Doupnik and Perera, 2012, p. 93).

Based on these arguments, the convergence of IFRS becomes an important agenda item in many adopting countries considering relinquishing their national accounting standards. Many countries around the world, including those with advanced and emerging markets, have adopted IFRS or converged their national accounting standards to IFRS. However, each jurisdiction adopts a different strategy, process and outcome during convergence and implementation, based on its unique local context. Given that IFRS is inherently fair value oriented, the issues surrounding fair value implementation are also prominent. Fair value uses market information to generate values. In the absence of market information, estimation and calculation are deployed.

This study is motivated by some important questions. First, how does the local context affect the successful implementation of IFRS? Second, what is the process by which complex standards such as fair value become institutionalised? Third, what is the understanding and

construction of fair value and how is the concept of reliability affected? This thesis addresses those questions, and examines the implication of the current accounting regime to the accounting environment within Indonesia. It identifies the unique local context of Indonesia in relation to IFRS convergence and implementation, and how IFRS convergence further affects the accounting environment within an emerging economy. The thesis argues that the social, political, legal, organisational and professional environment, all affect institutionalisation and shape IFRS implementation, as well as overall financial statement reliability.

1.2. Objectives of the Thesis

IFRS are promoted as high quality accounting standards, with their adoption increasing the comparability of financial reporting of adopting countries. However, each jurisdiction has its unique environment and specific political, culture, legal and economic contexts. These factors are embedded within each adopting country. Hence, countries with different local contexts have different dynamic processes and outcomes during IFRS convergence and implementation. It is insufficient to argue that global IFRS convergence will increase financial reporting comparability for all nations. Countries having liquid, transparent and well functioned capital markets, will face less challenges during IFRS implementation as IFRS's were largely developed and debated within Anglo-Saxon jurisdictions, which are characterized as having more established market and professional accounting environments. The implementation of IFRS within emerging non-Anglo Saxon countries without these characteristics face greater challenges.

IFRS's are characterised as principles-based standards that are fair value oriented (Cairns, 2006). Principles-based standards, as opposed to rules-based standards requires substantial judgments from professionals, hence professional competence is seen as critical. It also depends on the extent to which the local environment supports implementation, with a less favourable accounting environment leading to greater challenges. IFRS 13 *Fair Value Measurement* is characterised as a complex standard having, by nature, high estimation uncertainties (Christensen and Christensen, 2012, Christensen and Christensen, 2013). Therefore, its implementation is more challenging and raises issues of reliability. The non-favourable accounting environment is also regarded as a factor influencing fair value implementation within the Indonesian context. Hence, the process of institutionalisation of IFRS and fair value within Indonesia requires effort and struggle by various local actors, who seek their own interests and legitimacy. The role of local actors are to change institutions for their own benefit, which involve creating, maintaining and disrupting institutions (Lawrence and Suddaby, 2006).

Studies have highlighted inconsistencies in applying professional judgement across jurisdictions, especially in countries having different accounting environments to those in Anglo-Saxon countries where IFRS was developed (Doupnik and Richter, 2003, Doupnik and Richter, 2004). This inconsistency endangers the comparability of financial reports. Applying rules-based accounting standards requires professional competence, and a local environment that is supportive of implementation. The fair value approach has changed both the way data is transformed into monetary units, and the concept of reliability itself. Reliability of value is not seen as an objective examination of ‘reality’, but instead a social construction (Power, 2010). Given its subjectivity, fair value is therefore based on interpretation, estimation and assumptions among market participants, which finally result in value consensus.

This thesis draws attention to the importance of contextual factors that might result in different IFRS convergence and implementation outcomes. The context of the local accounting environment can support or inhibit the IFRS convergence objective of increasing financial reporting comparability. The overall theme of this thesis is IFRS convergence within Indonesia and how the local context influences implementation. Using Indonesia as a case study, this thesis has the following objectives; (1) to investigate how the local context contributes toward successful IFRS implementation within an Indonesian context; (2) to investigate the institutionalisation of IFRS, particularly fair value, in the Indonesian context by examining the efforts of actors and their purposive actions in the process of institutionalisation; (3) to investigate the construction subjectivity of fair value through the concept of reliability, taking into account conflict issues among experts.

1.3. Conceptual and Theoretical Framework

1.3.1. Accounting Standard Convergence and Local Context

Globalisation promotes greater economic, technological and political connections and dependency among countries. Investors may trade across jurisdictions and companies can generate funding from investors around the world. Accounting as the language of business, has a substantial role in providing information for investors and other stakeholders for decision-making. Globalisation has influenced accounting globally as countries embrace a single set of standards for financial reporting in order to reduce costs and facilitate investment flows. Financial reporting in one particular jurisdiction should be comparable with those from another for decision-making purposes. As globalisation permeates, there are calls to minimise the diversity in accounting practice, denoted as “convergence” or “harmonisation” in international accounting literature. Harmonisation is a process of moving from accounting dissimilarities to accounting uniformity (Tay and Parker, 1990). This process provides flexibility allowing countries have their own standards as long as they do not conflict

(Doupnik and Perera, 2012, p. 66). Harmonisation can be *de jure* (harmonisation of accounting regulation) or *de facto* (harmonisation of accounting practice). Harmonisation of accounting standards may not necessarily lead to harmonisation of accounting practice because each local jurisdiction is unique with respect to socioeconomic development, legal system, enforcement mechanism, culture and political system.

The notion of harmonisation changing to that of convergence followed moves in the 1990s to commit to a set of high quality standards for use in most all major capital markets. This culminated in the organisations restructure from the IASC into the IASB in 2001. Whilst similar to harmonisation, convergence refers to adoption of one set of internationally standards. The objective of convergence in international accounting is to reduce the differences in accounting standards. According to Doupnik and Perera (2012) :

“convergence means reducing international differences in accounting standards by developing high-quality standards in partnership with national standard-setters”.

Hence, IFRS convergence means reducing the gap between national accounting standards and IFRS, which in turn increases financial report comparability across jurisdictions. However, each jurisdiction has its own local accounting environment which influences the strategy, process and outcome of convergence and implementation.

IFRS has been developed and debated in Anglo-Saxon countries. As the local context of each jurisdiction influences the interpretation and application of IFRS, financial reporting is also effected, which can impede financial statement comparability across jurisdictions. Hence, it is pertinent to investigate the accounting environment in a jurisdiction with different institutional settings to that where IFRS was developed. Accounting is viewed as a function of environmental factors including the political, economic, legal and financing system, as well as culture (Choi and Mueller, 1992). Nevertheless, the number of factors influencing accounting and its importance varies, depending upon individual frameworks developed by Gray (1988), Nobes (1998), Doupnik and Salter (1995) and Schweikart (1985). Those frameworks assume that accounting is dependent only on a select number of factors or environments. Moreover, it only shows a causal relationship between accounting and its environment. Gernon and Wallace (1995) suggest a cause–effect relationship and suggest that institutional factors must be presented holistically. This allows for the investigation of phenomena in a particular country within its natural setting, and its interaction with accounting practice and within a broader institutional context.

Given that IFRS was developed in Anglo-Saxon countries, convergence and implementation in emerging countries with different features face greater challenges and problems which in

turn can lead to diverse outcomes (Karampinis and Hevas, 2011). Researchers have found differences in strategy toward IFRS adoption and implementation and how local actors respond and engage in IFRS application (Chamisa, 2000, Chand, 2005). Emerging countries have common features such as slow development of the accounting profession, and emphasis on rule-oriented approaches and taxation as a basis for accounting practice (Jermakowicz and Gornik-Tomaszewski, 2006, Larson and Street, 2004, Chamisa, 2000). The notion of an emerging economy is often intertwined with the notion of a “transitional economy”. The definition of emerging economy is sometimes vague, however it is often a terminology used for countries intending to develop into more advanced capital markets (Ezzamel and Xiao, 2011). They suggest that grouping non-advanced capital markets disregards political, cultural, historical and geographical differences, and therefore investigating phenomenon within individual emerging countries is relevant as it allows researchers to explore the unique features of particular emerging economies. This in turn, will influence whether advanced markets demonstrate homogenous forms over time, despite their emergence from different backgrounds, or whether these unique characteristics remain throughout the maturation process.

In order to provide a holistic picture of the accounting environment in a particular local context, Gernon and Wallace (1995) propose an accounting ecology framework consisting of five separate but intersecting environmental elements, namely societal, organisational, professional, individual and accounting. *Societal* environment describes both cultural and non-cultural elements. Non-cultural includes demographic, economic development, political development and level of technology. *Organisational* environment explains organisational culture, size, and capital and human resources. *Professional* environment deals with professional education, training, ethics and professional culture. *Individual* environment refers to individual behaviour and actions influencing or being influenced by particular accounting issues. *Accounting* environment focuses on accounting and auditing standards and practices, accounting regulation and accounting infrastructure.

With regard to IFRS convergence, this framework has been applied in studies (Hellmann et al., 2010, Tsunogaya et al., 2015, Perera and Baydoun, 2007) on Germany, Japan and Indonesia respectively. Even though this framework has been applied within an Indonesian context by Perera and Baydoun (2007) this research project is still unique in a number of respects. First, Perera and Baydoun (2007) conducted their study prior to Indonesia’s decision to converge its national accounting standards with IFRS. Currently, Indonesia has been implementing IFRS as local public companies are required to apply IFRS for their financial reports. Second, Perera and Baydoun (2007) analysed *ex ante*, how the accounting ecology

may support the adoption of IFRS in Indonesia. This study analyses *ex post* how accounting ecology actually influenced the success of IFRS implementation in Indonesia. Third, Perera and Baydoun (2007) found that localised Indonesian environmental factors, as existing in 2007, did not support IFRS adoption. However, recent changes have shown that almost all emerging and developed countries have adopted and implemented IFRS. The problems related to IFRS are no longer essentially about adoption, but relate to effective implementation.

1.3.2. Institutionalisation of IFRS and Fair Value

Institutional theory has been widely used in accounting research, being considered as a robust sociological approach within an organisational context (Greenwood and Hinings, 1996). Neo-institutional theory focuses on the institutional environment in shaping organisations and practices (DiMaggio and Powell, 1983) and emphasises the association of organisations with their institutional environment (Dillard et al., 2004). Institutional theory proposes institutional *isomorphism* (which can be coercive, mimetic and normative in nature), whereby organisations adopt similar structures and forms, and conform to “rationalised myths” (DiMaggio and Powell, 1983, Meyer and Rowan, 1977). It is implicitly implied that organisations or individuals always tend to comply with acceptable norms, notably IFRS, widely regarded as a set of high quality global accounting standards. IFRS, largely developed by Anglo-Saxon nations, have been adopted around the world within different local contexts.

From a sociological standpoint, accounting research has been placed within institutionalism, which deals with institution and institutionalisation. Institutions consist of “regulative, normative and cultural-cognitive that, together with associated activities and resources, provide stability and meaning to social life” (Scott, 2013, p. 58). Institutions are transported by relational systems, symbolic systems, artefacts and routines, and are implemented across multiple levels of jurisdictions. Institutionalisation is “the process whereby the practices expected in various social settings are developed and learned” (Dillard et al., 2004). The homogenisation of practice is referred to as *isomorphism*, emanating from the idea that in order to achieve social and economic fitness, organisations compete not only for customers and resources, but also for institutional legitimacy and political power (DiMaggio and Powell, 1983). Although the focus of institutional theory is isomorphism [similarity of processes or structures], there has emerged a new emphasis on institutional studies investigating the role of actors in the institutional change process. Institutional theory has previously been criticised as lacking explanation as to how actors shape and change institutions (Lawrence et al., 2009).

Therefore, studies have focused on how individuals and organisations act strategically, and the roles they play in institutional change or in affecting the institutional arrangement in

which they operate (DiMaggio, 1998, Greenwood and Hinings, 1996). Those studies accentuate the agency of actors in the institutionalisation change process. The agency concept shifts institutional theory toward emphasising isomorphism among organisations, who face similar institutional pressures to that of individual actors. This concept is based on an awareness that institutions are products of human action and reaction, and influenced by idiosyncratic personal agendas and incentives for institutional preservation and change (Lawrence et al., 2009). The process of convergence and implementation depends on the local context in each jurisdiction and the struggle of actors in changing and shaping institutions. Some studies have investigated how countries adopt and conform to social norms, in relation to IFRS, in order to gain legitimacy and power (Irvine, 2008, Albu et al., 2011, Alon and Dwyer, 2014). However, as each jurisdiction has its unique features, and hence homogeneity of practice, the degree of isomorphism is still the subject of debate.

Institutional theory previously focused on outcomes rather than processes, and it neglected group interests and the role of power (DiMaggio, 1988, Abernethy and Chua, 1996). Dillard et al. (2004) propose institutionalisation as a political process involving the “relative power of organised interests and actors who mobilise around them”. The relative power of actors supporting, opposing and striving to influence institutions, will influence the success of institutionalisation (DiMaggio, 1988). With regard to IFRS, its institutionalisation in a particular country will depend largely on efforts by actors within local contexts.

The role of actors in shaping institutional change has been investigated under the rubric of institutional entrepreneurship (Eisenstadt, 1980, DiMaggio, 1988). Institutional entrepreneurs are actors who leverage their resources to create new, as well as change and transform existing, institutions (DiMaggio, 1988, Garud et al., 2007). Institutional entrepreneurs provide the basic foundation for actors and their interests in the institutionalisation context (Garud et al., 2007, Perkmann and Spicer, 2008). Lawrence and Suddaby (2006) suggest going beyond institutional entrepreneurship, to include ‘institutional work’, which promotes the purposive actions of actors in changing and shaping institutions, given that institutionalisation cannot be achieved by a single entrepreneur (Greenwood and Suddaby, 2006).

Institutional work suggests that actors conduct purposive actions to create, maintain and disrupt institutions (Lawrence and Suddaby, 2006). This concept is based on an awareness that institutions are products of human action and reaction, which are induced by idiosyncratic personal agendas and interests for institutional preservation and change (Lawrence et al., 2009). The creation of institutions requires actors to establish and enforce rules, as well as design rewards and sanctions. Maintaining institutions focuses on how institutions reproduce themselves, through replication and reinforcement of social structures

over longer periods. Meanwhile, disrupting institutions focuses on manipulating, re-configuring, and re-categorising symbolic and social boundaries in order to re-constitute institutions. Previous studies have applied institutional work toward the institutionalisation of accounting and management innovation (Hayne and Free, 2014, Zietsma and Lawrence, 2010, Lawrence et al., 2002).

Along with institutional work that involves purposive actions of actors in creating, maintaining and disrupting institutions that has been proposed by Lawrence and Suddaby (2006), Perkmann and Spicer (2008) also propose a different framework of institutional work. Their framework adopts some of the methods of institutional work proposed by Lawrence and Suddaby (2006), but categorises them into three institutional works i.e. political, technical and cultural. Political work refers to new configurations of actors and reconfiguration of rules and property rights. Technical work focuses on designing frameworks that suggest, prescribe and recommend the course of action for certain actors. Cultural work refers to establishing system values and beliefs. This thesis applies the Perkmann and Spicer (2008) framework to explain the institutionalisation process of IFRS and fair value. This framework has been applied in the institutionalisation of Economic Value Added (EVA) in Thailand and China (Chiwamit et al., 2014).

IFRS are a global set of accounting standards that are principles-based and fair value oriented. Fair value is seen as superior to that of historical cost by providing greater relevance in terms of economic valuation (Penman, 2007) and in most of the qualitative characteristics of financial reporting, with the exception of reliability (Herrmann et al., 2006). Fair value is regarded as relevant for decision making, as it better reflects current market criteria (Palea, 2014) and financial performance (Power, 2010, Barth et al., 2001). However, due to the high degree of professional judgement, there is a trade-off between relevance and reliability (Christensen, 2010) with fair value often questioned. Moreover, having unfavourable operating environments provides further implementation challenges.

Reliability is a fundamental qualitative characteristic that changes overtime, and essentially represents faithful representation instead of verifiability (Barth, 2007, Kadous et al., 2012, Whittington, 2008). The fair value regime has changed the concept of reliability. As fair value involves a higher degree of subjectivity, reliability is not confined to the objectivity of facts examined, but instead is constructed by the different perceptions of actors involving in the valuation process, where consensus and parameters around value are initially determined by standard-setters without totally eliminating value subjectivity (Power, 2010).

The fair value concept has changed the way data is transformed into monetary language (Machado et al., 2015). Estimation, judgements and subjectivity are involved. In modernity

sociology, this is referred to as a *symbolic token* (Giddens, 1990), and in accounting specifically explains the transformation of data and information into monetary language (Jones and Dugdale, 2001). According to (Giddens, 1990), *symbolic token and expert system* are mechanisms in the modernity sociology, which also involves the concepts of *trust* and *risk*. The expert system represents “systems of technical accomplishment or professional expertise that organise large areas of material and social environments in which we live today” (Giddens, 1990).

The relationship between the expert system and modern society depends upon trust, and a “belief in the credibility of a person or system, considering a given set of outcomes or events” (Giddens, 1990). In the context of modernity, trust in systems is more important than trust in persons. Trust in systems that are supported by trust in persons will provide greater confidence in dealing with risk in modern society (Giddens, 1990, Jones and Dugdale, 2001). Modernity contains uncertainty risk, and hence requires trust in managing those risks (Jones and Dugdale, 2001).

The current accounting system as a reflection of modernity as suggested by Giddens (1990), explains the complexity of social inter-relationships between actors. With regard to fair value, data is constructed subjectively by considering what market participants would consider, and experts then achieve consensus on the fair value figure. The prominence of fair value highlights the relationship between different systems of expertise (Smith-Lacroix et al., 2012) in the form of collaboration among experts.

1.4. Research Design

1.4.1. Case Study Approach

The case study focuses on single example, distinguished from other research methods, which are generally based on a number of cases (Veal, 2005). It can investigate specific phenomenon in a single organisation or country. To some extent, the case study is geographically and temporally unique. It can be used for both exploratory and particular purposes. It is used to answer the “how” and “why” questions and focuses on current phenomenon within a real life context (Yin, 1994, p. 4). Data collection for case studies involves interviews, verbal reports or observations to generate primary data. Meanwhile, the generation of secondary data can be archival or written report based (Ghauri and Gronhaug, 2002).

In conducting case studies, the interview is an appropriate method of data collection, as it seeks to probe more deeply about particular phenomenon. Interviews can be structured, semi-structured or unstructured in nature (Bryman, 2015). In order to investigate the phenomenon

of IFRS implementation within a nation state context, this thesis uses Indonesia as a case study and adopts a qualitative research approach using semi-structured interviews. Semi-structured interviews allow the researcher to have an interview guide or a list of questions, but the interviewee has significant leeway as to how they answer. Questions may not follow a particular order, as the interviewer can ask questions not provided in the list, especially when the interviewer identifies issues that require further probing during the interview (Bryman, 2015, p. 314).

This thesis also adopts the snowball sampling method, allowing the interviewer to identify other respondents based on initial respondent information (Bryman, 2015, p. 302). The thesis involved 26 (twenty-six) participant interviews of regulatory bodies, professional bodies and professionals. Regulators consisted of 6 (six) participants from the Ministry of Finance, *Pusat Pembinaan Profesi Keuangan* (PPPK) [Finance Profession Supervisory Centre], *Otoritas Jasa Keuangan* (OJK) [Financial Services Authority], the Indonesian Stock Exchange (IDX), and *Dewan Standard Akuntansi Keuangan-IAI* (DSAK-IAI) [Indonesian Financial Accounting Standards Board - IAI]. Professionals included 7 (seven) auditors, 5 (five) preparers and 4 (four) appraisers. One (1) of appraisers also acted as a regulator representing PPPK. Professional body representatives involved participants working as both professionals and with positions as managerial staff at professional bodies i.e. *Ikatan Akuntan Indonesia* (IAI) [Institute of Indonesia Chartered Accountants], *Institut Akuntan Manajemen Indonesia* (IAMI) [Indonesian Institute of Management Accountants], *Institut Akuntan Publik Indonesia* (IAPI) [Indonesian Institute of Certified Public Accountants], and *Masyarakat Profesi Penilai Indonesia* (MAPPI) [Indonesian Society of Appraisers]. Four (4) participants working at professional bodies did not work as professionals. The interviewees were not randomly chosen across the broader general Indonesian spectrum, but were representative of important actors in accounting regulation and practice within the country. They were major decision makers or had major functional roles relating to financial reporting. The opinions and arguments expressed therefore reflected key issues surrounding IFRS implementation. The table below shows the summary of participants:

Table 1. Summary of Participants

Group of Participants	Number of participants	Participants Associations
Regulators	6	Ministry of Finance, Indonesia Stock Exchange, Financial Service Authority, Indonesian Financial Accounting Standards Board
Professional bodies	4	Institute of Indonesia Chartered Accountants, Indonesian Institute of Public Accountant, Indonesian Appraiser Society
Professionals	5 7 4	- Preparers - Auditors (some of them are also in professional bodies group) - Appraisers (one of them is also in a regulator group)

Interviews were conducted in May-June 2015, taking place mostly in the interviewees' place of work. Interviews were semi-structured in nature, whereby the interviewer designed the questionnaire based on the research question but provided flexibility in both how it was administered and respondent discretion in how it was answered. The processes of data analysis for the three papers were different based on the research question and objective of each paper. Paper one addresses the question as to how the local context affects the successful implementation of IFRS. Paper two addresses the question about IFRS implementation, focusing specifically on the process of fair value institutionalisation. Paper three focuses on the understanding and construction of fair value and how it affects the concept of reliability.

In addressing these research questions, paper one used the *accounting ecology framework* (Gernon and Wallace, 1995) as guidance for interviews. During the analysis, paper one constructed themes based on this framework as a basis for an interview guide. Meanwhile, paper 2 applies a thematic inductive approach whereby interview data were analysed to generate patterns and themes based on the research question/s. Therefore the process of coding the data was not driven by theoretical interest or by the desire to fit within a pre-existing coding frame (Braun and Clarke, 2006). However, this approach cannot disregard the theoretical and epistemological commitments. Therefore, this study relates the broad issues surrounding fair value implementation, such as the process of fair value institutionalisation, to a theoretical grounding being institutional theory and particularly *institutional work*.

In order to investigate the technical aspects of fair value, the interviewer examined the understanding and challenges of IFRS implementation, and how fair value reshaped the concept of reliability within the Indonesian context. Paper 3 therefore deconstructed *IFRS 13 Fair Value Measurement* to identify the construction of fair value, as well as its challenges and effects on the concept of reliability. Given that the third paper investigated the understanding and construction of fair value, this paper applied the phenomenography

approach the main purpose of which is to investigate “the qualitatively different ways in which people experience or think about various phenomena” (Sherman and Webb, 1988).

Interviews were conducted in the native Indonesian language *Bahasa*, and lasted for 40-90 minutes. Interviews were audio recorded with the participants’ consent. Following the interviews, audio data were transcribed and translated into English. This thesis used a professional translator to ensure Bahasa interview transcriptions were effectively translated using equivalent English grammar and structure. This thesis generated over 400 pages of interview data after being transcribed and translated. In analysing interview data, this thesis used the NVivo software package, which can help analyse and categorise qualitative data. The analyses using NVivo software for the three papers, was explained in the research method section in each individual paper.

Additional data from press releases, newspapers, organisation reports, and official websites were also analysed in order to provide a comprehensive picture to support the evidence gathered and “to identify different realities” (Stake, 2005, p. 443-66). Data exploration was conducted using a process of heuristic inquiry, comprising contemplation, awareness tacit and intuitive insight, as well as explication and creative synthesis (Berry and Otley, 2004, p. 231-55). The data analysis process used an emergent attitude in terms of going back and forth between data and theory to provide a coherent theoretically informed understanding (Ryan et al., 2002) of the IFRS implementation in the local Indonesian context.

1.4.2. Selection of Indonesia

Indonesia is an emerging economy at both the regional and international level, and is the world’s 4th most populous country at 260 million people. The Indonesian archipelago stretches over 1.9 million square kilometres and comprises over 13,000 islands. Whilst defined by a national language, it has hundreds of distinct linguistic and ethnic groups. Its diversity in geography, economy and demography make standards and rules challenging to both implement and enforce. Indonesia is a member of the G20 and is also actively involved in regional development across the Asian region. In the G20, Indonesia is the aspirator and representative of developing countries (Pakpahan, 2011), exposing its important role at the international level. As part of the broader G20 commitment, Indonesia has converged its national accounting standards to IFRS. It is also actively involved in regional forums such as ASEAN (Association of Southeast Asian Nations) and APEC (Asia Pacific Economic Cooperation), playing an important role supporting economic, political and socio-cultural integration. Moreover, Indonesia is also actively involved in accounting standard setter organisations, such as *The International Financial Accounting Standard Setters (IFASS)*, *The IASB World Standard Setter (WSS)*, *IASB Emerging Economies Group (EEG)* and *IFRS*

Regional Forum, in order to discuss IFRS related issues ((IAI), 2015). This provides the opportunity for Indonesia to discuss specific IFRS implementation issues that are impacted by local contextual factors.

Indonesia made a decision to adopt international accounting standards when as far back as 1994, it argued for US GAAP harmonization. In 2004, it made the first public announcement of IFRS convergence, with implementation by 2008. However, due to challenges, it was postponed until 2012. During the convergence process, IFRS was translated into Bahasa Indonesian and codified as PSAKs, a process that has taken a considerable amount of time. Indonesia has gradually converged its national accounting standards with IFRS standard-by-standard, translating IFRS into the Indonesian language. Because IFRS's are continually evolving, the IAI set IFRS's as at 2009, as the reference point for effective implementation in 2012. This was deemed the first phase of IFRS convergence in Indonesia. The second phase commenced in 2014, the objective of which was to minimise the gap between IFRS and PSAK. The translation of IFRS into Bahasa Indonesia creates problems and challenges, particularly related to the accuracy of both translation and interpretation. PSAKs have also been subject to modifications to accommodate local practices ((IFRS), 2014). Both of these issues can impede full IFRS adoption and implementation.

The Indonesian government has also demonstrated its support for IFRS convergence by announcing its commitment to converge Indonesian accounting standards with IFRS. Nevertheless, *Dewan Standard Akuntansi Keuangan-IAI* (DSAK-IAI) [Financial Accounting Standards Board-IAI] has no statutory authority from government to develop accounting standards. There is no legal backing to support the adoption and implementation of IFRS. The adoption and implementation of IFRS are therefore not legally enforceable in Indonesia, even though *Otoritas Jasa Keuangan* (OJK) [Financial Service Authority] has issued regulations pertaining to financial statement presentation.

The development of IFRS have notably been oriented toward the characteristics present in developed Anglo Saxon countries, where core issues are debated, technical projects conducted and research undertaken. Indonesia does not have the characteristics of an advanced economy and capital market, and therefore faces specific challenges regarding the adoption and implementation of IFRS, most notably the local context, where many emerging countries having less favourable accounting environments (Karampinis and Hevas, 2011). Indonesia is populated by local actors who seek legitimacy and pursue their own interests. Accounting as a self-regulating cohesive 'profession' is relatively infant. It is, as already mentioned, a diverse archipelago from a social, economic and cultural standpoint. A lack of institutional frameworks, mechanisms, and formal accounting education, inhibits local

understanding of the need for a unified cohesive approach to comprehending and implementing accounting standards.

Therefore, the local Indonesian context affects the ability to successfully implement IFRS. Indonesia remains an emerging economy with an ‘inefficient’ capital market (Reksamedia, 2014). Implementing a complex standard such as fair value measurement in inefficient markets such as Indonesia is problematic given the difficulty in generating market values from quoted prices, which are often not active or liquid, and where prices do not always reflect “arm’s length transactions” between market participants (Sinaga, 2015). Fair value measurement requires extensive judgement and estimation, the accuracy of which depends largely upon education, training and experience. The World Bank has identified the need for an increase in the overall number and competence levels of both Indonesian accountants and professionals (WorldBank, 2011). Fair value is mandatorily applicable for financial instruments and voluntarily for non-financial instrument. Banking is an industry significantly affected by fair value, as financial instruments are inherently fair value oriented. There are 120 banking institutions, 37 of which are listed on the Indonesia Stock Exchange, that play a substantial role in Indonesia’s economic development ((BI), 2012).

1.5. Structure of the Thesis

This thesis follows the Macquarie University guideline of ‘thesis by publication’ requiring the three ‘publishable’ (published, accepted, submitted or prepared for publication) papers in journal article format, each of which form a coherent and integrated body of work. The overall theme of the thesis is IFRS convergence in Indonesia and how the local context influences implementation. Based on that theme, this thesis distils three important issues. The first relates to IFRS convergence within the local Indonesian context. The second issue relates to IFRS and fair value implementation, particularly related to the process of institutionalisation. The third issue involves implementation of fair value and its influence on the reliability of accounting numbers. These issues, that coalesce under the theme of localised IFRS convergence and implementation, are then developed into three papers required for this thesis, the outline of which is presented below.

Paper one, titled “*Critical Success Factors effecting IFRS Implementation within an Emerging Economy: The Case of Indonesia*”, investigates the local Indonesian context with regard to IFRS implementation. Even though there is no agreement about factors influencing IFRS implementation, those commonly inferred include the legal system, providers of financing, taxation, culture, inflation and political ties (Doupnik and Perera, 2012). Nobes (1998) suggests that factors influencing accounting practices fall into two broad categories,

that being (1) the strength of capital market and (2) the level of cultural dominance. However, it is important to understand the environmental conditions influencing how accounting operates within the local context. This paper holistically offers a rigorous analysis of the local accounting context in Indonesia with regard to IFRS implementation. This paper applies the “Accounting Ecology Framework” proposed by Gernon and Wallace (1995) to investigate the local Indonesian context. It also identifies challenges and success factors influencing IFRS implementation. The findings provide evidence that all aspects of the accounting environment involving societal, organisational, individual, professional and accounting elements, contribute to successful IFRS implementation. Furthermore, this study finds that competence levels, regulatory framework and enforcement are all critical factors in IFRS implementation. Implementing principles-based IFRS involves the exercise of professional judgement, which in turn requires the possession of adequate professional competence and due care, which again in turn requires the maintenance of professional knowledge and skill. Indonesian professionals tend to avoid fair value measurement in the financial reports due to their complexity, extensive estimation and professional judgement, and the fact that the Indonesian environment is not conducive to fair value application.

IFRS are regarded as principle based standards that have fair value orientation. Implementation of IFRS or fair value will be more challenging in emerging countries such as Indonesia. **Paper two** titled “*The Influence of the Localised Accounting Environment and Institutional Work in the Institutionalisation of Fair Value Accounting in Indonesia*”, investigates the institutionalisation of IFRS and particularly fair value within an Indonesian context. Studies provide evidence that countries have adopted or converged with IFRS through isomorphism. However, the institutionalisation of accounting standards such as IFRS or particularly fair value depends on the struggle and actions of local actors, who have their own interests and legitimacy to seek. As IFRS 13 *Fair Value Measurement* is a complex standard, its institutionalisation is not an easy process. This paper applies the concept of institutional work as a framework to explain the purposive actions of actors within an Indonesian context, in the process of fair value institutionalisation. This paper uses the concept of institutional work, that encompasses political, technical and cultural elements, as suggested by Perkmann and Spicer (2008). The findings show that institutionalisation of fair value is not merely about technical issues, but also involves political and cultural matters, where various actors pursue different interests and roles. The combination of political, technical and cultural work is seen to have a strong effect on institutionalisation if deployed concurrently (Perkmann and Spicer, 2008). Moreover, institutionalisation will be successful if institutional work is undertaken by various actors across different levels (Perkmann and Spicer, 2008). Regulatory and professional bodies conduct political work during the

institutionalisation of IFRS and fair value in Indonesia. Technical and cultural work, undertaken by various actors including professionals and their associations support this political work.

Paper three titled *“Fair Value Implementation within an Indonesian Context: Modernity in Accounting and The Reshaping of Reliability”*, investigates fair value from a technical standpoint, including its construction and how it reshapes the concept of reliability. This paper uses the notion of accounting modernity and regime, notably IFRS and the fair value regime, which are socially constructed, and involve political, economic and ideological dimensions. Accounting modernity also involves trust and risk in the expert system (Giddens, 1990). This paper argues that the reliability concept in accounting has been reshaped. The findings show, due to the subjectivity, inherent complexity and uncertainties involved in generating market information, that fair value reliability is constructed based on the arguments and beliefs of experts. Therefore the concept of a “true and fair view” is actually a particular social group’s vision of reality (Macintosh, 2009).

The three studies contribute to the objectives of thesis as follows. The second chapter investigates the Indonesian accounting environment and discusses the factors within the Indonesian accounting context that contribute to the successful implementation of IFRS (first objective). The third chapter investigates the purposive action of actors in the institutionalisation of IFRS and in particular fair value standards (second objective). The fourth chapter investigates the social construction of fair value and issues surrounding ‘reliability’ within the Indonesian context, including how reliability is defined and shaped, and data ultimately transformed into monetary units (third objective).

Table 2. Structure of Thesis

Objective of the Thesis	
<ol style="list-style-type: none"> 1. To investigate the critical success factors for successful IFRS implementation within an Indonesian context. 2. Analysis of efforts of actors and their purposive actions in the institutionalisation process of fair value within an Indonesian context. 3. Analysis the construction of fair value, and discuss the subjectivity and challenges of fair value with respect to reliability, taking into account conflict issues among experts. 	
<i>Chapter 2 (Paper 1): Critical Success Factors effecting IFRS Implementation within an Emerging Economy: The Case of Indonesia</i>	
<p>Chapter highlights</p> <ul style="list-style-type: none"> • Shows the contextual features of Indonesia's accounting environment. • Explains the factors influencing successful IFRS Implementation. 	<p>Contribution to the thesis</p> <ul style="list-style-type: none"> • Rigorous and systematic analysis of the main features of Indonesia's accounting environment. • Identification of the critical success factors of successful IFRS implementation in Indonesia (objective).
<i>Chapter 3 (Paper 2): The Influence of the Localised Accounting Environment and Institutional Work in the Institutionalisation of Fair Value Accounting in Indonesia</i>	
<p>Chapter highlights</p> <ul style="list-style-type: none"> • Demonstrates the institutionalisation of IFRS and fair value in the local context. • Describes actors and their purposive actions in the institutionalisation of IFRS and fair value. 	<p>Contribution to the thesis</p> <ul style="list-style-type: none"> • Analysis of efforts of actors and their purposive actions in the institutionalisation process of fair value within an Indonesian context (objective 2). • Identification of political, technical and cultural works in the institutionalisation of fair value.
<i>Chapter 4 (Paper 3): Fair Value Implementation within an Indonesian Context: Modernity in Accounting and The Reshaping of Reliability</i>	
<p>Chapter highlights</p> <ul style="list-style-type: none"> • Shows the construction of fair value and the reshaping of reliability. • Illustrates how trust and risk in the expert system influence the application of fair value. 	<p>Contribution to the thesis</p> <ul style="list-style-type: none"> • Analyses the construction of fair value, and discusses the subjectivity and challenges of fair value with respect to reliability taking into account conflict issues among experts (objective 3). • Using Giddens (1990) theoretical lens in the implementation of fair value, analyses trust and risk in the expert system within an Indonesian context.
Conclusion	

The thesis contributes to the international accounting literature by providing evidence countries are unique with respect to their accounting environment. In relation to IFRS convergence, Indonesia has its own strategy, challenges, processes, problems and issues. Hence, it supports an argument that *de jure* harmonisation may not be followed by *de facto* harmonisation. The idea of convergence might be universally accepted, but the unique contextual factors of individual accounting environments influence the extent to which IFRS convergence and implementation is successful, which in turn influences the degree of comparability of financial reports.

This thesis also suggests that countries are not always homogeneous, as each has their own specific environment, hence the occurrence of isomorphism is difficult (Rodrigues and Craig, 2007). The institutionalisation of accounting practice depends largely on the efforts of local actors. Moreover, this thesis contributes to the debate surrounding the concept of reliability. The extensive use of fair value has transformed the concept of reliability, from truthful representation to one of social construction by consensus. In the absence of market information, fair value is determined based on the judgements and agreements of actors.

An earlier version of paper one was presented at the 26th *Asian-Pacific Conference in International Accounting Issues*, held in Taipei, between 26-29th of October 2014. Meanwhile, paper two has been presented at the 8th *Asia Pacific Interdisciplinary Research in Accounting (APIRA) conference*, held in Melbourne Australia, on 12-14th of July 2016. Paper three has been submitted for consideration at *The Fifth International Conference of The Journal of International Accounting Research (JIAR)*, which will be held in Adelaide, South Australia on 1-2th of July 2017. This conference will provide a thorough written review of the paper based on the Journal of International Accounting Research (JIAR) standard, prior to any acceptance at the conference.

1.6. References

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Chapter 2 (Paper 1): Critical Success Factors effecting IFRS Implementation within an Emerging Economy: The Case of Indonesia

2.1. Abstract

Purpose: This paper seeks to understand the key factors and challenges that shape IFRS adoption within Indonesia, both prior and subsequent to the first phase of IFRS implementation in 2012.

Design/methodology/approach: The study analyses the facilitators and inhibitors to IFRS implementation present within the localised Indonesian accounting environment through the lens of the Gernon and Wallace (1995) accounting ecological framework. This paper uses semi-structured interviews with key stakeholders to gain an understanding of the societal, organizational, professional, individual and accounting elements that shape IFRS implementation in Indonesia. Secondary data has also been obtained through independent newspapers, official websites of accounting regulatory bodies and academic literature.

Findings: This study finds that weak enforcement, interpretation problems, lack of professional competence, and lack of regulatory coherence among accounting bodies, impede IFRS implementation within Indonesia.

Originality/value: This paper applies Gernon and Wallace (1995) the *Accounting Ecology Framework* to explain the accounting environment within a local Indonesian context. With regard to IFRS implementation, it suggests that continued involvement in regional and international organisations, ongoing training and education programs for professionals, synchronised regulations, the involvement of more participants in public hearings, and the issuance of practical guidance, are all factors critical to successful IFRS implementation.

Keywords: *IFRS, Implementation, Success Factors, Local context, Role.*

2.2. Introduction

The implementation of International Financial Reporting Standards (IFRS) is an important development not only for companies situated in advanced markets but also in emerging economies. IFRS were developed in Anglo-American countries where fair value accounting and use of professional judgement are more prevalent (Haller and Walton, 2003). Their implementation in countries where fair value and professional judgment are not as established, can be problematic. This paper aims to investigate the key success factors effecting IFRS implementation both prior and subsequent to the first phase of IFRS implementation. Since 2012, Indonesian public listed companies have been required to comply with *Pernyataan Standar Akuntansi Indonesia* (PSAK) [Statement of Financial and Accounting Standards] which have adopted 95% of IFRS. Most IFRS that were effective at 1 January 2009, have been adopted in Indonesia except for IFRS 1: *First-time Adoption of International Financial Reporting Standards*, IFRIC 15: *Agreements for The Construction of Real Estate*, and IFRS 9: *Financial Instruments*. Whilst *Dewan Standard Akuntansi*

Keuangan-IAI (DSAK-IAI) [Financial Accounting Standards Board-IAI] has committed to maintaining a one year difference between local standards and IFRS, Indonesia has not decided when full convergence will be achieved ((IFRS), 2016c)¹. In 2014, Indonesia announced the second phase of IFRS convergence, with the objective of reducing the gap between IFRS and PSAK.

This paper applies the Gernon and Wallace (1995) accounting ecological framework to provide a comprehensive picture of Indonesian accounting within its local operating environment with respect to IFRS implementation. This framework is useful in identifying the challenges and key success factors surrounding IFRS implementation in Indonesia during its transition period. An ecological framework allows for an understanding of why accounting developments succeed or fail in particular geographical settings and the challenges faced by countries when new accounting policies or regulations are adopted. Recent studies have explored how accounting ecology can influence IFRS adoption. Hellmann et al. (2010) found that accounting ecology influenced the IFRS convergence process in Germany. Perera and Baydoun (2007) found that local accounting ecological factors, were impediments to, and did not provide the conditions for, successful implementation ex ante of IFRS in Indonesia at that time.

However, changes in recent years at the societal, organizational, individual, and professional level in Indonesia have subsequently influenced accounting development within the country. Two important issues have been identified as key elements in the decision to adopt IFRS. First, membership of Indonesia in the G20, where member countries have decided to increase the credibility of financial reports by implementing sound accounting and auditing practices, resulting in the agreement to adopt IFRS. Second, the need to increase the credibility of Indonesia among its fellow ASEAN member countries, who in 2015, agreed to establish an ASEAN Economic Community that would create a single market and production base. The objectives of the community are to strengthen existing economic initiatives, develop human resources, recognize professional skills and encourage the free flow of capital. Important to the success of IFRS implementation is institutional reformation. In 2013, the Indonesian government established *Otoritas Jasa Keuangan* (OJK) [Financial Services Authority] to regulate financial services and stock market activities. This organization replaced the roles and functions of *Badan Pengawas Pasar Modal* (BAPEPAM) [Capital Market Supervisory Agency]. One of the important objectives of OJK is to improve good governance within Indonesian public companies, part of which can be achieved through IFRS implementation.

¹ In May 2016, there was joint statement between IFRS Foundation Trustees, the *Otoritas Jasa Keuangan* (OJK) [Financial Service Authority] and *Ikatan Akuntan Indonesia* (IAI) [Institute of Indonesia Chartered Accountants] to support the implementation of IFRS and advance the use of IFRS within Indonesia.

Indonesia decided to implement *Pernyataan Standar Akuntansi Keuangan Indonesia* (PSAK) [Statement of Financial Accounting Standards] based on IFRS in 2012, and those standards are mandatory for publicly listed companies. However, there have been impediments during IFRS implementation. This study differs from Perera and Baydoun (2007) in a number of ways. First, accounting ecology changes over time, and this change influences the decision as to how a particular issue is addressed during the IFRS adoption process. Perera and Baydoun (2007) conducted their study prior to Indonesia's decision to adopt IFRS. Currently, Indonesian public companies are required to implement IFRS. Second, Perera and Baydoun (2007) analysed *ex ante*, how accounting ecology may support the adoption of IFRS in Indonesia. This study analyses *ex post* how accounting ecology actually influenced the success of IFRS implementation in Indonesia. Since 2012, Indonesian public companies have been required to implement IFRS for their financial reports. Perera and Baydoun (2007) found that localised Indonesian environmental factors, as existed in 2007, did not support IFRS adoption. However, recent changes have shown that almost all emerging and developed countries have adopted and implemented IFRS. The problems related to IFRS are no longer essentially about adoption, but are more on implementation. This provides a stronger argument that studies which analyse IFRS post-adoption, will be of greater importance for both academic and non-academic purposes such as accounting regulation development, industry practice or accounting education/professional development requirements. Other studies have documented the factors influencing IFRS implementation (Ding et al., 2007, Assenso-Okofu et al., 2011, Karampinis and Hevas, 2011).

This Indonesian study is important for a number of reasons. First, Indonesia is an emerging country and *Dewan Standard Akuntansi Keuangan-IAI* (DSAK-IAI) [Financial Accounting Standards Board-IAI] has no statutory function from government to develop accounting standards. There is no accounting legislative endorsement that supports the adoption and implementation of IFRS, unlike other emerging countries such as Romania ((IFRS), 2016b), Brazil ((IFRS), 2016a) or countries which incorporate IFRS into law. The adoption and implementation of IFRS are therefore not legally enforceable, even though *Otoritas Jasa Keuangan* (OJK) [Financial Service Authority] has issued regulations pertaining to financial statement presentation. Second, Indonesia is a member of the G20, East Asia Summit, and the recently formed ASEAN Economic Community, and plays an important role in these organizations which support socio-cultural, economic and political integration. In the G20, Indonesia is the aspirator and representative of developing countries (Pakpahan, 2011), highlighting its important role at the international level. Third, Indonesia is not an advanced western economy, where much of the focus of IFRS is oriented, and where core issues are debated, researched, and technical projects commence. Indonesia faces specific challenges

during the adoption and implementation of IFRS, most notably ongoing democratisation of the country from that of a rigid autocratic society that had existed prior to 1998, and the continued transformation of its socio-political and socio-economic structures and institutions. Professional accounting bodies in Indonesia are also relatively infant compared to the development of professional bodies in Anglo-Saxon based societies which date to the early to mid-twentieth century.

From a practical perspective, this paper provides the following contributions. First, identifying how accounting operates within an Indonesian context can identify the challenges and problems faced by professionals and reporting entities regarding IFRS implementation during its first phase. This coheres with the action plan developed by the IAI which seeks to survey industry readiness and the challenges of IFRS implementation in the first phase of convergence ((IFAC), 2013). Second, the identified challenges are important for regulatory bodies to find an effective strategy for IFRS implementation during the second phase. Regulatory bodies can align regulations and laws to achieve the objective of IFRS implementation and can identify strategies to enforce IFRS implementation. Third, this paper's aim to identify factors leading to successful IFRS implementation, can help Indonesia achieve successful IFRS implementation and enhance its role and responsibilities at regional and international levels. Fourth, successful IFRS implementation can enhance the importance of the Indonesian capital market as publicly listed companies embrace global benchmarks for accounting and reporting. Companies on the Indonesian Stock Exchange providing financial reports based on IFRS are expected to have credible financial reports for investor decision making, leading to greater efficiencies in the capital market.

This paper makes the following contributions to the accounting literature. First, understanding IFRS convergence and implementation will be important in the local context because IFRS's are largely a product of Anglo-American thought and development, but nevertheless are applied in non-Anglo-American countries which have different environmental settings. The macro and micro institutional environment affecting accounting practices in a particular country can be seen as accounting ecology. Some scholars have conducted studies using accounting ecology to explain the accounting environment in relation to issues such as IFRS convergence (Hellmann et al., 2010, Perera and Baydoun, 2007, Baker and Barbu, 2007, Tsunogaya and Chand, 2012). Differences in the legal system and tax orientation of societies that are Anglo-American oriented, and those that are not, have seen problems and challenges surrounding IFRS adoption and implementation (Albu et al., 2013, Bhattacharjee, 2009). Second, given that institutional settings in emerging economies differ to that of developed countries, factors effecting successful IFRS implementation will also differ. This provides a

basis upon which to understand how emerging countries can successfully implement IFRS. Third, this paper investigates the challenges and success factors *ex post* (after) IFRS implementation as opposed to Perera and Baydoun (2007) who investigated *ex ante* (before) factors affecting IFRS adoption.

2.3. Literature Review

As more than 120 countries have adopted IFRS, studies investigating post implementation issues have increased, and have sought to highlight challenges and difficulties impeding the objective of IFRS implementation, which is to increase the value relevance and comparability of financial reporting (Yip and Danqing, 2012, Barth et al., 2012), decrease the cost of capital (Li, 2010), and increase equity investment by institutional investors (Florou and Pope, 2012).

The effects of standards adoption or implementation cannot be isolated from other factors including those of an institutional and macro-economic nature (Hail et al., 2010a; Leuz & Wysocki, 2008). In order to facilitate company transactions with various stakeholders, accounting standards need to be supported by other institutional factors such as a related legal system, effective enforcement, corporate governance and standards of disclosure (Wysocki, 2011). These institutional factors are complementary to each other. Other studies argue that differences in legal frameworks, political environments, inflation, societal culture and sources of finance, may influence IFRS adoption and implementation (Ding et al., 2005, Zeghal and Mhedhbi, 2006, Assenso-Okofu et al., 2011).

Studies on IFRS implementation have found challenges regarding the overall understanding and knowledge of standards translation (Alp and Ustundag, 2009), enforcement problems (Bova and Pereira, 2012), differences between the tax principles and accounting practice on certain items (Mısırlıoğlu et al., 2013), language, terminology and interpretation (Zeff, 2007), and culture or value orientation (Hellmann et al., 2010). These studies argue the importance of enforcement, culture and professional roles in successful IFRS implementation. Insufficient legislative or regulatory endorsement can weaken attempts to implement IFRS effectively. The positive effects of IFRS implementation have been evidenced in countries with stronger enforcement mechanisms and legal backing (Florou and Pope, 2012, Landsman et al., 2012). Professionals, including auditors, also play substantive roles by transforming accounting rules into practice using professional judgement and interpretation (Albu et al., 2013).

Studies have also identified that the challenges faced by countries differ based on their legal origin (Albu et al., 2013, Karampinis and Hevas, 2011, Mısırlıoğlu et al., 2013). Countries having different institutional features to that of Anglo-Saxon countries also differ in the

challenges and outcomes faced during IFRS implementation (Karampinis and Hevas, 2011, Irvine, 2008). Code-law countries are perceived as having an unfavourable environment because they are in contrast with Common-Law countries where IFRS was established. They place a greater emphasis on tax regulation and accounting uniformity as opposed to common-law countries which are more micro-oriented (Mısırlıoğlu et al., 2013). The legal system is seen as one of the most important factors influencing accounting practices (Soderstrom and Sun, 2007). Albu et al. (2013) conducted a study in Romania and found that implementation challenges were largely driven by weak enforcement mechanisms and lack of preparer readiness.

Studies on how professionals affect IFRS adoption have been conducted in emerging economies. Yapa et al. (2011) investigated the socio-economic impact of IFRS adoption in three (3) ASEAN countries; Malaysia, Singapore and Indonesia, and found that fair value was problematic because it required greater professional judgement compared to historical cost. Muniandy and Ali (2012) conducted a study in Malaysia and found that the major challenge to IFRS adoption was the lack of professional technical expertise when implementing IFRS.

Joshi et al. (2016) conducted survey on IFRS adoption within three ASEAN countries i.e. Singapore, Malaysia and Indonesia, and found different jurisdictions had specific challenges related to legal and cultural issues, before full adoption of IFRS could be fully realised. With respect to Indonesia, respondents agreed that pressure from international agencies was the main reason for IFRS adoption, and that government played an important role in the convergence process. Meanwhile, local accounting bodies such as IAI, also supported IFRS convergence by initiating promotion and translation of IFRS into the local language, and undertaking work on core technical elements. They also found the benefits of IFRS adoption were different between developing and developed countries. Moreover, they argued the objective of IFRS adoption could not be achieved if developing countries such as Indonesia did not fully adopt IFRS.

The challenges of IFRS implementation have been documented rigorously in emerging economies (Mısırlıoğlu et al., 2013, Albu et al., 2013, Jain, 2011, Irvine, 2008, Bhattacharjee, 2009). Some, such as Romania and the Philippines, have strong political legitimation, which supports IFRS convergence. However, Indonesian standard setters have no legislative enforcement, therefore both IFRS adoption and implementation is challenging. Bhattacharjee (2009) conducted a study of IFRS adoption and application in Bangladesh and found that implementation was problematic, as local financial reports and auditing practices were not in line with IFRS. Bangladesh is also identified as a country which lacked regulatory oversight, had weak enforcement, and low levels of compliance with existing accounting standards.

Studies on accounting standards highlight that the success of IFRS implementation is influenced by factors such as culture (Dahawy et al., 2002), the strength of investor protection (Houque et al., 2012), law enforcement (Daske et al., 2008, Landsman et al., 2012, Gastón et al., 2010, Holthausen, 2009), level of corruption (Amiram, 2012), the strength of the taxation system (Mısırlıoğlu et al., 2013), and the extent of development of the accounting profession (Mir and Rahaman, 2005). Zeff (2007) suggests that even though IFRS are perceived as high quality, comparability within and between countries is also determined by contextual factors including the business and finance, accounting, auditing and regulatory culture. Some studies also argue that differences in legal frameworks, political environment, inflation, societal culture and sources of finance, can influence the success of IFRS implementation (Ding et al., 2007, Ding et al., 2005, Assenso-Okofu et al., 2011, Ali, 2006).

Assenso-Okofu et al. (2011) analyse the economic, political, and legal system, as well as institutional factors influencing accounting and disclosure practices in Ghana. They conclude that accounting development and reporting practices are influenced by all these factors, and that Ghana needs to improve and update regulations and requirements to be in line with global market requirements. Ali (2006) analyses the legal and institutional environment in Bangladesh, India and Pakistan to assess its impact on corporate financial reporting, particularly the similarities and differences between environmental factors. Ali finds that the three countries are similar in economic, political, social and other environmental factors, but different in their securities exchange laws as well as standard-setting processes. The similarities support accounting harmonization within the South Asian region. Moreover, this study finds that market pressures and external institutions are the main impetus for IASB harmonization, rather than the desire of local standard setters. Muniandy and Ali (2012) investigate the environment for financial reporting development in Malaysia. They find that the country's British colonial past had an important role in the development of accounting practice. It was also found that other institutional factors such as the political system, legal system, economic system, cultural and capital market development, influence financial reporting development in Malaysia.

Previous studies therefore highlight that the success or failure of IFRS implementation across countries is influenced by a number of factors. Mandating new accounting standards may have no effect and could lead to “window dressing” without a comprehensive revision of accounting infrastructure (Ball et al., 2000). All of those factors influencing the success of IFRS implementation refer to the accounting environment. Gray (1988) suggests that ‘ecological influences’, reinforced through institutional consequences, help shape societal and accounting systems and values, or what is termed the “accounting sub-culture”. This idea is

expanded upon by Gernon and Wallace (1995) who argue that accounting and its environment incorporate both “cause’ and ”effect”, where accounting influences its environment and vice versa. Gernon and Wallace (1995) conclude that studying accounting and its development cannot be isolated from the ‘ecological’ environment in which it operates.

Gernon and Wallace (1995) posit that there are five (5) components of accounting ecology, namely societal, organizational, individual, professional and the accounting environment. These five components cover macro and micro level environmental or institutional factors. Macro elements include aspects of the societal environment, including culture, legal system, economic development and the political system and its development. Meanwhile the micro level mostly covers the organizational, individual, professional and accounting environment elements. Accounting ecology therefore provides a holistic picture of accounting and its development within its unique localised environment.

Scholars have conducted studies using accounting ecology to explain the accounting environment in relation to issues such as IFRS convergence (Hellmann et al., 2010, Perera and Baydoun, 2007, Baker and Barbu, 2007, Tsunogaya and Chand, 2012, Tsunogaya et al., 2015). Meanwhile, Tsunogaya et al. (2015), Perera and Baydoun (2007) and Hellmann et al. (2010) use the Gernon and Wallace (1995) framework to contrast the local accounting context of Japan, Indonesia and Germany respectively.

Tsunogaya et al. (2015) and Hellmann et al. (2010) highlight differences in interpretation, professional training and competence, implementation cost, and the endorsement process surrounding IFRS convergence. They suggest that non-Anglo Saxon countries face more challenges, higher implementation costs, and problems with interpretation and translation of IFRS. Adoption of IFRS in Japan and Germany involves translation from English into the local language, and as such, professional training and education is critical in ensuring IFRS implementation. Japan and Germany are categorised as code-law countries, therefore such studies provide insights into how accounting standards and practices are applied and developed in non-common law countries. Perera and Baydoun (2007) conduct their study in Indonesia using the accounting ecology framework *ex ante* IFRS adoption, and find that the Indonesian accounting ecology does not support IFRS adoption. Furthermore, they find that Indonesian cultural characteristics such as collectivism and a lack of professionalism have hampered IFRS adoption. Scholars have also used other accounting ecological frameworks to explain issues in accounting practices, but they do not categorise ecology into comprehensive elements (Baker and Barbu, 2007, Tsunogaya and Chand, 2012). Some studies use Hofstede (1980) and Gray (1988) to focus on how cultural dimensions and accounting value,

respectively influence the accounting system, without taking into account the entire local context (Ding et al., 2005, Borker, 2012)

2.4. Research Methodology

In analysing how IFRS's are implemented within Indonesia, this study commences with the premise that successful IFRS implementation is influenced by the local accounting environment. Therefore, a qualitative research approach is considered the most appropriate (Zilber, 2002) to explore how IFRS is implemented within a local Indonesian context. This study uses one-on-one semi-structured interviews as primary data in order to obtain a deeper analysis of the issues. Even though the interviews are semi structured, this study develops questionnaires based on the accounting ecology framework covering the societal, organisational, individual, professional and accounting environment, in order to provide guidance related to the scope and themes of the study.

This study conducted interviews with 26 participants in Indonesia consisting of regulators, professional bodies and the accounting profession. Regulators included 6 (six) participants from the Ministry of Finance, *Pusat Pembinaan Profesi Keuangan* (PPPK) [Finance Profession Supervisory Centre], *Otoritas Jasa Keuangan* (OJK) [Financial Services Authority], Indonesian Stock Exchange (IDX), and *Dewan Standard Akuntansi Keuangan-IAI* (DSAK-IAI) [Indonesian Financial Accounting Standards Board - IAI]. Professionals included 7 (seven) auditors, 5 (five) preparers and 4 (four) appraisers. Professional body representatives included participants working as both professionals and with positions as managerial staff at professional bodies i.e. *Ikatan Akuntan Indonesia* (IAI) [Institute of Indonesia Chartered Accountants], *Institut Akuntan Manajemen Indonesia* (IAM) [Indonesian Institute of Management Accountants], *Institut Akuntan Publik Indonesia* (IAPI) [Indonesian Institute of Certified Public Accountants], and *Masyarakat Profesi Penilai Indonesia* (MAPPI) [Indonesian Society of Appraisers]. Four (4) participants working in the professional bodies did not work as professionals. Interviewees were not randomly chosen across the broader general Indonesian spectrum, but were representative of important actors in accounting regulation and practice within the country. They were major decision makers or had major functional roles relating to financial reporting. The opinions and arguments expressed therefore reflect key issues surrounding IFRS implementation.

Interviews were conducted in Bahasa Indonesia, the native Indonesian language, and took place at the participants' place of work. All interviews were recorded with the interviewees' consent, and then transcribed and translated into English. The NVivo software package was used to analyse and categorise interview themes. This study identified general findings based

on the data generated, and categorised them into themes based on the designed interview questions i.e. accounting ecological framework covering societal, organisational, individual, professional and accounting themes. Moreover, this study also identified some specific local issues that helped to provide a greater understanding of the findings within an Indonesian context. To provide a more comprehensive picture of the local accounting environment, this study triangulated interviews with information obtained from secondary sources including press releases, and the official websites of regulators, listed companies and professional bodies.

2.5. Analysis and Discussion

2.5.1. The Indonesian Accounting Framework

Indonesia, like many other countries in the world, has a specific accounting framework, consisting of regulations, professional bodies and regulators, all of which play an important role in Indonesian accounting and auditing development and practice. Regulations involve Indonesian company law, capital market law, professional law and accounting and auditing standards. Professional bodies include *Ikatan Akuntan Indonesia* (IAI) [Institute of Indonesia Chartered Accountants], *Institut Akuntan Manajemen Indonesia* (IAMI) [Indonesian Institute of Management Accountants], *Institut Akuntan Publik Indonesia* (IAPI) [Indonesian Institute of Certified Public Accountants] , *Masyarakat Profesi Penilai Indonesia* (MAPPI) [Indonesian Society of Appraisers] and *Pusat Pembinaan Akuntan dan Jasa Penilai* (PPAJP) [Centre for Supervision of Accountants and Appraiser Services] which has formally been changed into *Pusat Pembinaan Profesi Keuangan* (PPPK) [Finance Profession Supervisory Centre]. Regulators in the accounting framework include *Bursa Efek Indonesia* (IDX) [Indonesian Stock Exchange], Directorate General of Taxation, OJK, Bank Indonesia (BI) [Central Bank of Indonesia] and the Ministry of Finance. The Indonesian accounting framework is illustrated in the figure below:

Figure 1 . Indonesian Accounting Framework



In the regulatory mechanism of financial reporting, taxation and accounting professions, the Ministry of Finance (MoF) exercises the highest responsibility for financial regulation in Indonesia. Its functions are to control and coordinate activities under the Ministry of Finance and formulate and set financial policies (Kemenkeu, 2014). The MoF organisational structure includes PPPK and the Directorate General of Taxation which play important roles in the success of IFRS convergence within Indonesia. In addition to professional requirements, the government also enacts laws and issues promulgations in relation to corporations, capital markets, public accounting and taxation, an example being Ministry of Finance regulations.

Ikatan Akuntan Indonesia (IAI) [Institute of Indonesia Chartered Accountants] is an independent professional organization established in 1957. Their objective is to enhance the role of accountants in the development of Indonesia. IAI has no formal legal backing because it is a voluntarily professional accounting organisation. However, *Dewan Standard Akuntansi Keuangan-IAI* (DSAK-IAI) [Indonesia Financial Accounting Standards Board - IAI] as part of IAI, has undertaken its role as a standard setter since 1973. DSAK is funded by IAI members and previously had no support or legitimation from government. The government has recently issued regulations² to provide legal back up for the IAI stating that the IAI is an endorsed professional body for accountants and is responsible for accountant registration and professional development.

² Keputusan Mentry Keuangan (KMK) [Finance Ministry Decision] No. 263/KMK.01/2014, seeks to legalise the IAI position as an endorsed professional body for accountants, and outlines its responsibilities for accountant registration and professional development.

IAI members cover public accountants, management accountants, academics and public sector accountants, and associations. The *Institut Akuntan Publik Indonesia* (IAPI) [Indonesian Institute of Public Accountants] is a professional organization regulating public accountants. Based on Ministry of Finance Regulation No. 17/PMK.1/2008, the Institute conducts public accountant certifications, issues professional standards and ethics, and manages training for public accountants. The *Institut Akuntan Manajemen Indonesia* (IAMI) [Indonesian Institute of Management Accountants] was established on 1 April 2008 as an organization under IAI. IAMI is a professional organization with the objective of improving financial management and practices. It focuses on management accountants employed in governmental institutions and private companies.

According to Public Accountant Law No. 5/2011, besides IAPI, the *Pusat Pembinaan Akuntan dan Jasa Penilai* (PPAJP) [Centre for Supervision of Accountants and Appraiser Services], (subsequently PPPK from 2013), is an organisation under the Ministry of Finance, responsible for conducting quality assurance of public accountant practices in Indonesia. PPPKs objective is to advise and supervise public accountants and appraisers. PPPK also undertakes law enforcement in the form of administrative sanctions on accountants and appraisers who do not comply with regulations. The objective of quality assurance undertaken by IAPI is to improve and develop accounting practice, whilst PPPK monitors and supervises.

Listed companies at the IDX (Indonesian Stock Exchange) have to comply with capital market regulations issued by *Badan Pengawas Pasar Modal* (Bapepam-LK) [Indonesia Capital Market Supervisory Agency]. *Bapepam LK* is the authoritative body charged with supervising stock market activities. In January 2013, *Bapepam-LK* merged with *Otoritas Jasa Keuangan* (OJK) [Financial Services Authority], whose objective was to regulate financial services and stock market activities. Whilst *Bapepam-LK* is an authority under the Ministry of Finance, OJK is an Indonesian government agency which is autonomous and free from interference, having authority to regulate stock market and financial service activities. Their function is strengthened by Capital Market Law No. 8/1995 requiring listed companies to prepare financial reports to both OJK and to the public at large. Moreover, *Undang-undang Perseroan Terbatas* (UU PT) [Company Law] No. 40/2007 also requires Indonesian companies to prepare financial reports based on Indonesian Accounting Standards (PSAK).

Financial institutions are subject to stricter regulations because Bank Indonesia (Central Bank of Indonesia) also regulates their activities. OJK and Bank Indonesia co-ordinate the regulation of the banking industry in Indonesia. While OJK is responsible for micro prudential matters, BI focus on supervising and controlling macro prudential matters. Bank Indonesia requires specific performance measurements and transparency for the banking

industry. Moreover, public accountants who audit financial institutions must be accredited by Bank Indonesia. Another important organisation within the accounting ecological framework in Indonesia is *Direktorat Jendral Pajak* (DJP) [Directorate General of Taxation]. DJP is an organisation within the Ministry of Finance. Its functions are to formulate and regulate tax policies, standards and undertake evaluations.

Pernyataan Standar Akuntansi Keuangan Indonesia (PSAK) [Statement of Financial Accounting Standards] are the Indonesian equivalent to IFRS, and were established by DSAK. Whilst public companies must prepare financial reports based on PSAK, IAI also issue *Entitas Tanpa Akuntabilitas Publik* (ETAP) [Non-Publicly Accountable Entity] standards, and non-public companies have a choice whether to use ETAP. ETAP is designed for non-public companies, predominantly small to medium enterprises (SME). Meanwhile, auditing standards in Indonesia are known as *Standar Profesional Akuntan Publik* (SPAP) [Public Accountant Professional Standard] which are developed and regulated by IAPI. Indonesia also has specific *Standar Akuntansi Sektor Publik* [Public Sector Accounting Standards], *Standar Akuntansi Syariah* [Shari'a Accounting Standards], with *Standar Akuntansi Nirlaba* [Non-Profit Organisation Accounting Standards], that are currently under development by the IAI.

The above-mentioned professional organisations and regulatory bodies have substantial roles in accounting development within Indonesia. IAI has played an important role in the decision to adopt international accounting standards when as far back as 1994, it argued for US GAAP harmonization. In 2004, it made the first public announcement of IFRS convergence, with implementation by 2008, which due to challenges, was postponed until 2012. The roles of IAPI and IAMI are essential to support professionals, involving public accountants and management accountants, to deal with the understanding and interpretation of IFRS. Furthermore, IAPI also play an important role in aligning auditing standards with IFRS and ISA, and in organising ongoing IFRS training for public accountants. Meanwhile, IAMI is responsible for improving management accountant knowledge and understanding of IFRS, including certification and financial reporting training. At the same time, *Kompartemen Akuntan Pendidik* (KAPD) [Compartment of Academic Accountants] seeks to improve academic understanding of IFRS. Converging PSAK with IFRS has transformed how teaching and learning occurs, with greater critical analysis of transactions by students. KAPD develops teaching materials, thereby improving academic knowledge, skill and understanding of IFRS. KAPD are actively involved in IAI, and hence can share knowledge with both management accountants and public accountants. KAPD also helped develop *The Indonesian Journal of Accounting Research*, which is a leading national academic journal.

2.5.2. Accounting Ecological Framework within the Indonesian Context

In order to explore the accounting ecological framework in Indonesia, this study uses the Gernon and Wallace (1995) framework for several reasons. First, Gernon and Wallace provide a comprehensive description of accounting and its environment (Perera and Baydoun, 2007). It covers a broader perspective of accounting ecology, consisting of societal, organizational, individual, professional and accounting elements. Second, the Gernon and Wallace framework explains that accounting is not independent of the environment in which it operates. Previous studies have highlighted the factors which individually influence accounting development within particular countries (Nobes, 1998, Adhikari and Tondkar, 1992). According to Gernon and Wallace (1995), national accounting ecology is defined as;

“a multidimensional system in which no one factor occupies a predominant position and in which the perceptions held by actors on some unfolding accounting phenomena, as well as the accounting phenomena themselves, are the objects of study and analysis. Such a synthesis would emphasise the interrelationship of the environmental factors which influence and are influenced by accounting, and would focus upon the importance of perceptual as well as non-cultural factors such as population and land area.”

This study applies the accounting ecological framework developed by Gernon and Wallace (1995) *ex post* IFRS implementation, as opposed to Perera and Baydoun (2007) which conduct their Indonesian study *ex ante* IFRS adoption. The Gernon and Wallace (1995) framework covers the five societal, organisational, individual, professional and accounting elements.

Societal environment consists of cultural and non-cultural components. The cultural component is the range of abstracts which support the orientations and values of groups or people. These groups or people can be from inside or outside the organization. The non-cultural component includes both structural and demographic components. Demographic refers to population or location, whilst structural components involve economic development, levels of technology, and political development. The societal environment explains Indonesia's specific culture and its economic and political development.

The second aspect of accounting ecology is the organizational environment, which refers to size, culture, technology, human resources, complexity and capital resources. This element is important because accounting information is used within organizations, who are concerned about the level of information provided to users and the accounting services they receive. The organizational aspect covers the number of companies, type of industry sectors, and organisational culture in Indonesia.

The third aspect of accounting ecology is the professional environment, which includes ethics, culture, education, discipline, and registration of accountants and auditors. Professional environment also covers audit quality, audit failure, audit fees, status of auditors within society and audit effectiveness. Professional environment involves the performance of accountants, and the role of the self-regulating body. The professional aspect can provide information related to the auditors or public accountants within an Indonesian context. It covers professional education and training, professional ethics, the numbers of certified public accountants and status of auditors within Indonesian society.

Individual environment is concerned with the prediction, estimation and explanation of actions by individuals. When an individual undertakes an action, it can be influenced by other individual interests, as well as cultural and structural objects consisting of goals, opportunities, obstacles, resources, threats, and conditions. This aspect can provide an explanation of how individual action within or outside the organisation, influences or is influenced by accounting issues such as IFRS implementation.

The fifth aspect of accounting ecology is the accounting environment, which covers micro and macro accounting. Micro accounting refers to auditing practices, and accounting regulation including financial reporting regulation. Macro accounting refers to accounting issues at the national level such as corporate financial reporting systems, facilities to produce information and diffusion of information, and information monitoring and enforcement. This component can explain the Indonesian accounting infrastructure, regulatory bodies involved in accounting practices, the taxation system, and auditing standards and practices in Indonesia.

2.5.2.1. Societal Environment

Indonesia has the fourth largest population in the world with approximately 240 million people. It has a multitude of ethnic groups, with over half of the population being either Javanese (41%) or Sundanese (15%). Indonesia's population reflects a diverse cultural, religious, ethnic and linguistic cohort. Despite the national motto being "Bhinneka Tunggal Ika" (Unity in Diversity), the political and economic histories across the archipelago have created specific regional dynamics. One aspect of the national motto is the use of a single national language, namely "Bahasa Indonesia". Indonesia has a large productive age population with 59.38 % in the range age of 15-54 years old ((CIA), 2012), giving it the potential to expand its workforce and improve productivity and creativity. Indonesia's geographic position at the heart of the dynamic Asian region provides significant advantages both economically and politically with respect to capital and labour flow, and international trade.

Some studies identify Indonesian culture using Hofstede (1980) and find that Indonesia has large power distance and high uncertainty avoidance, low individualism and a short-term orientation (Sudarwan and Fogarty, 1996, Ding et al., 2005, Cieslewicz, 2013, Mangundjaya, 2010). Moreover, Indonesia's societal environment has been characterised as secretive with low professionalism (Sudarwan and Fogarty, 1996). According to Mangundjaya (2010), Indonesian's prefer predictable and stable conditions. Moreover, instead of being entrepreneurs, Indonesian people prefer to become public servants (due to high uncertainty avoidance). Elderly people in Indonesia have important roles within society. People respect seniors and their social status (due to high power distance). Indonesian people are also less engaged about the future. One such example is the low take up of insurance in Indonesia, reflective of a short-term orientation³.

The political environment in Indonesia has changed dramatically since 1998. After the fall of the Suharto regime, there were amendments to reduce the power of the executive branch in order to avoid continuing authoritarianism. Indonesia embarked on a new era of Reformation (*reformasi*) characterised by liberal policies leading to decentralisation and greater autonomy toward regional provinces. However, these political changes also brought about negative effects. Decentralization resulted in greater amounts of corruption at the regional level as the regional elite began to control money flows and regional businesses. Corruption became internalised sporadically within governmental and business activities (Martini, 2012).

Despite political weaknesses, Indonesia is considered a country with significant potential for natural and human resource development. Political development has also resulted in Indonesia attaining a more prominent role in regional and global forums. Indonesia is a member of the ASEAN grouping, which launched an ASEAN Economic Community in 2015. Indonesia represents approximately 40% of ASEAN economic output, and is the country with the largest population (Ariyanti, 2013). Despite the global economy experienced enormous volatility over the last decade, Indonesia was one of a number of ASEAN countries that had continuing positive economic growth. From 2001 to 2012, average GDP was 5.4 percent per annum. Since 2009 GDP growth has averaged 6% p.a. Indonesia also became a member of the G20⁴, which has resulted in various bilateral agreements, that have improved its standing

³ Hofstede (1980) introduced a cultural dimension theory consisting of power distance, uncertainty avoidance, individualism and long term orientation. Power distance refers to the extent to which the less powerful members of organizations accept and expect that power to be distributed equally. Individualism versus collectivism explains the extent to which individuals prefer to act as individual rather than as members of groups. Uncertainty avoidance explains the degree to which people prefer structured over unstructured situations. Finally, long term orientation and short term orientation explain thrift and perseverance versus (short term) respect for tradition, fulfilment of social obligations, and protection of one's "face".

⁴ G20 is an international forum representing governments and central bank governors of the 20 largest countries (based on GDP). The forum represents two-thirds of the world population.

among nations. It also reflects Indonesia's growing importance at a regional and international level, and increased pressure to adopt International Financial Reporting Standards.

“So, if it is related to the implementation of IFRS in Indonesia, there are several underlying things...The first is that we, Indonesia, are members of G20...We have to follow agreements which are reached from meetings of [the] G20 country members, including Indonesia. One is the agreement to use high-quality accounting standards” (Interviewee 1-Senior Advisor Capital Market Supervision, Financial Service Authority).

Cultural characteristics have been identified as a barrier to effective IFRS implementation (Borker, 2012, Borker, 2013). IFRS, which are inherently principles based, requires professional judgement that involves technical proficiency as well as interpretation. Transparency surrounding judgements made by accountants should be provided in the financial statement notes, however Indonesia has traditionally lacked transparency.

Although IAI pronouncements have no legal binding or political endorsement, the willingness of government to adopt IFRS is in part influenced by Indonesian membership of the G20, which in its September 2009 summit meeting in Pittsburgh, USA, called;

“on our international accounting bodies to redouble their efforts to achieve a single set of high quality, global accounting standards within the context of their independent standard setting process, and complete their convergence project by June 2011” (G20, 2009).

G20 members agree that IFRS convergence plays an important financial stability role (IASplus, 2013). In order to comply with that agreement, Indonesia, as a member of G20, has adopted IFRS ((IAI), 2013c).

Indonesian company law is based on civil law, which is largely codified. Listed companies are regulated based on company law (Law 40/2007) and Capital Market Law (Law 8/1995) requiring them to prepare financial reports in accordance with Indonesian accounting standards (WorldBank, 2011). Since PSAK is based on IFRS, Indonesian public companies should follow all applicable IFRS within Indonesia. Meanwhile, the banking industry is supervised by both OJK which focuses on micro prudential matters, and Bank Indonesia which focuses on macro prudential matters.

Political development in Indonesia has brought with it greater transparency and positive changes in bureaucracy and governance, including financial reporting. The Ministry of Finance initiated a plan to fully converge with IFRS in order to increase Indonesia's credibility ((IAI), 2010).

“As far as I know, fully adopt means to adopt the IFRS the way it is without any changes including change (translated) in (other) language. Meanwhile, our official language is Indonesian. We have the standard requirement that regulations must be written in Indonesian, hence any dispute about interpretation cannot use IFRS as a reference, but PSAK instead” (Interviewee 21 – Partner Big 4 Accounting Firm, and Implementation team for the Institute of Indonesia Chartered Accountants).

Translating IFRS into Bahasa Indonesia is not without problems. First, translation can create different meaning and interpretation from the original language. Second, when interpretational issues arise due to differences in accounting treatment and practices among professionals, it is PSAKs, not IFRS's, that provide the legal basis on which to resolve these problems.

“If there is mistranslation, the one...considered legal is the Indonesian version. That doesn't happen in Europe. They will say that the legal document is the English one. The translation is to make [it] easier to understand. That's the second hurdle in Indonesia. The legal document in Indonesia, except [for] tax treaty, as far as I know, has to be written in Indonesian. There is a legal opinion [that] if we have two versions of standard, i.e. IFRS and the word by word translated one, when we debate in court, the right one or the legal one is the one written in Indonesian, not in English” (Interviewee 6 – Chairman of Indonesian Accounting Standards Board).

IFRS translation into Bahasa Indonesia is not solely an interpretation issue, but also raises questions as to the spirit of full IFRS adoption. Translated IFRS might be interpreted as non-IFRS, even though translation was conducted word by word. Full adoption refers to full adoption of IFRS without changing the English version of IFRS into Bahasa Indonesian. According to Company Law (Law 40/2007) article 66, the financial reports of Indonesian companies should be prepared in accordance with Indonesian accounting standards i.e. PSAK instead of IFRS. Hence, IFRS cannot be a reference point for resolving disputes related to interpretation. Translated IFRS may result in a different meaning and interpretation. Given that IFRS has been translated into PSAK, the process is termed convergence. Convergence considers implementation and interpretation issues in the local jurisdiction ((IFRS), 2015).

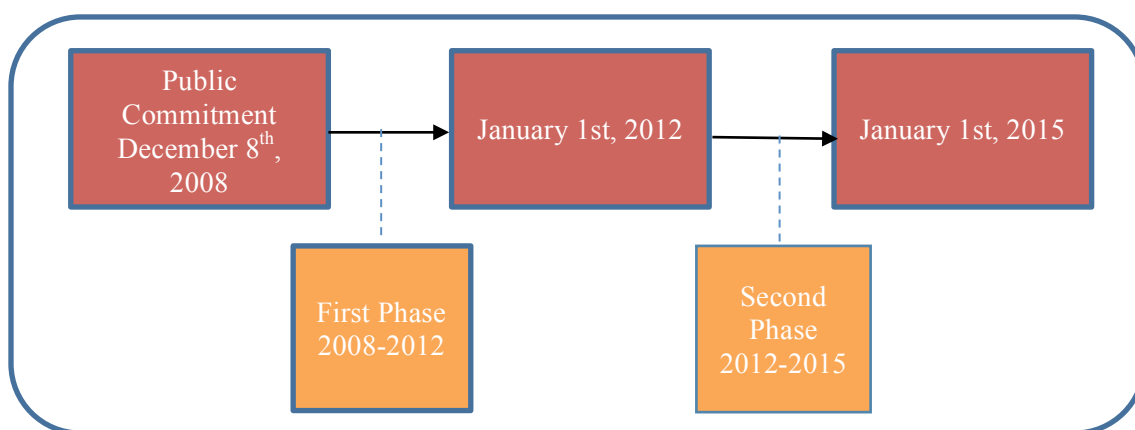
“We should separate between PSAK and IFRS. PSAK is a product created by DSAK. If we claim that we are fully converged with IFRS, people might think that it is IFRS as it is implemented in Europe, that will be endorsed to be the local product of each European country. [In that situation], people might say that IFRS is equivalent to PSAK or vice versa [...] We actually don't. We translate it all to Indonesian based on the Indonesian law. Hence in Indonesia, IFRS is not a legal document. The legal document is the translated one” (Interviewee 6 – Chairman of Indonesian Financial Accounting Standard Board).

In 2008 the IAI publicly announced commitment to IFRS convergence within Indonesia. First phase implementation, which applied to listed companies from 2012, resulted in 95% of Indonesian accounting standards (PSAKs) converging with IFRS.

However Indonesian companies faced challenges during the first implementation phase (Sinaga, 2011), specifically issues relating to the measurement, interpretation and recording process (Alam, 2013).

Since 2014, Indonesia has been in the second phase of IFRS implementation, the objective of which is to minimise the timing gap between PSAK and IFRS to one year. i.e. IFRS 2014 will be effectively implemented in 2015 ((IAI), 2015b). The roadmap for Indonesian IFRS convergence can be seen below in Figure 2.

Figure 2. IFRS Convergence Roadmap in Indonesia 2008-2015



Source : (IAI) (2015b)

A substantial challenge to effective IFRS implementation relates to competence in executing professional judgement (Tyrrall et al., 2007). In Indonesia a change in mindset is needed in order to effectively undertake professional judgement on *principles based* IFRS standards (Shonhadji, 2012), as the country has historically, been *rules based* in order to avoid uncertainty. IFRS implementation involves professional judgement on a multitude of issues by management accountants, financial report preparers, and those providing an audit opinion.

2.5.2.2. Organizational Environment

The organisational environment reflects the demography of Indonesian companies, and how they conduct their business. The number of medium and large companies in Indonesia in 2014 as provided by the *Biro Pusat Statistik* (BPS) [Statistical Centre Bureau] stood at 23,744, while this was 284,501 for small companies ((BPS), 2014). However, only around 500 companies are listed on the Indonesian Stock Exchange (IDX). Therefore, IFRS is applicable to only a small number of publicly listed companies. There are 14 multinational companies

listed on the IDX, who, being global in orientation, are more familiar with international accounting standards. On the IDX, the business dynamics among companies differ. Some engage in complex transactions with foreign companies, have subsidiaries, are part of multinational companies, or are dual listed on stock exchanges outside Indonesia. Many publicly listed companies conduct their business without complex transactions and organizational structures. There are nine (9) primary industry sectors on the IDX, each consisting of subsectors, as illustrated below.

Table 3. Industry Sectors on The Indonesian Stock Exchange (IDX)

Company Sector	Number of Companies
Agriculture	15
Mining	29
Basic Industries and Chemical	46
Miscellaneous Industries	33
Consumer Goods	30
Property and Real Estate	36
Utility Infrastructure and Transportation	35
Banking	61
Trade, Service and Investment	82

Source : www.duniainvestasi.com (2013)

Some sectors are substantially affected by IFRS convergence when preparing their financial reports even though IFRS are applicable to all sectors. Companies within the agricultural sector are subject to IAS 41 *Agriculture* codified into PSAK 69 effective from 2017. However, due to implementation difficulties, regulators are allowing agriculture companies to apply PSAK 69 in 2018. Indonesian agricultural companies dealing with palm oil trees, categorised as *bearer biological assets*, face challenges related to asset recognition and measurement ((IAI), 2013e). The banking industry is significantly affected by IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement*, and IFRS 13 *Fair Value Measurement* because financial instruments should be measured using fair value. The property and real estate sector is significantly affected by IAS 40 *Investment Property* whereby fair value is endorsed as a method for valuation in the subsequent period after initial recognition. Many Indonesian listed companies effected by these standards, raise funds through Initial Public Offerings (IPOs). During 2013, there were 491 companies listed on the Indonesian Stock Exchange, with more than 20 preparing to undertake IPOs.

In order to improve their competence and ability to compete, Indonesian companies have to adapt to technological developments, including internet access and an informative website presence, as well as the necessary software and IT systems for efficient and effective business operations. Based on *OJK* regulations, publicly listed companies should have a website to provide information to a wide range of stakeholders, which in turn should be accessible from the *IDX* website. Application of IFRS involves a substantial cost as implementation also requires changes to a company's technological base. This requires companies to possess the necessary hardware and software, and investment in technology (JakartaPost, 2010). However, for Small to Medium Enterprises (SMEs), technological infrastructure and computer literacy within Indonesia is relatively low due to a lack of business complexity, human resource knowledge and technology costs.

“When we look at [this] there is a required way of reporting the financial report, which includes application of the standard. It is related [to] the size [of the] company [as shown by] assets. The larger the asset [base], the [greater the] correlation with those [organisations] that provide good infrastructure. Bigger companies can also provide [more] human resources...[resulting in]...a reliable and relevant financial report” (Interviewee 18 - Head of Compliance and Listing Division, Indonesia Stock Exchange).

Despite Indonesia's many different cultures and ethnic groups, Javanese business culture has dominated the Indonesian landscape. The Javanese value of minimizing conflict impacts the process of performance appraisal and organizational change (Irawanto et al., 2011). However, this value has been, and continues to be, excused for collusion and nepotism, which have been internalised in business activities. Tradition is strong, with regulations and rules obeyed regardless of their practicality and effectiveness. Indonesia also has a resilient authoritarian and hierarchical framework, with 'natural born leaders' and 'natural born followers'. Each group has similar characteristics where members tend to avoid individual responsibility. People therefore are resistant to change and the application of critical reasoning.

Good governance practices are important factors affecting successful accounting practices. The WorldBank (2010) has emphasised the importance of good governance in Indonesia, which encompass the accounting profession and its professional bodies, regulatory institutions, and companies. At the micro organisation level, including listed companies, *OJK* has issued an *Indonesia Governance Roadmap* to provide a comprehensive overview of corporate governance aspects which need to be enhanced ((*OJK*), 2015a). Indonesian listed companies in particular are required to implement good governance practices based on the

Circular Letter⁵ issued by OJK. With regard to IFRS implementation, good governance is critical, particularly in providing credible information to stakeholders and sound financial reporting practice.

“Financial reports based on IFRS, PSAK, and others are [dependent upon] the quality of good corporate governance. Good corporate governance is not decided by accountancy [numbers]. If corporate governance is good, then we can see the benefit of the financial report” (Interviewee 6 – Chairman of Indonesia Financial Accounting Standard Board).

In order to encourage Indonesian companies to have decent accounting practices, regulators such as OJK, BI, *Komite Nasional Kebijakan Governance* (KNKG) [National Committee for Governance Policy] and IDX, in collaboration with IAI, hold an Annual Report Award (ARA) event that assesses Indonesian public companies, and a specific emphasis is placed on good corporate practices.

IFRS implementation in Indonesia will have a significant influence on public companies and their stakeholders. Public companies consisting of listed companies and other companies which have significant accountability, are required to prepare their financial reports using PSAK which are based on IFRS (JakartaPost, 2010). IFRS requires companies to be accountable as reflected by transparency in the notes of the financial statements, which in turn can enhance confidence and stimulate capital market investment (SCTV, 2013). Given that IFRS's are principles-based, greater explanation is required in the notes to financial statements surrounding the judgements made by financial accountants. The financial accountant, as a preparer of financial statements, is the first line of defence in executing professional judgement due to the principles-based nature of IFRS.

“Implementing IFRS needs preparation of first, human resources, [and] second, technological systems. [...] Another important thing is expertise to execute [professional] judgement that might be really needed in IFRS implementation. These [resources] in my opinion, are not ready yet. [This] is because Indonesia is more rules-based. It means Indonesia [has just been] following the rules all these years”. (Interviewee 12 – Member of National Council, Institute of Indonesia Chartered Accountants)

Regarding professional judgement, all assumptions, measurements and estimations should also be fully explained in the notes to the financial statements. Bapepam-LK has issued regulations surrounding the presentation of financial reports, which stipulate that the

⁵ Surat Edaran [Circular letter] No. 32 /SEOJK.04/2015 refers to the importance of good governance for public companies.

components include financial statement notes⁶. However, Indonesian companies have low transparency in relation to these notes (Perera and Baydoun, 2007).

Companies in the insurance sector faced the greatest challenge during the first phase of IFRS implementation. This sector involves prediction and estimation, and actuarial judgement. The lack of professional competence within the insurance industry to make interpretations and undertake professional judgement, as well as the difficulties regarding insurance estimation, are major challenges. This change leads to higher costs of implementation (Kompas, 2012). OJK has evaluated the insurance industry in order to assess the extent to which there is full compliance with IFRS, as some insurance companies have difficulties and limited resources to implement IFRS 4: *Insurance Contracts*, which has been adopted in *Akuntansi Asuransi Kerugian (PSAK 28)* [Accounting for Loss Insurance], *Akuntansi Asuransi Jiwa (PSAK 36)* [Accounting for Life Insurance] and *Kontrak Asuransi (PSAK 62)* [Insurance Contract]. OJK has indicated that most insurance companies have failed to fully comply with those three standards (InfoBankNews, 2013a).

“We (insurance companies) try to lobby to OJK that there [has been] no matching between the asset and liability. The matching concept should be [present]. If the asset is marked to market, the liability should be marked to market too. It’s required by IFRS [...]. The concern is [with] non-multinational market players, which [are] really local insurance [companies]. They are not ready”. (Interviewee 9 – Head of Accounting, Public Listed Company)

The banking industry also faces significant challenges in dealing with IAS 32 and IAS 39 which relate to the measurement and reporting of financial instruments. The shifting emphasis on valuing and reporting financial instruments based on market value as opposed to cost, have led to greater fluctuations and volatility in company performance (Zaini, 2010). The banking industry in Indonesia plays a significant role in overall economic development. There are 120 banking organisations in Indonesia, of which 37 are listed on the IDX ((BI), 2012). Difficulties in applying IFRS for the banking industry can jeopardise financial reporting which in turn can mislead financial reports users.

Another important issue surrounding Indonesian IFRS implementation relates to the telecommunication industry. Companies own telecommunication towers and rent them to telecommunication providers. Different interpretations have arisen as to whether the towers should be treated under *Investment Property* (IAS 40) or *Property, Plant and Equipment* (IAS 16). This can lead to asset recognition and measurement problems (Sinaga and Wahyuni, 2012). The issue regarding telecommunication towers has not been solved and moreover the IASB have not provided further recommendations or advice about this issue. The IASB only

⁶ Regulations issued by Bapepam-LK are effectively adopted by OJK as Bapepam-LK has been merged with OJK.

suggests that different recognition and measurement be considered and diversity in practice is assumed during IFRS implementation (Wahyuni, 2015). Despite being unresolved, the OJK as the regulator for Indonesian public companies, has proactively issued Circular Letters⁷, and suggested companies treat communication towers in accordance with *IAS 40 Investment Property* ((OJK), 2015c). Even though OJK's action is debatable, that rule has provided guidance for solving practical difficulties regarding IFRS implementation.

Financial reports, especially for public companies, must also be prepared in “Bahasa Indonesian” even though some of them have provided financial reports in English. As Indonesia is a member of both the G20 and the ASEAN Economic Community, local companies are required to be more professional and provide information for a wide range of stakeholders including foreign investors.

2.5.2.3. Professional environment

The professional environment explains how the accounting profession, and its development, influence or is influenced by, IFRS adoption within an Indonesian context. The success of IFRS implementation is influenced by professional roles. Accordingly, IFRS implementation also affects the development of professionals. To become a professional accountant in Indonesia, an accountant must graduate with a Bachelor's degree in accounting and then undertake 1 to 1.5 years of professional accounting study. In order to be a certified public accountant, accountants have to undertake a CPA (Certified Public Accountant) examination and possess 3 years auditing experience as practitioners ((IAPI), 2010b). Since 1 September 2004, students must have graduated in accounting and joined the *Pendidikan Profesi Akuntan* (PPA) [The Professional Accounting Education program] administered by selected Indonesian universities that teach the program, to obtain an “accountant designation” and certificate of registration.

“The education background really [is the] influence that shape[s] the basic knowledge of a person or professional preparer of the financial report. If the basic knowledge is good, they will be able to present a more consistent and reliable financial report. For...on the job training, we can [provide] mentoring or coaching. However, the first thing is that professionals should have [the] basic education background”. (Interviewee 9 – Head of Accounting, Public Listed Company)

In order to improve the competence of accountants, the IAI in 2012 established a new membership qualification, titled *Indonesian Chartered Accountant (CA)*. To obtain this qualification, accountants require registration, have 3 (three) years' work experience, and maintain sufficient credit within the professional development program held by IAI in

⁷ *Surat Edaran* (SE) [Circular Letters] issued by OJK No. 27/SEOJK.04/2015 requires listed companies to treat telecommunication towers as investment property under IAS 40.

cooperation with IAPI. Chartered accountants should undertake continuous training and professional examinations to enhance their skill through Continuing Professional Development (CPD). The Chartered Accountant designation fulfils IFAC's *Statements of Membership Obligations* and enhances the skill and competence of Indonesian accountants ((IAI), 2016). IFAC has developed International Education Standards (IES) covering the basic outlines of, and minimum requirements for, obtaining a professional accountant qualification. *Ikatan Akuntan Publik Indonesia* (IAPI) [Indonesian Institute of Public Accountants] is also a designated body that conducts professional examinations and technical training for public accountants. In May 2007, the IAPI was established to fulfil the IFAC requirement for there to be an independent body responsible for the accounting profession in Indonesia, including auditing standards and auditor certification.

“All...accountants, who want to [be] professionals, must [undertake] Continuing Professional Development (CPD)...However, if [they are] an, accounting graduate, [who do not wish to practice as an accountant], they don't need to. It's for those who want to serve society (as an accountant) ...they must [undertake] CPD. [...] every public accountant has to participate in CPD each year”. (Interviewee 17 – Head of the Finance Profession Supervisory Centre, Ministry of Finance)

One of the most important professional groups within the IAI is the DSAK, which was initially funded and supported by the IAI. Since 2013, DSAK-IAI have an MOU with IDX, *Kustodian Sentral Efek Indonesia* (KSEI) [Indonesia Central Securities Depository] and *Kliring Penjaminan Efek Indonesia* (KPEI) [Indonesia Clearing and Guarantee Corporation] for funding support during IFRS convergence ((IAI), 2015b). DSAK members, which includes professionals and academics, possess strong technical skills. Moreover, IAI also generates funding support from the World Bank to strengthen the accounting profession in Indonesia. However, DSAK possesses a low level of political legitimacy. DSAK has no legislative backing as an accounting standard setter in Indonesia. As a consequence, the World Bank has highlighted the need to increase political legitimacy for the accounting professional bodies (WorldBank, 2011) including the accounting standard setter. The World Bank suggests it is necessary to provide appropriate national laws for legal backing for accounting professional bodies rather than ministerial regulations.

IAI membership consists of 3 categories i.e. *Anggota Muda* (Young Member), *Anggota Madya* (Associate Member) and *Anggota Utama* (Chartered Accountant). In November 2014, IAI was reported to have 17,597 members consisting of 2,749 young members, 4,822 associate members and 10,026 Chartered Accountants. Since its establishment, the IAI has had 4 accountant categories: 1) academics accountants 2) public accountants 3) management accountants, and 4) public sector accountants. In 2014, a fifth category, taxation accountant,

has been added ((IAI), 2014a). IAI accountants, regardless of category, can apply for membership based on their qualification and experience. The *young member* is the lowest category of membership consisting of students undertake an accounting program at university level. The highest membership category is *chartered accountant* (CA), restricted to accountants that have been working as accounting professionals or academics, and have received government registration. The *associate member* includes university graduates, holding state registration, who have not been employed as professional accountants or academics.

In 2014, in order to maintain professionalism and qualifications, the Ministry of Finance issued regulation *Peraturan Menteri Keuangan* [Finance Ministry Regulation] PMK 25/PMK.01/2014 involving individual accountant state registration. This regulation provides legal backing to the accounting profession, by requiring accounting professionals to maintain professional membership and qualifications through ongoing Continuing Professional Development. Accordingly, the Ministry of Finance also issued *Keputusan Menteri Keuangan* (KMK) Finance Ministry Decision KMK No. 263/KMK.01/2014 that strengthens the IAI role as the association responsible for the professional development and registration of accountants.

Public accountants must be registered by the OJK to audit publicly listed companies. To audit banking organisations, accountants must be registered with Bank Indonesia. IAPI has a quality review board to ensure auditors comply with proper procedures regarding audit engagements. PPPK also conducts quality reviews and examinations to ensure auditors comply with auditing standards. The current law does not require auditors to provide an assurance of their professional work. This ambiguity has become problematic and subject to debate given that no accounting firm in Indonesia has been sued for sub-standard work (WorldBank, 2011). Many accounting firms are small with only one registered partner, which can raise serious problems regarding the firm's ability to provide high quality auditing. Based on section 240 of the *Kode Etik Profesi Akuntan Publik* [Code of Ethic for Professional Accountant]⁸, audit engagement fees can vary across accounting firms. However, there could be a threat to audit quality (insufficient work) and engagement (firm will defer to client concerns) if the audit fee is set too low (low-balling). To avoid the threat of audit compromise, auditors must have a solid understanding of audit terms, conditions, and professional requirements, and should not work below the standards required. IFRS which is

⁸ The Indonesian Code of Ethic for Professional Accountant is issued by IAPI, translated and modified from the *Code of Ethics for Professional Accountants* issued by International Ethics Standards Board for Accountants (IESBA), which is an independent standard setting board of the International Federation of Accountants (IFAC).

principles based, is more challenging for auditors working in small audit firms since they do not have adequate knowledge and training to execute professional judgement.

“If we see the big-four [firms] and [certain] stakeholders, they are the people who actually understand what IFRS is compared to others. They also know the advantages...There are some stakeholders who might not understand the advantages as there are no [other] drivers to implement IFRS. I agree that the main driver of IFRS implementation in Indonesia is the big-four firms for sure” (Interviewee 22- Head of Technical Team, Institute of Indonesia Chartered Accountants).

During the engagement, public accountants have to comply with the code of professional ethics, which has been prepared locally by IAPI since 2008. The code was effective from 2010 in Indonesia. The code consists of two parts. Part A contains the conceptual framework and fundamental principles, whilst part B contains illustrations of the fundamental principles and their application. The code of professional ethics will guide public accountants during the auditing process and in providing an opinion on financial reports. Justifiable auditor opinions should result in more effective decision making. According to section 100 of the *Kode Etik Profesi Akuntan Publik* [Code of Ethic for Professional Accountant], a public accountant is responsible for assuring that the public interest is protected. In providing assurance as to the fairness of financial reports, public accountants are not only responsible to clients, but to broader society. Competency and ethical values are therefore two things that public accountants should possess.

Based on IAPI data, in Indonesia, there are 525 audit firms including the ‘Big 4’ ((IAPI), 2016). Indonesia has around 53,800 registered accountants. Of these, only 1,240 are active professional accountants, of which 1,133 are IAPI members, 240 are non-IAPI members and 50 are non-active CPAs. Meanwhile, the number of accountants in Thailand is 57,244, Malaysia is 30,503, Singapore is 27,394 and the Philippines is 22,072 (Husin and Poerhadiyanto, 2014). Despite the size of the country, the number of available accountants per capital is less, illustrating one factor weakening auditing practice in Indonesia. Even though IFRS is only applicable for publicly listed companies, Indonesian non-listed companies also need public accounting services when seeking bank funding. The World Bank has recommended an increase in the number of accountants in Indonesia, as well as competence levels (WorldBank, 2011). Accordingly, in order to fulfil the country’s mutual recognition agreement with ASEAN, as set down by AFTA 2015⁹, Indonesian accountants and auditors are required to improve their level of competency.

⁹ AFTA is ASEAN Free Trade Area which will be realised effectively in 2015. It was agreed at the 1992 ASEAN summit in Singapore. AFTA is also a realisation of ASEAN Economic Community in 2015.

“There is a requirement based on the level. So, for the (audit firm) staff, we have general knowledge. There is also e-learning or training which they have to do to [obtain] general knowledge. It’s the working knowledge for the manager and thorough knowledge for the partner...not only once, but we must update [our] knowledge every year and...prove that we are still at that level. We are allowed to audit, and issue an opinion based on IFRS only if we are at that level” (Interviewee 21 – Auditor and Member of IFRS Implementation Team).

The globalised market in accounting education, and membership of Indonesia in international groupings such as the G20 and ASEAN Economic Community, have liberalised the accounting profession, in that qualified accountants from other countries can now work in Indonesian accounting firms or other industrial sectors as long as they possess an International CPA Examination Qualification. Based on Public Accountant Law No. 5/2011, foreign accountants can work in Indonesian accounting firms or in other private sector organisations¹⁰((GOI), 2011). The number of foreign accountants has increased over time. In order to compete with foreign accountants and be familiar with international accounting and auditing standards, OJK has argued for higher levels of competence for professional accountants (InfoBankNews, 2013b).

Accountants in Indonesia face a number of challenges in effectively implementing IFRS. Management accountants must exercise judgement regarding product and service costing as well as overhead allocation, which effects financial report measurement and disclosure, whilst public accountants exercise judgements regarding their audit opinion. The shift from a rules based to a principles based decision framework has required accountants to exercise for the first time, professional judgement in areas traditionally covered by strict rules and guidelines, which has been problematic (Sinaga, 2011, Sinaga and Wahyuni, 2012).

“There are a number of things that I noted as being very important for us to underline when we [undertake] PSAK-IFRS convergence. One thing is the move from a rule based to a principle based [framework] when we [adopt IFRS standards], which will [require us to increase] the quality of our manpower, but why? When following the principles based [approach], we have to decide the quality of our financial report. Good qualified judgment [requires us to have] competence. This is an absolute requirement, besides integrity and other issues” (Interviewee 24 – Head of Accounting, Public Listed Company).

The Indonesian government argues that local accountants have not been ready to compete with foreign accountants ((IAI), 2013b), as they have not embraced a willingness to update their technical knowledge and competence. Most rely on rules based standards and appear not to possess the necessary skills to execute professional judgement. In order to overcome this

¹⁰ Public Accountant Law No. 5/2011 Article 7 states that foreign accountants can apply for a working permit to be employed as public accountants in Indonesia.

problem, it is argued that there needs to be a synergy between professional bodies and government. Regulators, particularly the Ministry of Finance through the *Peraturan Menteri Keuangan* (PMK) [Ministry of Finance Regulation] No. 25/PMK.01/2014, have urged Indonesian accountants to become members of a professional association such as the IAI, be registered by the Ministry of Finance, and increase their professional skill and competence in relation to IFRS through Continuing Professional Development (CPD) training ((IAI), 2015b).

“I think that since the financial report is management’s responsibility, they should update [themselves] as the auditors do. Every time there is a new standard, they have to [understand]...what the new standard [is about], the change, the effect, and the ideal practice. So...like it or not, they have to join seminars, training [programs], and CPD workshops held by the IAI/IAPI frequently. It will help in the implementation of PSAK [that are] based on IFRS” (Interviewee 14 – Member of Indonesia Accounting Standard Board).

That regulation provides legal backing for IAI to manage the accounting profession in Indonesia. It requires all registered accountants to be IAI members ((IAI), 2014b). It also aligns with the IAI blueprint of ‘chartered accountant’ requiring Indonesian accountants to be registered by the state, and maintain their competence through professional training and examination. That regulation, in general, increases the credibility and quality of Indonesian financial reporting (Suryowati, 2014). In order to increase the credibility of the accountant within society, government has also issued Regulation No.84/2012¹¹ that establishes the Public Accountants Profession Committee under the auspices of the Ministry of Finance ((GOI), 2012). The functions of the committee include improving transparency and accountability, and empowering and overseeing public accountants to be a profession trusted by society.

There are 4 (four) characteristics that registered accountants should possess. First, the exhibition of professional competence, which can be obtained through education, experience, and competency examinations. Second, the maintenance of competence through continued professional development programs. Third, membership of the professional accounting association and registration with the Ministry of Finance. Fourth, compliance with professional standards and the appropriate code of ethics.

“They (accountants) have to re-register, so we know who the ‘real’ accountants among the 53,500 population are. All accountants, who want to be seen as ‘professional’, must be registered and [commence ongoing] Continuing Professional Development” (Interviewee 17 – Head of Finance Profession Supervisory Centre, Ministry of Finance).

¹¹ Government Regulation No.84/2012 involves the Public Accountant Profession Committee

The introduction of IFRS has brought with it changes in the way accountants record and measure transactions. One of the main concerns is the shift toward the use of fair value. *IFRS 13 Fair Value Measurement* which is codified into PSAK 68, will be challenging for accountants given the extensive professional judgement required (King, 2009). The implementation of PSAK 68 will affect other standards such as PSAK 48 (Impairment), PSAK 50 (Financial Instrument: Presentation) and 55 (Financial Instrument: Recognition and Measurement), PSAK 16 (Property, Plant and Equipment), and PSAK 13 (Investment Property). In general, companies using the revaluation model will be affected by the implementation of PSAK 68, which provides guidance how to measure assets using fair value.

With regard to fair value implementation, independent valuers have emerged as a certified group to undertake asset valuation. Indonesian appraisers consist of business valuers and/or property valuers ((MOF), 2015). The business valuer deals with business valuations including mergers and acquisitions, whilst property valuers deal with land valuation, both of which use fair value. The role of the appraiser has legal backing from the OJK¹² requiring listed companies to use the service of appraisers when applying fair value for assets' valuation. Previously, appraisers had no substantive role given that fair value was not used as a valuation method for assets and liabilities. Current accounting standards require fair value be applied mandatorily for financial instruments and voluntarily for other assets.

The Ministry of Finance entrusts *Pusat Pengembangan Profesi Keuangan* (PPPK) [Finance Profession Supervisory Centre], to supervise accounting and financial professionals including appraisers. The role of the PPPK, under the auspices of the Ministry of Finance, is to control and regulate various aspects of the accounting profession, including registration, the issuing of regulations and rules¹³, and enforcing penalties and sanctions. Appraisers providing services to listed companies are bound by OJK regulations¹⁴ ((OJK), 2015b). While PPPK and OJK conduct supervision and enforcement mechanisms, the MAPPI is a professional body responsible for professional development of the appraiser. It conducts training and continuing professional development (CPD) programs, and issues standards for asset valuation that should be followed by appraisers.

¹² OJK has issued rules about appraisers conducting activities in capital market, through decision No: KEP-3722/BL/2012 of the Capital Market Supervisory Agency. It provides legitimacy for an appraiser to act as a professional undertaking an asset valuation.

¹³ *Peraturan Menteri Keuangan* (PMK) [Finance Ministry Regulation] No. 101/PMK.01/2014 covers the services, roles and responsibilities of appraisers.

¹⁴ OJK has issued regulations relating to appraisers engaging in the capital market, including the extent of independence, scope of service and the need for a valuation report.

2.5.2.4. Individual Environment

The individual environment is important in predicting the motives and objectives of individual actions. During IFRS implementation, individuals including accountants and appraisers play substantial roles in executing professional judgements and in the development of accounting standards. Indonesian people are characterised as non-individual oriented (collectivist), secretive, exhibiting large power distance and high uncertainty avoidance (Perera and Baydoun, 2007, Mangundjaya, 2010, Sudarwan and Fogarty, 1996). Collectivism and uncertainty avoidance is closely linked with the “professionalism” accounting value dimension proposed by Gray (1988). Gray (1988) argues that collectivist societies exhibit low professionalism, avoid uncertainties, which in turn result in less competence in being able to execute professional judgement. Large power distance implies that individuals do not take part in the decision-making process and that Indonesian regulators have strong authority to influence the role of professionals.

In Indonesia, collectivism explains how individuals assist each other. It is also known as the “*gotong royong*” concept (Mangundjaya, 2010), whereby work difficulties can be addressed if people work together and assist each other. IFRS convergence has required regulators to work with professional bodies, audit firms and the accounting profession to ensure successful implementation in Indonesia. One example is the reliance by a management accountant, on the work of an auditor or appraiser, because of insufficient ability in being able to execute professional judgement related to fair value measurement.

According to Perera and Baydoun (2007), the tendency for secrecy as opposed to transparency, has driven Indonesian companies to avoid adequate disclosure to broader society. IFRS are principles-based standards where implementation requires professional judgement and adequate disclosure. Implementing IFRS requires professional judgment, as assumptions and estimations may involve uncertainty and subjectivity, which Indonesian people seek to avoid (Mangundjaya, 2010). Indonesian people in general prefer stable conditions as changes in political and economic conditions, as well as regulations and guidance including accounting standards, may threaten their livelihood.

“When he (the accountant) [encounters] difficulty, well then [it] is like “game over”, and it is time to take the easy way out. He doesn’t really pay attention to what happens later like, how this will affect the report, and whether or not it is accurate. He prefers the easy way. The standard is difficult, isn’t it? So, it’s like he won’t get caught if there are mistakes in implementing it”. (Interview 1 – Senior Advisor Capital Market Supervision, Financial Service Authority).

One of the important processes for IFRS convergence in Indonesia is public consultation on the new standards adopted. Individuals, including academics, practitioners and professionals, are allowed to be involved during the discussion of a particular standard, and how it is to be applied in Indonesia. However, the views put forward at a public hearing maybe different than those that would be obtained through broader opinion and consultation (Perera and Baydoun, 2007). Only a few people attended and were involved in the public hearings in Indonesia. According to Perera and Baydoun (2007) individuals in large power distance societies such as Indonesia, will not participate in the decision making process, and as a rule will not attend public hearings due to the technical complexity of the issues being discussed.

In Indonesia, IFRS implementation engenders a sense of uncertainty regarding what situations will be faced, and the way to deal with them (Shonhadji, 2013). Internal auditors execute professional judgement, and deliver advice to management related to the assignment of accounting transactions, whilst public accountants execute judgement regarding the fairness of financial reports prepared by the organisation. In undertaking professional judgement, individuals run the risk of fulfilling their own objectives and breaching ethical values (Perera and Baydoun, 2007).

“If corporate governance is not good or the quality of corporate governance is not good, the quality of financial report would depend on the manager. If the manager is honest, has integrity, and is skilful, it will run well. [...] That [applies] to the auditors too [...] They can sacrifice ethical values to reach a certain economic target. It’s not a secret that people will look for their own benefit... Vested interests also occur in companies where CFOs have an absolute dominance, and can hide the faults [where they] cannot be found (by others)” (Interviewee 6 – Chairman of Indonesia Financial Accounting Standard Board).

Judgements by Indonesian professionals have historically been influenced by uncertainty avoidance, a cultural characteristic that indicates that people prefer a risk adverse orientation. However, the concept of fair value accounting under IFRS, adopts an optimistic orientation. Indonesian professionals tend to avoid fair value measurement in the financial reports due to their complexity, extensive estimation and professional judgement (Laux and Leuz, 2009) and the fact that the Indonesian environment is not conducive to fair value application ((IAI), 2013a). Regarding the collectivist orientation, Shonhadji (2013) suggests that during IFRS implementation in Indonesia, managers and auditors work together to provide financial statements based on IFRS. However, preparers must consider that financial reports are managements responsibility, hence even though auditors or other professionals such as appraisers support management in the preparation of financial reports, management has the ultimate responsibility for the provision of reliable information within financial reports.

“Each management accountant must be aware that the report has to be accountable and be read by others, so we cannot say “oh, I want to use the auditor” right? or “I have used the appraiser”. Therefore, whatever the number given by them (the auditor and appraiser), I just follow it. Those who know for sure what our business is like is management itself. We should not provide a financial report which misleads people about something that is not relevant to our business” (Interview 24 – Head of Accounting, Public Listed Company).

2.5.2.5. Accounting Environment

The accounting environment explains how accounting and auditing practices and regulation, as well as taxation systems, affect successful IFRS implementation. Indonesia has 4 (four) major pillars of accounting standards, including (1) *Pernyataan Standar Akuntansi Keuangan* (PSAK) [Statement of Financial Accounting Standards] which are based on IFRS and applicable to public listed companies, (2) *Standar Akuntansi Pemerintah* (SAP) [Government Accounting Standards], (3) *Entitas Tanpa Akuntabilitas Publik* (ETAP) [Non-public Entity Standard] and (4) *Standar Akuntansi Syariah* [accounting standards based on Sharia Law]. PSAK, which is based on IFRS 2009 have to be applied effectively from 2012 by public companies. DSAK set convergence with IFRS standards at 2009 to be implemented by 2012, to avoid difficulties in catching up with the ongoing and growing number of revised and new IFRSs. The ‘three-year gap’ is used to anticipate translation and interpretation processes. Currently, Indonesia is converging PSAK with IFRS, but there is no fixed schedule yet as to when full convergence with IFRS will occur.

The Accounting Standards and Disclosure Bureau of Bapepam-LK also has a monitoring function to ensure auditor compliance with professional standards. This function has been strengthened by the IDX Monitoring Division which undertakes financial statement reviews and disclosure, and reports to Bapepam-LK. IDX is also responsible for reporting any material infractions to Bapepam-LK (WorldBank, 2011). Given Bapepam-LK’s merger with OJK, this mechanism has also been transferred from Bapepam-LK to OJK.

Regarding law enforcement for publicly listed companies, Capital Market Act no.86/1995 requires listed and public companies to submit financial reports to the OJK which are then publicly announced¹⁵. OJK has issued many regulations and policies for listed companies, including requiring that financial reports align with IFRS convergence¹⁶((OJK), 2011). It also

¹⁵ Capital Market Act no. 8/1995, Chapter 10, article 86 stipulates that public companies have to regularly submit reports to Bapepam-LK and make public pronouncements.

¹⁶ OJK issued some regulations related to the listed companies. It was issued as Decision of Chairman of Capital Market Supervisory Agency No: KEP-346/BL/2011 requiring publicly financial report should be prepared in accordance with applicable PSAKs converged with IFRS. The regulation is coded as Regulation No. X.K.2.

regulates financial reports for companies that are dual listed in another country. OJK also issued regulations requiring that annual reports be submitted to OJK at the end of the fourth month after the reporting period, and be available on the company website¹⁷ ((OJK), 2012a). Moreover, regarding financial report presentation, OJK issued regulation requiring annual reports should be presented and disclosed based on PSAK that have been converged with IFRS¹⁸((OJK), 2012b). Some regulations do not align with IFRS, where some differences are found between those regulations and PSAKs requirements regarding presentation and disclosure of financial reports.

“Within OJK’s regulations, there is one regulation about the presentation of the financial report [named as regulation No. VIII.G.]. During the application of IFRS convergence, that regulation may not also automatically change and be updated into current PSAK based on IFRS. It is what is making it difficult at the beginning due to the differences between current PSAK and that regulation. [...] If there are differences we have to comply with the new PSAK” (Interview 24 – Head of Accounting, Public Listed Company).

Based on that regulation, annual reports must contain a summary of key financial data, the board commissioners’ report, a director’s report, the company profile, corporate governance report, management discussion and analysis, and an acknowledgement of the director’s responsibility for the financial reports (Bapepam-LK, 2012). Companies are also required to inform the market of any material decision that may influence the share price, as well as investment decisions and related party transactions within two business days.

There is a regulation to rotate audit partners and audit firms to safeguard the independence and quality of an audit. According to Ministry of Finance Regulation 17/2008¹⁹, audit partner rotation is required every 3 (three) years whilst for accounting firms it is 6 (six) years. However, Bank Indonesia (Central Bank of Indonesia) regulations require a five-year rotation for audit partners and accounting firms. In order to maintain their integrity, compliance and competence, public accountants have to submit a report regarding client assignments periodically to OJK. This report is comprehensive and consists of a report on Attestation Services with and without an opinion, as well as Non-Attestation Services. If clients violate capital market regulations and laws, accountants have to confidentially report this issue to Bapepam-LK (OJK) within 3 business days.

¹⁷Decision of Chairman of Capital Market Supervisory Agency No: KEP-431/BL/2012 is about the Annual Financial Reporting Period coded as Regulation No. X.K.6.

¹⁸Decision of Chairman of Capital Market Supervisory Agency No: KEP-431/BL/2012 is about the Presentation and Disclosure of Financial Report coded as Regulation No. VIII.G.7.

¹⁹Ministry of Finance Regulation No. 17/PMK.01/2008 article 3 regulates the tenure of audit services by public accountants and accounting firms.

Public companies consisting of listed companies and non-listed companies are also required to comply with IFRS. Public companies are defined as companies having significant public accountability. Due to implementation difficulties, Bapepam-LK lowered the threshold for the application of IFRS to certain public companies such as insurance companies. Insurance companies have been identified as one where there is a lack of competent human resources (Kristianto, 2012, Beritasatu, 2013). Whilst public companies are required to apply IFRS, non-public companies are not, and have the option to use the *Entitas Tanpa Akuntabilitas Publik* (ETAP) [Non-Publicly Accountable Entity] standard which comprises 30 chapters. ETAP was implemented effective from 1st January 2011. However, as ETAP is not compulsory for non-public companies, it is not effectively applied by those companies.

Another pillar is the Sharia accounting standard which was established to fulfil the requirement for accounting to conform to the Islamic moral code and religious values. IAI officially issued Sharia Accounting Standards which are codified as PSAK 101-109. Effective May 2002, *DSAK-IAI* issued regulations surrounding Sharia banking, which has been applicable since January 2003. Sharia standards were adopted from Accounting and Auditing Standards for Islamic Financial Institutions (AAS-IFI) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAO-IFI).

In addition to Indonesia implementing IFRS, it also adopted International Standards of Auditing (ISA) that have been effective from 1 January 2013. Auditors should apply this standard during the audit engagement. Adopting ISA is part of the Statement of Membership Obligation from the International Federation of Accountants and the World Bank recommendation surrounding audit standards. Furthermore, as a member of the G20, Indonesia is committed to using International Standards of Auditing. There are 35 standards of auditing, including 8 general standards on auditor responsibility, 6 standards on risk assessment and response, 11 standards on audit evidence, 3 standards on using the services of other parties including experts and internal auditors, 4 standards on audit conclusion and reporting, and 3 standards on specific areas. Similar to IFRS, ISA is a dynamic set of standards that are subject to ongoing changes or amendments. Currently, Indonesia uses the 2010 version of ISA, despite there being a more recent version as of 2015.

“We adopt IFRS for the [Indonesia] accounting standard while the Indonesian auditing standard is adopted from ISA [...] The development (of the standard) is fast. They just published the revision in 2015. Indonesia adopted the 2010 version of ISA...There are not many changes from 2010 to 2014, however there was a significant change in 2015 [...] As yet we don’t know when to adopt the 2015 version. For PSAK, the convergence results in a one-year gap compared to IFRS. We haven’t decided yet whether IAPI will adopt the IFAC standard to minimise the time gap (between Indonesian auditing standards and ISA)” (Interviewee 25 – Auditor and The Secretary of Indonesia Institute of Public Accountant).

Another issue regarding IFRS implementation in Indonesia is the conflict between accounting and tax principles. The tax regime in Indonesia involves the *Quasi Dependent Approach* whereby the tax authority tightly controls tax regulation. Tax regulation in Indonesia is complex and considers various aspects and interests. Tax rules in Indonesia require adjustments to financial reports based on accounting standards (PSAK). These adjustments are known as permanent and temporary differences. Tax regulations emphasize legal form over substance, which is inconsistent with the accounting principle of ‘substance over form’. The fair value concept in accounting is also considered a major difference between tax accounting and PSAK. In order to overcome these differences, the tax authority can exercise 3 options, to: (1) fully adopt IFRS, (2) partially adopt IFRS, (3) not adopt IFRS. These 3 alternatives are being discussed between the inspectorate general of taxation, IAI, OJK, and other related parties. Certain tax accounting principles including neutrality, simplicity, enforceability, tax capacity, revenue position, public policy and cost reform, have been identified as problematic issues between tax regulation and PSAK that affect financial reports. Examples of differences between tax and accounting principles are listed below:

Table 4. Differences Between Tax Principles and Accounting Principles

Tax Principles	Accounting Principles
Reporting currency is the Rupiah as stated in <i>Ketentuan Umum Perpajakan</i> (KUP) [General Rules of Taxation] article 28 point 4	Use functional currency as in PSAK 10 (IFRS 2009)
Using Historical cost as in <i>Undang-Undang Pajak Penghasilan</i> (UU PPh) [Income Tax Law] article 10 point	Fair value is regulated in PSAK 10, PSAK 50 and 55, PSAK 57, PSAK 22, ISAK 10, PSAK 30/ISAK 8, ISAK 11, PSAK 19
Measurement based on realisation is regulated <i>Undang-Undang Pajak Penghasilan</i> (UU PPh) [Income Tax Law] article 10 point 1	Estimation and prediction of provision is in PSAK 57 and PSAK 34, estimation of loss is in PSAK 16, PSAK 50 and PSAK 55
Revaluation cannot be undertaken at any time as regulated in <i>Peraturan Menteri Keuangan</i> (PMK) [Ministry of Finance Regulation] No. 79/PMK.03/2008	Revaluation is undertaken based on fair value (PSAK 2007)
No concept of materiality for test of compliance <i>Peraturan Menteri Keuangan</i> (PMK) [Ministry of Finance Regulation] No. 199/PMK.03/2007 article 2	The concept of materiality during general audit for testing the fairness of financial reports
Maximum economic useful life of intangible assets is 20 years as regulated in <i>Undang-Undang Pajak Penghasilan</i> (UU PPh) [Income Tax Law] article 11 point 2	Intangible assets is defined, whether the economic useful life is definite or infinite

Source: *Institut Akuntan Publik Indonesia* (IAPI) [Indonesian Institute of Public Accountant], (IAPI) (2010a)

Given these differences, in March 2014 the IAI officially established *Kompartemen Akuntan Pajak* [Tax Accountant Compartment] as a professional body under IAI. Its role is to mediate

between industry and the tax regulator, and provide input to the tax regulator about issues related to accounting and taxation practices ((IAI), 2014c). One critical issue relates to the conflict between tax regulation and certain aspects of IFRS implementation. There are a number of fundamental differences between accounting standards and tax regulations which have to be addressed (Aida, 2013).

“Good regulation does mean there is a synergy between regulators, such as the OJK, the stock exchange and the [accounting] standard setter. But if I am asked whether there is something that has been synergised or not, from a taxation perspective it looks like the gap with IFRS is still wide. [...] We must reconcile between commercial [accounting] and taxation reporting [...]. Related to revaluation, there is no clear decision or regulation for taxation purposes. It is not clear enough and we need to verify and confirm whether fair value or revaluation influence taxable income or not” (Interview 24 – Head of Accounting, Public Listed Company).

In 2015, the government issued regulations²⁰ to encourage asset revaluation for tax purposes, and provided tax incentives for those who conduct asset revaluations for tax purposes ((IAI), 2015a).

Indonesia is in the second phase of IFRS convergence. Some PSAKs have been updated in order to be in line with IFRS as of 2014 (*AkuntanOnline*, 2013). This will minimise the gap between PSAK and IFRS because most PSAKs are already based on IFRS as issued in 2009. This second phase commenced by the issuance of 8 exposure drafts of updated PSAK based on IFRS 13 *Fair Value Measurement*.²¹

The IAI has joined regional and international forums and organisations, including *The International Financial Accounting Standard Setters (IFASS)*, *The IASB World Standard Setter (WSS)*, *IASB Emerging Economies Group (EEG)* and *IFRS Regional Forum*, in order to discuss IFRS related issues ((IAI), 2015b). Active involvement in these organisations will help Indonesia address any practical problems regarding IFRS implementation, including telecommunication towers and land use, where there are specific recognition and measurement issues that relate to the environment ((IFRS), 2013, Wahyuni, 2015)²².

²⁰ *Peraturann Mentri Keuangan* (PMK) Finance Ministry Regulation No. 191/PMK.10/2015 relates to asset revaluation for taxation purposes.

²¹ These involved PSAK 1 (IAS 1 *Presentation of Financial Statement*), PSAK 24 (IAS 19 *Employee Benefits*), PSAK 4 (IAS 27 *Separate Financial Statements*), PSAK 15 (IAS 28 *Investment in Associates and Joint Ventures*), PSAK 65 (IFRS 10 *Consolidated Financial Statements*), PSAK 66 (IFRS 11 *Joint Arrangements*), PSAK 67 (IFRS 12 *Disclosure of Interests in Other Entities*), and PSAK 68 (IFRS 13 *Fair Value Measurement*).

²² The right to use the land bestowed from government raises issues of interpretation. Some interpret the right to use the land as falling under IAS 40 *Investment Property* while others interpret it under IAS 16 *Property Plant and Equipment*. IFRIC decided not to bring this issue into its agenda given it is an issue specific to Indonesia. Meanwhile for telecommunication towers, the Indonesian government requires the communication provider companies to rent a tower from another company. The rental company may rent the tower to more than one communication provider company. The issue of interpretation surrounds how to treat the tower; being whether to use IAS 40 *Investment Property* or IAS 16 *Property Plant and Equipment*. Telecommunication towers cannot

IFRS convergence in Indonesia involves IFRS being translated into the Indonesian language and codified into PSAKs. There are also certain modifications of PSAKs to accommodate local practices ((IFRS), 2014). Both of these issues can impede full IFRS adoption and implementation. First, translating IFRS into Bahasa Indonesian can result in multiple meanings and interpretations, that differ from the standards original language. According to Company Law (40/2007) Indonesian companies must refer to Indonesian standards instead of IFRS in resolving disputes. Second, translating IFRS into Bahasa with modifications, and codification into PSAK will result in financial reports being PSAK-based rather than IFRS-based. In order to be deemed IFRS-based financial reports, Indonesia must plan to fully adopt IFRS without changes or modifications.

“If we want to be fully converged just like in Europe, applying endorsement for IFRS, what do we have to do? What’s the consequence? That’s what I want in the time of my leadership. It may take two, three, or four years until we can say “go” or “do not go” with the full IFRS [...] I imagine to build a house of Generally Accepted Accounting Principles (GAAP) namely the house of Indonesian Accounting Standards (PSAK). [...]. The PSAK will have rooms like a house [...] The first room is for the listed company, like in Europe which endorse IFRS. [...]. We do not make any changes to IFRS, except certain things which are very specific, one or two things. The second room is for Indonesian PSAK... which later maybe for the non-listed company. There are other rooms for the non-profit company, non-publicly accountable entity, and micro company. Those are in a house called PSAK. PSAK is in accordance with Indonesian Company Law” (Interviewee 6 – Chairman of the Indonesia Financial Accounting Standards Board).

2.5.3. Factors Affecting Successful IFRS Implementation

Implementation challenges have been identified since IFRS became effective for public listed companies from 2016. The Gernon and Wallace (1995) accounting ecology framework has helped to explain the accounting environment within an Indonesian context in relation to IFRS implementation. Based on the accounting ecology framework, this study identifies certain challenges surrounding IFRS implementation. *First*, the lack of law enforcement is a substantial impediment to IFRS implementation (Alp and Ustundag, 2009, Albu and Albu, 2012). Regulators have not effectively enforced regulations, hence some organizations display low levels of compliance with standards and regulations regarding financial report presentation and disclosure. Some professionals have also been found not to comply with professional standards, yet sanctions and penalties were rare. Strong law enforcement require penalties to be applied to organizations engaging in unethical behaviour (Bratten and Bratten, 2013). However, the accounting and professional elements within Indonesia highlight that

satisfy the definition and recognition criteria for a “building”, hence it creates problems when treating it as property under both IAS 16 and IAS 40.

penalties have not effectively been applied to companies or professionals who demonstrate unethical conduct. Therefore, laws are not acting as a deterrent for bad behaviour.

Second, IFRS implementation challenges are also caused by a lack of regulatory coherence between capital markets, company law, and taxation law. Indonesia has two different accounting systems in place, PSAK (IFRS) and tax accounting. This leads to greater complexity and IFRS implementation cost because it creates tension between IFRS's capital market orientation and the tax-driven characteristics of government. This situation is similar to Germany which has three different accounting systems (IFRS, tax accounting and the commercial code) which also leads to greater obstacles for IFRS adoption (Haller and Eierle, 2004). Despite this, companies are still required to comply with Indonesian company law that in turn require reference to Indonesian accounting standards instead of IFRS for preparing financial reports.

Third, the problem of IFRS interpretation and translation have hindered the success of IFRS implementation in non-Anglo Saxon countries (Tsunogaya et al., 2015, Hellmann et al., 2010), particularly emerging countries which lack the necessary training. The shift from rule-based to principle-based accounting standards and the lack of practical guidance for preparers (Larson and Street, 2004, Jermakowicz and Gornik-Tomaszewski, 2006) and auditors (Schipper, 2005), creates problems in implementing IFRS within Indonesia. Fair value accounting also provides implementation difficulties due to the lack of liquid markets (Republika, 2015), and markets for non-financial assets, in many emerging economies²³.

Fourth, regarding professional competence, Indonesia has approximately 53,800 registered public accountants but less than 20,000 are IAI members and only 1,133 are IAPI members. Based on those facts, most public accountants do not have the opportunity to improve their professional skills which can be obtained easily through membership of these professional bodies. The lack of training and education has promoted fewer competent professionals including preparers and public accountants. In 2015, the IAI adopted IFRS 13 *Fair Value Measurement* but professionals were not prepared enough to shift from an orientation of historical value to fair value. The competence of preparers and internal auditors influences the readiness of IFRS convergence in Indonesia (Shonhadji, 2013) because they are directly involved in the preparation of financial reporting. Similarly, public accountants working in

²³ IFRS 3 *Fair Value Measurement* includes three levels of fair value hierarchy that categorises inputs used in valuation techniques. Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. [IFRS 13:76]. Level 2 inputs are those other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in an active market [IFRS 13:81]. Level 3 inputs are unobservable inputs for the asset or liability [IFRS 13:86] which are used to measure fair value to the extent that relevant observable inputs are not available.

non-big audit firms also have difficulties in applying IFRS and executing professional judgement.

Given those challenges, this paper suggests some key factors for successful IFRS implementation in Indonesia. *First*, continue to actively contribute to, and be involved in the accounting and standard setter organisations including the Asian-Oceanian Standard Setters Group (AOSSG), Emerging Economies Group (EEG), International Forum of Accounting Standard Setters (IFASS) and World Standard Setters (WSS) ((IAI), 2013d). Indonesia has specific issues regarding interpretation, such as telecommunications, and land rights ((IAI), 2015b), which need to be reconciled with the international standard setter. The case of telecommunication towers has been brought to the attention of the IFRS interpretation committee (IFRIC) and discussed for a number of years (Wahyuni, 2015). While IFRIC recommends the treatment of telecommunication towers as property under IAS 16 *Property, Plant and Equipment*, the IASB has declined to mandate this and suggests this issue is an Indonesian specific case, rather than an international issue (Wahyuni, 2015). Ongoing specific issues in a particular country will impede the IASB objective of improving the quality and consistency of IFRS implementation if that issue cannot be similarly interpreted and applied in another country. It also impedes the ability to successfully converge in countries having different local contexts, jurisdiction, problems and practices. Involvement of Indonesia in accounting and standard setter organisations will permit it to argue on specific issues at broader regional and international forums, enabling it to actively engage in international accounting standard development. The relationship between domestic, regional and global standard setting bodies, can help particular countries and jurisdictions address problems and issues surrounding IFRS convergence and implementation (Lion, 2012). Regional and global standard setters in turn may benefit from this relationship in terms of disseminating and educating stakeholders as well as collecting views from them.

Moreover, Indonesia needs to continue to actively be involved in other regional and international organizations such as IFAC, AEC, and G20 in order to more effectively transition to international accounting and auditing standards. Studies have highlighted the importance of international organisations in the development of accounting standards (Mir and Rahaman, 2005, Alp and Ustundag, 2009). International organisations often issue mutual agreements, communiques, declarations and protocols on many important issues including security, trade, the economy, as well as accounting standards and practices²⁴. The G20

²⁴ The ASEAN Economic Community (AEC) is an economic integration and single market among South-East Asian countries involving agreements about import tariffs, employment, accounting standards and other technical regulations.

agenda, which includes accounting and financial reporting reform, requires members to follow the commitments issued by it²⁵(G20, 2009).

The *second* key factor for successful IFRS implementation in Indonesia, is that given that IFRS are principles based standards that require professional judgment, there is a need to conduct ongoing training, education, development and examination programs for professionals. Lack of knowledge, understanding and technical skills is an impediment to successful IFRS implementation, therefore training will enhance the skill and competence of accounting professionals (Hassan et al., 2014, Mısırlıoğlu et al., 2013, Tsunogaya et al., 2015). Current regulations require registered accountants under the Ministry of Finance to continually improve their level of competence and knowledge by undertaking Continuing Professional Development (CPD) programs and periodic professional examinations.²⁶ Similarly, other accounting professionals such as management accountants or internal auditors are encouraged to undertake professional certification and training in order to update their knowledge and improve competence.

Since IFRS has essentially adopted a fair value paradigm (Cairns, 2006), professional appraisers have become more prominent as valuers of organizational assets. Due to this important role, an appraiser's competence is critical in being able to provide reliable information about fair value assets. It is important that appraisers develop skills in valuation and maintaining competency through training and development provided by professional bodies such as MAPPI (Siregar, 2013). Valuing asset's within Indonesia using the fair value approach is challenging due to the absence of an active market (Sinaga, 2015) for many non-financial assets.

Third, that government be continually involved in strengthening IAI's functions as the principal Indonesian standard setter in Indonesia by synchronising regulations issued by various Indonesian regulatory bodies. Tax laws, capital laws, corporate laws and accounting standards should be handled at the national level and be synchronised to create consistency and strong enforcement. Company Law (40/2007) requiring companies to comply with Indonesian accounting standards (PSAKs) has also been an impediment to full convergence as well as implementation. IAI and DSAK initiatives to solve this problem are required to support IFRS implementation within the Indonesian context. The current DSAK leadership is actively promoting full convergence, and working on legal and technical issues to facilitate this in the near future.

²⁵ One of the G20 leaders' commitment is to strengthening the international financial regulatory system, including commitment of G20 members to adopt or converge with international accounting standards.

²⁶ *Peraturan Menteri Keuangan Republik Indonesia* [Finance Minister Regulation] No.25/PMK.01/2014

Under Ministry of Finance regulations²⁷, IAI has been appointed as the organization responsible for providing and overseeing professional development for Indonesian accountants. However, the IAI's other roles, including the development and setting of accounting standards, also need to be legislatively backed.

Fourth, broader society needs greater involvement and participation in public hearings of any new IFRS adopted in Indonesia. This process will help to identify the knowledge, interpretation and readiness of industry, practitioners and professionals toward newly adopted standards or changes to standards. Accordingly, it will reduce interpretation problems and other technical difficulties during IFRS implementation.

Five, establish practical guidance for IFRS interpretations. The problem of interpretation in non-common law countries have already been identified (Hellmann et al., 2010, Albu et al., 2013). Those studies suggest greater practical guidance for IFRS interpretation. Following those previous studies (Hellmann et al., 2010), this paper suggests Indonesian professional bodies issue interpretation guides to accompany IFRS.

Six, the role of government, professional bodies, and professionals are important in supporting successful implementation of IFRS. Government enacts laws and regulations, and provides enforcement mechanisms for professional bodies and professionals. Legislative endorsement is important in ensuring the legitimacy of the services provided by professionals, whilst law enforcement is important in ensuring that IFRS has been implemented appropriately. Meanwhile professional bodies and professionals are responsible for executing the legislation, through professional development and professional judgment on technical issues. The extent of collaboration and relationships developed among government and professionals, significantly influences the degree to which IFRS's are successfully implemented within the Indonesian context.

2.6. Conclusion

Using Indonesia as a case study, this paper aims to identify the critical success factors for IFRS implementation within an emerging country that does not have an Anglo-Saxon foundation. It applies the Gernon and Wallace (1995) accounting ecology framework to investigate accounting and its environment within the Indonesian context *ex post* IFRS implementation.

²⁷ *Peraturan Menteri Keuangan Republik Indonesia* [Finance Minister Regulation] No.25/PMK.01/2014 about registered accountant and the role of IAI in professional development program.

This paper has identified challenges during the first phase of IFRS implementation, including the lack of legal enforcement, difficulties in standards interpretation, a lack of professional competence, as well as an absence of coherent regulations issued by Indonesian regulatory bodies. These findings confirm the results of previous studies which found that emerging countries that did not have an Anglo-American or common law legal framework, faced many challenges during IFRS implementation (Albu et al., 2013, Alp and Ustundag, 2009, Jain, 2011, Bhattacharjee, 2009, Irvine, 2008).

Weak enforcement mechanisms have been identified as a substantial factor which hinders successful implementation of IFRS (Albu and Albu, 2012). Recently, the capital market in Indonesia has gained in importance even though only less than 5% of Indonesian companies are listed on the IDX. Even though OJK has an authority to regulate capital market activities and issue regulations related to IFRS, enforcement is not effectively applied and is not backed up by accounting laws that regulate how companies implement IFRS. Companies experiencing IFRS implementation difficulties are seen to not fully comply with IFRS.

The shifting paradigm of accounting standards from rules to principles-based, can create problems, such as a lack of competent professionals who can execute professional judgement. Moreover, given that English is not a first language in Indonesia, IFRS requires translation into local Bahasa Indonesian, creating translation and interpretation problems (Tsunogaya et al., 2015, Hellmann et al., 2010). Professionals draw on professional judgement for recognition, measurement and presentation of financial reports. A lack of competence has been a major impediment to the exercise of professional judgement. The problem is amplified by the lack of appropriate training, education, and IFRS practical guidance for users, including preparers and public accountants. Membership levels of professionals in professional organisations such as IAI, IAMI and IAPI are relatively low, resulting in difficulties dealing with the dynamic nature of IFRS whereby the IASB may revise, update and issue new IFRSs.

The lack of coherent regulation between the capital market, tax, and corporate oversight authorities, can hamper IFRS implementation within Indonesia. Tax regulators are still deliberating as to whether they will, or will not adopt IFRS. Similarly, Indonesian company law also poses challenges as it requires Indonesian companies to comply with Indonesian accounting standards instead of IFRS in preparing financial reports.

Based on these challenges and problems, this paper suggests factors that are essential for successful IFRS implementation within Indonesia. Continued involvement in regional and international forums is essential in being able to promote the importance of Indonesia's regional role and responsibility as a populous nation in economic and social transition. It will

also help Indonesia address specific problems related to IFRS implementation that are also being faced by neighbouring countries with similar social, economic and cultural frameworks.

Ongoing development, as well as education and training programs for professionals, are critical in being able to enhance professional competence (Hellmann et al., 2010, Tsunogaya et al., 2015). Unlike previous accounting standards which have been rule-based, principles-based standards require professionals to use their professional judgement. Continuing professional development programs will enhance and sharpen the required professional skills, and help accountants engage in critical thinking whilst exercising professional judgement, such as in the areas of assurance engagement. In order to overcome interpretation problems, this paper suggests that IAI issue practical guidance for IFRSs. The shift from rule-based to a principle-based standards, and different professional qualification levels, have resulted in interpretation problems (Hellmann et al., 2010). Practical guidance will minimise interpretation problems and variation among accountants, by limiting the scope of available outcomes, and provide justifications as to why certain approaches are the way they are. This paper also suggests that strengthening law enforcement and synchronising regulations are also important in promoting successful IFRS implementation. Tax regulators, OJK and IAI must have the same orientation as to how accounting standards and practices in Indonesia will be developed and applied. Accounting regulatory bodies also have to issue regulations and laws to support IFRS implementation, including financial reporting law and accounting law.

During IFRS adoption, active participation by individuals in public IFRS hearings will address the impediments of IFRS implementation by allowing a broader range of expert inputs into the IFRS process and allow issues to be discussed and addressed at an early stage. Different assumptions, interpretations and accounting practices among industries and professionals can be discussed and resolved during exposure draft public hearings and seminar forums where knowledge can be shared to reduce misunderstanding. Standard setters and regulators can identify IFRS implementation difficulties faced by industries, and can provide insights and practical guidance on how to deal with those difficulties.

In conclusion, this study emphasizes that the local accounting context provides the basis for understanding many of the issues that facilitate and impede Indonesia's ability to successfully implement IFRS. The accounting ecology framework consisting of 5 (five) separate but intersecting elements helps to explain the macro and micro accounting environment within an Indonesian context. This framework is also useful for investigating the challenges of IFRS implementation and identifies the factors essential for success going forward into future phases of IFRS convergence. This paper provides an understanding of the localised factors that are necessary to address in order to overcome problems with IFRS implementation within

emerging countries like Indonesia, that do not possess an Anglo-American framework upon which the original IFRS's were designed.

2.7. References

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2.8. Appendices

Appendix 1.1. Table of Indonesia Accounting Professional and Regulatory Bodies

Professional Bodies or Regulatory Bodies	Roles and Function
<i>Ikatan Akuntan Indonesia</i> (IAI) [Institute of Indonesia Chartered Accountants]	<ol style="list-style-type: none"> 1. Responsibility to set and develop Accounting Standards. 2. Manage Professional Training and Education.
<i>Institut Akuntan Publik Indonesia</i> (IAPI) [Indonesian Institute of Public Accountants]	<ol style="list-style-type: none"> 1. Set Auditing Standards. 2. Manage Professional Development for Public Accountants. 3. Set a Professional Code of Ethics.
<i>Badan Pengawas Pasar Modal</i> (Bapepam-LK) [Indonesia Capital Market Supervisory Agency]; has been changed into <i>Otoritas Jasa Keuangan</i> (OJK) [Financial Services Authority]	<ol style="list-style-type: none"> 1. Regulate capital market activities. 2. Set laws and regulations for publicly listed companies. 3. Set standards, guidance and procedures for institutions within the financial sector.
<i>Pusat Pembinaan Profesi Keuangan</i> (PPPK) [Finance Profession Supervisory Centre]	<ol style="list-style-type: none"> 1. Control and supervise accountants, appraisers and actuaries. 2. Manage continuous professional training and development for accountants, appraisers and actuaries.
<i>Direktorat Jendral Pajak</i> (DJP) [Directorate General of Taxation]	<ol style="list-style-type: none"> 1. Set taxation regulations and policies. 2. Enforce taxation regulations and policies.
<i>Institut Akuntan Manajemen Indonesia</i> (IAMI) [Indonesian Institute of Management Accountants],	<ol style="list-style-type: none"> 1. Manage Professional Development for management accountant.
<i>Masyarakat Profesi Penilai Indonesia</i> (MAPPI) [Indonesian Society of Appraisers]	<ol style="list-style-type: none"> 1. Set valuation standards. 2. Manage professional development for appraisers. 3. Set a professional code of ethics for appraisers.

Appendix 1.2. List and Detail of Interviews and Interviewees

No	Date	Group of Participants	Code	Role
1	12-May-15	Regulator	Interviewee 1	Senior Advisor Capital Market Supervision of Financial Service Authority
2	13-May-15	Preparer	Interviewee 2	Head of Accounting Public Listed Company
3	16-May-15	Auditor	Interviewee 3	Audit Firm
4	26-May-15	Preparer	Interviewee 4	Head of Accounting Public Listed Company
5	27-May-15	Appraiser	Interviewee 5	Appraiser Firm
6	28-May-15	Auditor/Professional body	Interviewee 6	Audit Firm/Chairman of Indonesia Accounting Standard Board
7	28-May-15	Auditor	Interviewee 7	Audit Firm
8	28-May-15	Auditor	Interviewee 8	Audit Firm
9	29-May-15	Preparer	Interviewee 9	Head of Accounting Public Listed Company
10	29-May-15	Appraiser/Regulator	Interviewee 10	Appraiser Firm/Center of Financial Profession Development
11	1-Jun-15	Regulator	Interviewee 11	Senior analyst of Banking Industry of Financial Service Authority and member of Working Group of IFRS
12	1-Jun-15	Professional body	Interviewee 12	Member of National Council-Institute of Indonesia Chartered Accountants
13	1-Jun-15	Professional body	Interviewee 13	Technical Advisor IFRS Implementation-Institute of Indonesia Chartered Accountants
14	6-Jun-15	Professional body	Interviewee 14	Member of Indonesia Accounting Standard Board
15	9-Jun-15	Auditor	Interviewee 15	Audit Firm
16	9-Jun-15	Appraiser	Interviewee 16	Company Value Advisory of Audit Firm
17	10-Jun-15	Regulator	Interviewee 17	Head of Center of Financial Profession Development
18	10-Jun-15	Regulator	Interviewee 18	Head of Compliance and Listing Division Indonesia Stock Exchange
19	10-Jun-15	Regulator	Interviewee 19	Supervisor-Issuer Valuation and Monitoring Indonesia Stock Exchange
20	10-Jun-15	Regulator	Interviewee 20	Senior Officer-Issuer Valuation and Monitoring Indonesia Stock Exchange
21	12-Jun-15	Auditor/Professional body	Interviewee 21	Accounting Firm and IFRS Implementation team of Institute of Indonesia Chartered Accountants
22	12-Jun-15	Professional body	Interviewee 22	Head of Technical Team- Institute of Indonesia Chartered Accountants
23	12-Jun-15	Preparer	Interviewee 23	Head of Accounting Public Listed Company
24	15-Jun-15	Preparer	Interviewee 24	Head of Accounting Public Listed Company
25	15-Jun-15	Auditor/Professional body	Interviewee 25	Audit Firm and Secretary of Indonesia Institute of Public Accountant
26	19-Jun-15	Appraiser	Interviewee 26	Appraiser Firm

Appendix 1.3. List of Interview Questions

1. In your opinion to what extent does political, economic and market development, as well as culture, influence the implementation of IFRS in Indonesia? (Societal environment)
2. To what extent does firm size, organizational culture, technology and human and capital resources influence the implementation of IFRS in Indonesia? (Organizational environment)
3. How does the education, skill and competence level of financial statement preparers and auditors influence IFRS implementation in Indonesia? (Professional environment)
4. From your perspective, do individual ethical values and behavior influence IFRS implementation in Indonesia? If so, how? (Individual environment)
5. Based on your experiences, do you think auditing, accounting, financial reporting practices as well as regulatory, enforcement and monitoring mechanism influence IFRS implementation in Indonesia? If they do, in what way? (Accounting environment)

Chapter 3 (Paper 2): The Influence of the Localised Accounting Environment and Institutional Work in the Institutionalisation of Fair Value Accounting in Indonesia

3.1. Abstract

Purpose: This study investigates the role of the local accounting environment and actors as agency in the institutionalisation of fair value standards within Indonesia, as an emerging country case study.

Design/methodology/approach: This study uses semi-structured interviews for data collection, conducted with important actors within the Indonesian accounting profession and standard setting environment, regarding the application of fair value accounting. This study also uses information obtained from press releases and newspapers to provide a more comprehensive picture of fair value application in Indonesia. For data analysis, this study applies a thematic analysis approach.

Findings: The role of local ‘actors’ is important in understanding how global accounting standards, in particular those which exercise a significant degree of professional judgement, are locally institutionalised. This study finds that regulators, professional bodies, preparers, auditors and appraisers all have important roles in the institutionalisation of fair value accounting within Indonesia. These actors conduct purposive actions, construct interests and seek legitimacy during the process of institutionalising fair value accounting in the local Indonesian context.

Research implications: First, different local contexts, including communities and actors within a particular country, will react differently toward the diffusion and implementation of global standards and may conduct actions to create, maintain and disrupt institutions. Second, different environmental and social constructs can influence the successful application of IFRS. Emerging economies, having different interests and legitimacy needs among actors compared to that of advanced economies which have more established regulatory systems, and they experience greater challenges during IFRS application and implementation.

Originality/value: This study expounds on *Institutional Work* proposed by Lawrence and Suddaby (2006) and Perkmann and Spicer (2008) to explain how the fair value standard is institutionalised within a local context characterised by unique actor roles.

Keywords: *Accounting Ecology, Actors, Institutional Work, Fair Value, Indonesia*

3.2. Introduction

More than 100 countries around the world have implemented, or continue to implement, International Financial Reporting Standards (IFRS). Two important issues surrounding IFRS convergence include the shift from rule-based to principle-based standards and the extensive use of fair value in financial report measurement (Cairns, 2006). The IASB sought to achieve a ‘stable platform’ for its IFRS standards during 2005, and whilst there has been continuous updates to standards and interpretations since this date, Indonesia has decided to use IFRS

effective at 1 January 2009 as a reference point for initial convergence, which are codified into PSAK (*Pernyataan Standar Akuntansi Keuangan*) [Statement of Financial Accounting Standards] by DSAK (*Dewan Standar Akuntansi Keuangan*) [Financial Accounting Standards Board]. IFRS convergence in Indonesia is now in its second phase after the initial phase of IFRS convergence in 2012 in which 95% of IFRS effective at 1 January 2009, were adopted and implemented by Indonesian public companies. Whilst Indonesia has not yet decided to fully adopt IFRS, it has sought to maintain a minimum 1-year differential between local (DSAK) and IFRS. Therefore IFRS's effective 1 January 2014, will be adopted by 1 January 2015 ((IFRS), 2014). One of the important standards implemented in 2015 was IFRS 13 *Fair Value Measurement*, codified locally as PSAK 68 *Nilai Wajar* [Fair Value]. This standard will be a reference for other standards requiring fair value as a measurement basis.

Continued adoption and implementation of IFRS is anticipated to lead to greater uniformity of accounting practices across the world. However some studies on IFRS implementation have identified common features and problems within emerging countries, including continued emphasis on a rule-oriented as opposed to principal's oriented approach, slow development of the accounting profession, and an overemphasis on tax rules (as opposed to IFRS) as a basis for financial reporting (Jermakowicz and Gornik-Tomaszewski, 2006, Larson and Street, 2004, Chamisa, 2000). Nevertheless, the degree of success and overall outcome of implementation will differ based on the roles of local actors in the application of IFRS (Chand, 2005, Chamisa, 2000). Prior studies have examined the reasons for IFRS adoption in emerging countries (Zeghal and Mhedhbi, 2006, Judge et al., 2010), but little is known about how IFRS's are applied within emerging countries (Ezzamel and Xiao, 2011).

Studies have explored how IFRS's are implemented across different national settings (Hassan et al., 2014, Guerreiro et al., 2012, Irvine, 2008). Others have investigated how the fair value standard as part of the cohort of global accounting standards, is implemented across different countries (Peng and Bewley, 2010, Cairns et al., 2011). However, there have been limited studies investigating the process of institutionalisation of fair value in different national contexts. This study investigates how fair value standards are institutionalised into the local environment. Previous studies have investigated the process of institutionalisation of accounting standards (Guerreiro et al., 2015, Albu et al., 2011, Irvine, 2008) but limited studies focus on fair value standard institutionalisation. It builds an argument using the Gernon and Wallace (1995) accounting ecology framework, as well as *Institutional Theory* focusing on *Institutional Work*, to explain the Indonesian local accounting environment and the roles of actors such as preparers, auditors, professional bodies and regulators during this process of institutionalisation.

Due to extensive requirements for estimation and judgement, fair value standards are controversial (Zhang et al., 2012) and challenging standards, not only in advanced markets such as Europe (Gebhardt, 2012) but also in emerging economies such as China (He et al., 2012). The importance of fair value in Indonesia is reflected in the adoption and implementation of PSAK 68 *Nilai Wajar* [Fair Value], effective from 1 January 2015 ((IAI), 2013b). Consequently, other PSAKs using fair value as the basis for measurement and valuation will refer to PSAK 68 to determine fair value and its disclosure in financial statements.

In order to ensure that international accounting standards are applicable within a local context, the role of local actors are critical in the process of institutionalisation. Institutional theory explains how global accounting standards are adopted and diffused by countries around the world. How standards are institutionalised depends on the role and action of local actors. This study applies “Institutional Work” (Lawrence et al., 2009) and considers the local accounting context (Gernon and Wallace, 1995) in the process of institutionalisation. Institutional work argues that it is the action of the actors that influence how accounting phenomena institutionalises and how institutions change. This study introduces the roles and interests of actors, each of whom; have vested interests, struggle for power, seek to create their own legitimacy, and undertake actions which influence institutional change, and consequently institutional work.

This study has close affinity with Albu et al. (2011) and Chiwamit et al. (2014) whose studies are undertaken in Romania and China, and Thailand respectively, but differ in some respects. First, those studies focus on institutionalisation of international accounting standards as single set of global accounting standards and Economic Value Added (EVA) respectively, while this study focuses solely on fair value. Second, the Indonesian local context is different from that of Romania, China and Thailand. This study investigates regulators, auditors, professional bodies and users as important actors, who have interests and seek legitimacy in, the process of institutionalising, toward ensuring that fair value standards (as part of global IFRS) are practicable within the local context (Albu et al., 2013).

A study in Indonesia is important for the following reasons. First, Indonesia is characterised as an emerging market, with a growing number of companies listed on the Indonesian stock exchange. Market listed companies, including financial and non-financial organisations, are required to provide financial reporting transparency. Financial institutions including banks, drive Indonesian economic development, in part. The banking industry is significantly affected by fair value standards, particularly with respect to financial instruments. The banking industry faces significant challenges in dealing with IAS 32 *Financial Instruments*:

Presentation and IAS 39 Financial Instruments: Recognition and Measurement. The shifting emphasis on valuing and reporting financial instruments based on market value as opposed to cost, have led to greater fluctuations and volatility in company performance (Zaini, 2010). There are 1,665 rural banks and 120 commercial banks in Indonesia, and 37 of these commercial banks are listed on the Indonesian Stock Exchange ((BI), 2012). The number of banks indicates the significant affect this industry has on the Indonesian economy, especially when this industry was under financial crisis. This was evident during the banking crisis of 1997-1999 whereby the devaluation of the rupiah led to large deposit runs on Indonesian banks, constituting half of all bank assets, which led to the intervention and subsequent closure of many banks that had poor asset quality, by the newly formed Indonesian Bank Restructuring Agency (IBRA). The consequent recapitalisation (in order to meet capital assets ratios), along with the reprivatisation and merger of selected banks, provided greater stability to the Indonesian banking system, but continued to underpin the importance this sector has within the overall Indonesian economy. Studies have found that fair value implementation can provide better information regarding financial performance, but at the same time can be perceived as hazardous during a financial crisis (Laux and Leuz, 2009, Magnan, 2009), as was the case with Indonesia (Sinaga, 2015) where market values were not reflective of underlying economic value. Whether listed or non-listed on the stock market, banking institutions are public companies that have a responsibility to provide publicly accountable information, and are required to apply IFRS. Alongside financial instruments, fair value standards also involve fixed assets, such as land, buildings and investment properties. Implementation of urban planning in Indonesia interestingly allows buildings other than commercial buildings, to exist within commercial areas ((IAI), 2013a).

Second, despite its significant growth, Indonesia remains an emerging economy where the capital market is categorised as ‘inefficient’ (Reksamedia, 2014). Implementing fair value measurement in inefficient markets such as Indonesia is more problematic, as it is difficult to generate market values from quoted prices, which are often not active or liquid, and where prices do not always reflect “arm’s length transactions” between market participants (Sinaga, 2015). Third, fair value measurement requires extensive judgement and estimation, the accuracy of which depends largely upon education, training and experience. The World Bank has identified the need for an increase in the overall number and competence levels of both Indonesian accountants and professionals (WorldBank, 2011). Third, with regard to fair value standards, Indonesia’s unique environment makes their implementation challenging, given that it is a specific environment, populated by local actors who seek legitimacy and pursue their own interests (Albu et al., 2013). Indonesia is also a diverse archipelago from a social, economic and cultural standpoint.

This study provides the following contributions. First, investigating the role of actors in the institutionalisation of fair value accounting within Indonesia provides insights into the extent to which global standards can be successfully implemented within local contexts. Second, understanding actor behaviour can better enable the alignment of interests, which in turn can lead to more successful fair value implementation and higher quality financial reporting.

This study makes an important contribution to the accounting literature in a number of ways. *First*, this study investigates how actor roles have purposive action during the institutionalisation of global standards into a local context. Previous studies have applied isomorphism to institutional theory (Hassan et al., 2014, Irvine, 2008) to explain IFRS adoption and implementation. This study however focuses on how actors, who also have interests and pursue their own legitimacy, conduct purposive actions to change institutions (Lawrence and Suddaby, 2006) during the process of fair value institutionalisation.

Institutional theory focuses on the homogeneity of practices (isomorphism) in adopting the structure, technology, methods or techniques that are validated socially (DiMaggio and Powell, 1983), without considering the roles of actors in making them applicable in the local context. Countries are not always homogeneous, each having their own specific environment, hence the occurrence of isomorphism is difficult (Rodrigues and Craig, 2007). This study explores how IFRS 13 *Fair Value Measurement* is implemented into a national and consequently localised context, where local actors play important roles in the institutionalisation process. Lawrence and Suddaby (2006) suggest the use of institutional work in accounting research, in order to understand the purposive actions of individual or collective actors in changing institutions i.e. creating, maintaining and disrupting institutions.

Second, this study applies the Gernon and Wallace (1995) ecological framework to explain the Indonesian local accounting context as a template by which actors interact and execute their interest, power and legitimacy. The Gernon and Wallace (1995) accounting ecology framework can help explain why the local context influences IFRS implementation, particularly in relation to standards such as fair value, which depend upon local market forces and conditions. *Third*, this study investigates the involvement of various actors in the institutionalisation and implementation of fair value standards conducting political work, technical work and cultural work (Chiwamit et al., 2014, Perkmann and Spicer, 2008) and focuses on “how” questions in the process of institutionalisation, as suggested by institutional work (Lawrence et al., 2011). Previous studies have predominantly focused on the organisational-field level in the process of institutionalisation and implementation of accounting and management innovations (Chiwamit et al., 2014, Hayne and Free, 2014).

3.3. Literature Review

3.3.1. Accounting Ecology and the Local Context

Harmonisation projects, including accounting, are structurally and strategically complex. Their objective is to enhance international comparability. Nevertheless, they are articulated and applied in specific environments (Cooper et al., 1998, Albu et al., 2013, Bhattacharjee, 2009). Accounting practice often reflects the diverse environment in which it operates (Craig 2007). Differing levels of socioeconomic development and cultural background lead to diverse accounting practices. Consequently, International Financial Reporting Standard (IFRS) convergence must consider the local context in which it operates (Gernon and Wallace, 1995, Rodrigues and Craig, 2007).

Gernon and Wallace (1995) offers a framework to identify the context of the local accounting environment, and has been used previously in this regard to explain the factors affecting successful IFRS convergence with respect to Germany and Indonesia (Hellmann et al., 2010, Perera and Baydoun, 2007). This framework consists of five (5) separate but interacting environmental elements. The *societal* environment relates to structural and social trends, including political and economic development, legal system, national culture and market enlargement. The *organisational* environment focuses on organisational events or trends that influence the rationalisation of choices including its culture and size. The *professional* environment refers to events or trends affecting the accounting profession and its roles and relationships, including educational qualifications, continuing professional development and registration. Fourth, the *individual* environment focuses on how individual actions assist in pursuing self-interest. Finally, the *accounting* element covers accounting regulations, practices, and rules, which are interdependent with other environment elements.

3.3.2. Institutional Theory and Agency

Previous studies have utilised a number of theoretical perspectives to explain the adoption and implementation of accounting standards in the national context; institutional theory being one example. Institutional theory argues that organisational behaviours are the output of beliefs, ideas and values which emanate from an institutional context (Meyer and Rowan, 1977). Neo-institutional theory proposes the interaction between entities and their institutional environment and the way the environment shapes the organisation and practices. The basic assumption of institutional theory is *isomorphism*, whereby the organisation adopts structures, and management tends to conform with these predominant norms or structures (DiMaggio and Powell, 1983). Isomorphism (which can be coercive, mimetic and normative in nature) represents the fact that the organisation adopts structures, methods, and technologies in order to compete for legitimacy and power. Institutions are expected to shape and be shaped by, the

behaviour of actors in the organisation. However neo-institutional theory has been criticized for lacking an explanation as to how actors contribute to institutional change, instead considering the agency of actors as less important (Lawrence et al., 2009). Some institutional theorists have addressed this issue and provided explanations as to how both organisations and individuals can contribute to institutional change (DiMaggio, 1998).

The development of institutional theory has addressed the issue of human agency in institutional change. Institutionalists have emphasised how individuals and organisations act strategically and have roles in institutional change or affect institutional arrangements wherever they operate (DiMaggio, 1998, Greenwood and Hinings, 1996). Current studies show the role of actors in institutional change (Dacin et al., 2002, Battilana et al., 2009, Guerreiro et al., 2015), and how the action of actors can change institutions by conducting institutional work (Hayne and Free, 2014, Chiwamit et al., 2014, Perkmann and Spicer, 2008). Eisenstadt (1980) introduced the notion of “institutional entrepreneurship” to show the role of actors in providing direction for structural change. Institutional entrepreneurship is defined as organized actors “who have an interest in particular institutional arrangements and leverage resources to create institutions or to transform existing ones (Maguire et al., 2004). This notion was developed and applied in the institutional analysis by DiMaggio and Powell (1983) in order to characterize organized actors as agency, having sufficient resources to shape institutions.

Those studies shift institutional theory from isomorphism toward the agency of actors in institutional change. However, there is a paradox in that questions arise as to how actors can shape and change institutions when they are themselves embedded in their institutional environment (Weik, 2011, Battilana et al., 2009, Battilana, 2006)? If actors are embedded within institutional fields and subject to normative, regulative and cognitive process which define their interest, shape their cognition and produce their identities (Clemens and Cook, 1999, Friedland and Alford, 1991), how are they be able to envisage new practices and accordingly influence others to adopt them? Garud et al. (2007) suggest answering this question by “conceptualising agency as being distributed within the structures that actors themselves have created”. Hence, instead of being constrained, institutions provide platforms for entrepreneurial activities. Institutions do not constrain the agency of humans, as they are foremost and first the product of human agency (DiMaggio, 1991).

3.3.3. Institutional Work and Previous Studies

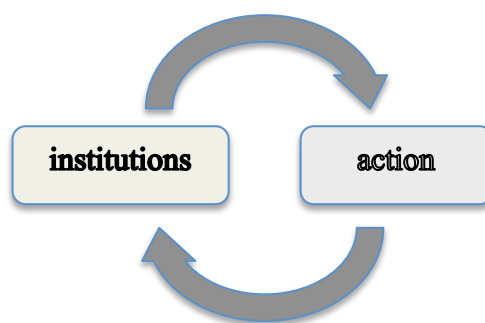
There has been an a new emphasis in institutional studies related to explaining and understanding the role of actors in transforming, affecting and maintaining institutions (Lawrence and Suddaby, 2006). Institutional entrepreneurship provides the basic foundation

that focuses on the manner in which actors and their interests influence their institutional context (Garud et al., 2007, Perkmann and Spicer, 2008). However, institutionalisation cannot be achieved by a single institutional entrepreneur (Greenwood and Suddaby, 2006). Lawrence and Suddaby (2006) suggest going beyond institutional entrepreneurship, to include institutional work that explains the purposive actions of actors in changing and shaping institutions. Creating the new institution requires a wide range of actors having the skills and resources to act as an entrepreneur to conduct institutional work (Leblebici et al., 1991). A lone entrepreneur cannot undertake phenomenal and prodigious action (Lawrence et al., 2011) in changing the institution. Rather, institutionalisation involves collective institutional entrepreneurship where actors having different skills, work together (Perkmann and Spicer, 2008, Battilana et al., 2009).

Institutional work expands, bridges and connects the notion of institutional entrepreneurship, innovation and institutional change (Lawrence et al., 2009). According to Lawrence and Suddaby (2006), institutional work is defined as the “purposive action of individuals and organisations at creating, maintaining and disrupting institutions”. This concept is based on an awareness that institutions are products of human action and reaction and induced by idiosyncratic personal agendas and interests for institutional preservation and change (Lawrence et al., 2009).

Institutional work relies on an understanding of institution and actor interaction. Given that previous studies suggested institutions provide templates for action (Maguire et al., 2004, Garud et al., 2007), the concept of institutional work is concerned with the second arrow where actors and their actions influence that template or institution (Lawrence et al., 2009).

Figure 3. The Association Between Institution and Action



Source : Lawrence et al. (2009)

Institutional work consists of three broad categories i.e. *creating*, *maintaining* and *disrupting* institutions (Lawrence and Suddaby, 2006). *First*, creating institutions is developed based on the notion of institutional entrepreneurship, explaining the role of interested actors in institutional formation. This type of institutional work reflects the political work of actors,

reconfiguration of actors' belief systems and actions to change abstract categorisations of meaning. The political work is also known as rule-based work, focusing on rule systems in the construction of new institutions. These works rely on the actors' capability to enforce compliance. The reconfiguration of actors' belief systems involves the creation of institutionalised rules and practices to complement existing institutions. Meanwhile, changes of abstract categorisations of meaning refer to leveraging existing taken for granted practices, specifying the institution abstract categories, and educating the actors regarding new skills and knowledge.

Second, maintaining institutions relates to “supporting, repairing or recreating the social mechanisms that ensure compliance” (Lawrence and Suddaby, 2006). Given that self-reproducing of institutions is questioned, maintenance work is required to stabilise those institutions. Ensuring adherence to the systems of rules, and reproducing existing belief systems and norms, can help maintain institutions. Maintenance also involves the creation of new roles or authorising bodies or agents to endure institutional routines. *Third*, actors seek to disrupt institution when institutions do not preserve their interests. They conduct work by undermining or attacking institutional mechanisms of compliance. The table below shows the categorisation of institutional work proposed by Lawrence and Suddaby (2006) :

Table 5. Institutional Work Categorisation

Institutional Work	Definitions
<i>Creating Institutions</i>	
Advocacy	Mobilisation of regulatory and political support by conducting deliberate and direct social dissuasion.
Defining	Establishing rule systems conferring identity or status, defining membership boundaries and establishing status hierarchy.
Vesting	Conferring property rights and authority, thereby involving some level of sharing of regulatory or coercive authority.
Constructing identities	Defining the association between actors and the field.
Changing normative association	Reformulating the association between morals, norms and cultural foundations.
Constructing normative networks	Constructing normative networks between actors previously disconnected. They formalise practices and are responsible for enforcement, evaluation and monitoring.
Mimicry	Leveraging current and existing practices, rules and tools by aligning the new institution with taken-for-granted practices.
Theorising	Creating and specifying of abstract categories and identifying of causal relationship of its elements. Started with the naming of the new practices, followed by communication and elaboration.
Educating	Knowledge and skill sharing and establishing access of information to educate actors involved in new institutions.
<i>Maintaining Institutions</i>	
Enabling work	Creating rules to support institutions including creating new agents and roles supporting institutions.
Policing	Enacting enforcement, monitoring and compliance of the institution.
Deterring	Creating coercive barriers to institutional change.
Valorising and demonising	Providing positive and negative examples to the public to demonstrate the normative foundations of institutions.
Mythologising	Establishing and sustaining myths about the institutions history, and its ability to maintain its normative foundations.
Embedding and routinizing	Instilling the institutions normative foundations into routinized activities and organisational practices.
<i>Disrupting Institutions</i>	
Disconnecting sanction/rewards	Disconnecting rewards and sanctions from a set of practices, rules or technologies.
Disassociating moral foundation	Disassociating of practice, technology or rules from its moral foundation, resulting in an institution considered no longer appropriate within a particular cultural context.
Underpinning assumptions and beliefs	Decreasing the perceived risks and costs of innovation by undermining and weakening the substantial assumptions and beliefs of an institution.

Source : adapted from Lawrence and Suddaby (2006)

Previous studies used institutional work in accounting and management innovation (Hayne and Free, 2014, Chiwamit et al., 2014, Perkmann and Spicer, 2008, Zietsma and Lawrence, 2010, Lawrence et al., 2002). Hayne and Free (2014) and Chiwamit et al. (2014) conducted studies on institutional work at the organisation-field level. Professional organisations representing field-level actors have been found to conduct purposive actions to create,

maintain and disrupt institutions (Hayne and Free, 2014). Meanwhile, Chiwamit et al. (2014) suggest that actors conduct political, technical and cultural work in the process of institutionalisation.

Institutional theory has traditionally focused on institutionalisation as an outcome rather than a process, Dillard et al. (2004) suggest institutionalisation is a process where institutional practices are established involving political activities, actors and organised interests and their relative power. Successful institutionalisation depends on “the relative power of the actors who support, oppose or otherwise strive to influence it” (DiMaggio, 1998), and the process of institutional change is influenced by the political efforts of actors to achieve their final goal (Dillard et al., 2004).

Dillard et al. (2004) argue for the political nature of institutional change, the relative power of organised interests, and a dynamic and continuing process of institutionalisation. Institutional work and Dillard et al. (2004) take account of actors and interests in the process of institutionalisation. Both theoretical frameworks regard actors as agency, having skill, awareness and reflexivity to act for institutional change. Institutional work suggests that individual or collective actors act purposively to create, maintain and disrupt institutions (Lawrence and Suddaby, 2006).

Institutional work is an institutionally embedded activity, constrained by the social structure and conditioned human agency, whilst at the same time actors undertake work deliberately based on self-interest (Lawrence et al., 2009, Lawrence et al., 2011, Lawrence et al., 2013). Institutional work suggests that maintaining stabilised institutions must be treated as important as the establishment of the emerging institution itself (Lawrence and Suddaby, 2006, Perkmann and Spicer, 2008). The institutional change and stability align with studies examining actors as agency and structure in institutional accounting research (Dillard et al., 2004, Kilfoyle and Richardson, 2011, Burns and Scapens, 2000). Nevertheless, institutional work suggests a more detailed classification of agency work type in changing institutions (Lawrence and Suddaby, 2006).

This study on Indonesia elaborates institutional work proposed by Lawrence and Suddaby (2006) and the institutional work classification proposed by Perkmann and Spicer (2008) distinguishing between political, technical and cultural work. Political work refers to the effort of actors in the “development of rules, property rights and boundaries in the attempt to anchor an institution within the wider social system” (Lawrence and Suddaby, 2006). The work mainly focuses on the establishment of rules and regulatory frameworks. It also advocates that the practice of innovation involves political negotiation to create an alignment of actor’s interests and institutions (Perkmann and Spicer, 2008, Chiwamit et al., 2014). The

institutionalisation of fair value in Indonesia involves political works by establishing rules and regulatory frameworks or conducting political negotiations that make fair value applicable in the Indonesian context.

While political work provides the social basis for institutional construction, technical work refers to technical efforts to make innovation or new practice fits within particular institutional contexts (Perkmann and Spicer, 2008). Technical work involves educating actors to enable the abstract models, creating links between new management or accounting innovation with the previous one, and theorisation and mimicry (Lawrence and Suddaby, 2006). This work requires actors with significant expertise such as professionals, consultants or academics. With regard to fair value institutionalisation within an Indonesian context, actors (such as professionals) and their associations, share knowledge and skills or allow information access, to enable fair value to be understood and measured.

Cultural work refers to actions to ensure the new practice fits within broader belief in particular institutional context (Chiwamit et al., 2014, Perkmann and Spicer, 2008). This work involves constructing inter organisational networks, applying normative sanctions to certain practices, creating professional identities and broadening the knowledge jurisdiction of professionals. This requires cultural skill whereby actors should be able to transform institutions that have broader values into specific normative attitudes. Cultural work is characteristic of professionalism, whereby the institutional entrepreneur inserts management or accounting practices within a broader value system, particularly professional skills and identity (Perkmann and Spicer, 2008). Cultural works in the fair value institutionalisation within an Indonesian context, involve expanding the tasks and jurisdiction of professional groups to accommodate new practices i.e. fair value or shaping professional identities.

The elaboration of institutional work suggested by Lawrence and Suddaby (2006) and Perkmann and Spicer (2008) is shown in the following table.

Table 6. Institutional Work Categorisation

Work	Activity
<i>Political</i>	Advocacy
	Vesting
	Defining
<i>Technical</i>	Theorising
	Standardising
	Mimicry
	Educating
<i>Cultural</i>	Constructing normative networks
	Changing normative association
	Constructing identity

Source : Perkmann and Spicer (2008)

Given that actors conducting institutional work also pursue their own legitimacy and interests, this study refers to Chiwamit et al. (2014) who suggest the notion of field cohesiveness, to investigate how interests are coordinated around accounting innovation.

3.3.4. Fair Value Accounting and Actors

Institutionalisation of management and accounting practices may deploy different kinds of institutional work consisting of different activities and involving various actors (Perkmann and Spicer, 2008). The collaboration of political, technical and cultural work will reinforce management and accounting innovation. When different institutional work is involved, different actors are also involved, each having different roles in the institutionalisation process (Perkmann and Spicer, 2008, Dorado, 2005, Campbell, 2004). Institutional work is also conducted and distributed across the field by various actors.

The current financial reporting environment has increased concerns relating to fair value measurement (Christensen and Christensen, 2012). Fair value needs to be institutionalised into local settings for it to be practicable. The role of actors as agents is important in the process of institutionalisation (Battilana et al., 2009, Lawrence et al., 2009) of fair value. Albu et al. (2013) suggests regulators, professional bodies, auditors and users, all have significant roles in ensuring that global accounting standards are practicable and institutionalised. Institutionalisation of accounting and management practices involve various actors having the necessary skill when conducting institutional work (Lawrence and Suddaby, 2006, Perkmann and Spicer, 2008).

Implementing fair value is challenging due to the extensive judgement and estimation involved (Laux and Leuz, 2009). It involves high uncertainty due to its estimation, especially in the absence of a liquid market (Christensen and Christensen, 2013). Fair value is based on quoted unadjusted prices in active markets, observed from market transactions, hence when a market is illiquid or no market exists, preparers will execute professional judgement and estimations using inputs other than quoted prices, or unobservable inputs based on models, assumptions or valuation techniques. Those estimations contain uncertainties and require postulations from management (Bratten and Bratten, 2013, Griffith et al., 2015).

The estimated values are generated from an input-based hierarchy. The hierarchy consists of three (3) levels of input. It provides preparers discretion to quote prices from active markets for identical assets and liabilities (level 1), over inputs other than observable quoted prices (level 2) for assets and liabilities, and over unobservable inputs requiring assumption and estimation from preparers about prices in valuing assets and liabilities (level 3). Level 2 and 3 induce measurement uncertainties due to the subjectivity of the assumptions and estimations. Fair values that rely on market value will also depend on market liquidity and transactions

being at arms-length. The more mature and liquid a market, the less the need to rely on management estimates and judgement (Horton et al., 2011).

Implementing fair value has required managers to exercise a greater degree of professional judgement. The recognition, measurement and disclosure issues associated with fair value often involve a degree of subjectivity by preparers, which will affect the quality of financial reporting. The greater use of fair value as a contemporary valuation mechanism as opposed to traditional historical cost, has changed the way accountants and professionals think about what represents economic reality in accounts (Jeppesen and van Liempd, 2011). Auditing, in turn, aims to verify the 'truth' of these accounts.

The growing prominence of fair value to financial reporting also increases its audit significance, as auditors engage with more complex estimates. The subjectivity and uncertainty of fair value estimates often create difficulties for auditors who challenge the valuation assumptions provided by preparers (Lee and Park, 2013, Griffith et al., 2015) or the estimates provided (Griffith et al., 2015), which in turn influences and shapes audit assurance (Christensen and Christensen, 2012). Not comprehending and critically challenging fair value assumptions and estimations, results in auditors failing to verify valuation techniques (Griffith et al., 2015).

When management's ability and skill in applying fair value is limited, the auditor will rely on an appraiser (specialist) when measuring fair value (Glover et al., 2014). This also happens when auditors lack knowledge and expertise in fair value measurement (Jeppesen and van Liempd, 2011, Power, 2010), which in turn endangers auditing legitimacy (Jeppesen and van Liempd, 2011). As fair value extensively involves an appraiser's professional judgement (King, 2009), the role of appraisers has become more prominent. Prior studies have examined the use of specialist third parties in auditing (Griffith et al., 2015, Joe et al., 2014). Griffith et al. (2015) found that auditors failed to notice inconsistencies in estimates and did not provide an overall critical analysis of the audit, and placed an over reliance on appraisers and specialists to identify, evaluate and challenge critical assumptions, which led to low audit quality.

The legal and regulatory system are also important environmental factors which support the enforcement mechanism which defines acceptable behaviour and provides penalties (Bratten and Bratten, 2013). Regulators establish rules and conduct supervision, which mitigate preparers' behaviour in financial reporting. Regulators also oversight auditors which help to improve audit quality, and fair value and complex estimates (Bratten and Bratten, 2013). Accounting regulation involves the creation, implementation, supervision and control of accounting standards implementation. It is part of the national regulatory system consisting of

several bodies responsible for standard setting; an organisation aligning the accounting profession and implementing standards, an organisation aligning the auditing profession and supervising the application of standards, and the last is an independent body supervising the activities of the auditing profession (Colasse and Pochet, 2009). Since accounting regulation is part of the national regulatory system, harmonising regulatory and accounting policies (standards) is important in supporting economic development and fostering financial stability (Ojo, 2011). Moreover, the roles of professional accounting associations, and government as a regulator, influence the way accounting rules are brought into practice (Devi, 2010).

Accounting and auditing professional associations are often self-regulatory agencies, and have their own authority in developing professional competence under their association, and developing and establishing accounting and auditing standards. Moreover, they are also responsible for the development of professional competencies (Albu et al., 2013). Walker (1987) conducted a study in Australia and found that the profession has a significant influence in the development of accounting standards and standards boards. Using Bangladesh as a local setting, Bhattacharjee (2009) found that the development of accounting standards and systems were influenced by the accounting profession and its representative association.

3.4. Research Methodology

In analysing how IFRS 13 *Fair Value Measurement* became localised practice in Indonesia, we commence with the premise that there is an interdependent and inter-subjective phenomenon between actors and their environment. Therefore, a *qualitative research* approach is considered the most appropriate (Zilber, 2002). This study uses one-on-one semi-structured interviews as primary data in order to obtain a deeper analysis of the issues surrounding the fair value institutionalisation process.

This study uses a thematic analysis (Attride-Stirling, 2001, Braun and Clarke, 2006) to investigate fair value institutionalisation within the Indonesian context. Thematic analysis is “a method for identifying, analysing and reporting patterns (themes) within data” (Braun and Clarke, 2006). Patterns or themes within data using thematic analysis are distinguished into two ways, through inductive or theoretical analyses. This thesis applies a thematic inductive approach, whereby to answer the research question, the process of coding the data was not driven by theoretical interest or by fitting into a pre-existing coding frame.

This study conducted interviews with 26 participants in Indonesia, including auditors, preparers, appraisers, professional body members, and regulators. Interviewees were not randomly chosen for a general Indonesian perspective, but were representative of important actors in accounting regulation and practice in the country. They were major decision makers

or had major functional roles relating to financial reporting. The opinions and arguments expressed therefore reflect key issues surrounding the convergence and implementation of fair value accounting.

The accounting regulatory bodies are interviewed to generate information about the political process of accounting standard implementation involving the Ministry of Finance, OJK, BI, Indonesia Stock Exchange and DSAK. Meanwhile, this study also interviews professional bodies involving IAI, IAPI and MAPPI, considered important actors in the institutionalisation and implementation of accounting standards. The actors at the organisational level are also interviewed covering preparers, auditors and appraisers to generate detailed information on practical issues regarding fair value standards. During the interview, this study maintains a degree of openness by allowing interviewees to explain the phenomenon in detail as far as possible, whilst using a semi structured interview guide as an unobtrusive prompt to generate sufficient detail for answering each research question. The interviews followed a semi-structured format with targeted research questions exploring how fair value is institutionalised.

Interviews were conducted in Bahasa Indonesia, the native Indonesian language used as the mother tongue. All interviews were recorded with the interviewees' consent, and then transcribed and translated into English. NVivo software was used to analyse and categorise themes that emerged from the interviews. First, data for each interview is recursively read to obtain an understanding of the broad issues, and the context surrounding each interviewee's comments. Second, each interview was then carefully read again to identify comments or quotes dealing with specific issues. Those comments were grouped together and assigned themes. Quotes could be assigned across more than one theme group if their content had meaning for different issues. Each group was studied to assess consistency with the theme assigned to that group or whether the comments within the group had to be reassigned to another theme. The process of theme reviewing and their content was conducted recursively to refine our understanding of the nature of the themes which are relevant to the research question and theoretical interest.

Given that thematic analysis cannot disregard theoretical and epistemological commitments, this study relates the broad issues of the institutionalisation of fair value to its theoretical grounding i.e. institutional theory, particularly *institutional work*. The grouping of themes will be made on the basis of the data and also theoretical basis (Attride-Stirling, 2001) i.e. institutional work. To provide a more comprehensive picture of fair value within the local context, this study also reviews and analyses information and facts obtained from secondary

sources including press releases and official websites of regulators, listed companies and professional bodies.

3.5. Discussion and Analysis

3.5.1. The Indonesian Local Context and Fair Value

Some studies on IFRS adoption and implementation have been conducted in emerging economies (He et al., 2012, Alali and Foote, 2012, Albu et al., 2013, Bhattacharjee, 2009). The definition of ‘emerging economy’ is vague and sometimes intertwined with the term ‘transitional economy’. Ezzamel and Xiao (2011) suggest that these terms be used for countries whose economies are intent on catching up with more advanced capitalist markets. Even though they state that grouping together countries with non-advanced capital markets disregards cultural, political, historical and geographical differences, they also suggest focusing on the core research questions and methodological developments whilst conducting research in emerging economies.

Emerging economies share common features and face similar challenges and problems when applying IFRS. They often have rule-oriented approaches to standard setting, low levels of enforcement, and the accounting profession is often slower to develop (Chamisa, 2000, Jermakowicz and Gornik-Tomaszewski, 2006, Larson and Street, 2004). Nevertheless, emerging countries apply different strategies toward IFRS adoption, and local actors react and engage in IFRS application differently (Chand, 2005). This leads to a diverse range of outcomes, where some IFRS’s are successfully applied, whilst others face resistance. IFRS’s applied in countries with different institutional and local contexts to that of Anglo-Saxon countries, may result in different outcomes (Karampinis and Hevas, 2011).

The process of aligning the interests of different actors is substantial in order to ensure the global standard is translatable into a local context (Ezzamel and Xiao, 2015), with different geographical and historical local settings (Mennicken, 2008). Albu et al. (2013) provide an understanding of how global standards are implemented in the local environment. They suggest that successful implementation of global accounting standards is influenced by the role of local actors and their interests. The local accounting context in Indonesia can be explained by the Gernon and Wallace (1995) ‘accounting ecology’ framework. The framework provides a basis for allowing us to understand how IFRS, and specific standards relate to fair value, which are a product of developed economies, are implemented and applied in emerging countries such as Indonesia. The accounting ecology framework consists of five elements, which when interrelated, can provide an understanding of the holistic local context within which fair value implementation occurs.

3.5.1.1. Societal Environment

The *social environment* consists of cultural and non-cultural components, which include population, location, economic development, levels of technology, and political developments within Indonesia. Indonesia's reformation (*reformasi*) era commenced in 1998 when the Indonesian government committed to improving government functions and oversight mechanisms, as a result of the fall of the Suharto regime and calls for a more open and transparent social, political and economic system. The reformation also included accounting system reform, which resulted in the decision to adopt IFRS. The *Ikatan Akuntan Indonesia* (IAI) [Institute of Indonesia Chartered Accountants] publicly announced its commitment to adopt IFRS in 2008, which was followed by the commitment of the Indonesian government to adopt IFRS as a requirement for G20 membership ((IAI), 2013c). By 2012, Indonesian public companies were required to have applied IFRS converged to PSAK. It is also strengthened by the commitment of the ASEAN Economic Community (AEC) to good standards and practices in order for Indonesia to compete with other ASEAN countries. Adoption and implementation of IFRS enhances the credibility of Indonesia ((IAI), 2010), thereby driving investment.

“We face...economic competition in ASEAN...where we must consider some important things. First, regarding accounting standard[s], whether Indonesia is having accounting standard[s] which [are] equal with other (ASEAN countries). It is important for investors from other countries such as [the] US, UK and Japan who want to invest in ASEAN countries. They will look at the ASEAN market. First they will map out the political development, and second, economic growth. Once they look at economic growth, they will consider which country is implementing generally accepted international accounting standard[s], as it implies a particular country's maturity” (Interviewee 18 – Division Head of Compliance and Listing, Indonesia Stock Exchange).

The IAI, as a standard setter, began a gradual process to adopt IFRS. It sought to converge and then translate IFRS into the Indonesian language. Prior to 2014, the IAI had no power to legally enforce the development and implementation of accounting standards in Indonesia. In 2014, the Ministry of Finance issued *Peraturan Menteri Keuangan* (PMK) [Ministry of Finance Regulation] No. 25/PMK.01/2014, and reinforced by *Keputusan Menteri Keuangan* (KMK) [Finance Ministry Decree] No.263/KMK.01/2014, to legalise IAI as a professional body with the responsibility for accounting development and accountant registration.

Since 2015, Indonesia has been implementing IFRS 13 *Fair Value Measurement* codified as PSAK 68, which is expected to lead to Indonesian companies having more relevant and reliable information regarding their financial performance. With respect to the societal environment, implementing fair value standards in Indonesia is problematic. First, fair value requires extensive professional judgement and disclosure, however this is difficult due to Indonesian society traditionally being secretive in behaviour and low in professionalism

(Sudarwan and Fogarty, 1996). Second, Indonesian people are more conservative due to a high uncertainty avoidance orientation (Sudarwan and Fogarty, 1996, Ding et al., 2005, Cieslewicz, 2013, Mangundjaya, 2010), whilst fair value requires market price as a valuation basis, implying an optimistic orientation.

Regarding the fair value standard, the Indonesian Government has reinforced the role of the independent appraiser to ensure that fair value measurement for company assets or businesses is based on sound principles. The appraiser is regulated by *Pusat Pengembangan Profesi Keuangan* (PPPK) [Finance Profession Supervisory Centre], which is under the auspices of the Ministry of Finance (MOF). In order to practice as an independent valuer for listed companies, the appraiser must also be registered by the *Otoritas Jasa Keuangan* (OJK) [Financial Service Authority].

“Suddenly [the] appraiser has [a] new task because of [the implementation of] PSAK 68. It’s a blessing. Hence we, as [the] regulator, and also MAPPI, do not need to be busy with the arrangement and establishment of a new professional group. For those who have been registered by PPPK, [they] should also be registered by OJK if they want to provide [a] valuation service [for] the stock exchange” (Interviewee 17 – Head of the Finance Profession Supervisory Centre, Ministry of Finance).

The OJK issues regulations related to the registration, responsibility and services provided by the financial profession, including accountants, appraisers and actuaries. Indonesian listed companies are required to use the service of appraisers in valuing their business and assets using the fair value principle. Moreover, companies undertaking mergers and acquisitions must hire an independent appraiser for their business valuation. Every year, there are an increasing number of mergers and acquisitions between Indonesian companies (MetroTV, 2015b), which make the appraisers role all the more important.

The societal environment also deals with urban development. In Indonesia, urban development has lacked effective oversight, and building and real estate development have not conformed to required standards and regulations ((IAI), 2013a). A commercial purposed area may consist of non-commercial buildings. This creates problems in measuring the fair value of buildings and land when they should be valued using its highest and best value, or its highest economic value when used at its best function. An example in Indonesia is the need to measure fair value based on the highest and best use (HBU) principle for non-commercial buildings within commercial areas. There are problems and challenges where non-commercial buildings are required to be measured as if they were commercial-buildings.

“The problem rises on the application of HBU. So, for example, my house is on the roadside. It means the zone has been changed to be commercialized. If I were the appraiser, I would have to try valuing it at [today’s] condition which means that the building [because of it being near the roadside]..has been brought down. So, the land will be valued using the market value [at] the higher commercial value. If the value of the land is higher than the building, then the building [is] valued at zero” (Interviewee 10 – Head of Section for Professional Assessment – Finance Profession Supervisory Centre, Ministry of Finance).

Even though PSAK 68 commenced in 2015, certain standards that reference fair value have been applicable to banking and other financial institutions with respect to financial instruments for some time. There are 120 commercial banks in Indonesia showing the importance of the banking industry as a driver for Indonesia’s economic development ((BI), 2012). Fair value for banking and financial institutions are required under IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*. However the application of these standards is problematic, given that many shares are inactive and not many assets are traded, hence market value is difficult to obtain in an illiquid market (Republika, 2015).

“Only shares can be quoted and only the active shares. There are so many shares which are not active, so we cannot use the quotation price” (Interviewee 10 – Head of Section for Professional Assessment – Finance Profession Supervisory Centre, Ministry of Finance).

With regard to property, Indonesia has no data centre for recording the transaction value of property transactions, which have never been recorded and reported properly to regulators ((MOF), 2013). Transaction values have only been reported based on the agreement between the buyer and seller, which is usually lower than the tax object sales value ((MOF), 2013). This leads to difficulties in generating data for implementing fair value in Indonesia.

“He (the seller) pays the tax and stamp duty, but he is not obligated to report how many transactions he made. It’s different from commonwealth countries. If it is in Singapore or Malaysia, every transaction is reported. [...] It will be a handicap. It becomes difficult for the appraisers [where for] certain assets they use the market approach” (Interviewee 5 – appraiser).

3.5.1.2. Organisational Environment

The *organisational environment* relates to organisational events or trends that influence the rationalisation of choices including culture and size. IFRS, and consequently PSAK 68, are only applicable to public companies. Out of 40,000 companies in Indonesia, only 500 of those are public companies listed on the Indonesian Stock exchange. Companies other than banking and financial institutions are often not exposed to sophisticated financial instruments and

mainly deal with implementation of fair value for fixed or intangible assets. However, banking and financial institutions in Indonesia hold a considerable amount of financial instruments on their financial statements. They are therefore highly exposed to fair value movements. Since 2011, the banking industry and financial institutions have been required to apply IAS 32 *Financial Instruments: Presentation* (PSAK 50 *Instrumen Keuangan: Penyajian*), and IAS 39 *Financial Instruments: Recognition and Measurement* (PSAK 55 *Instrumen Keuangan: Pengukuran*). Only some of the 120 banks in Indonesia are listed on the Indonesian stock exchange. The difficulties in applying PSAK 50 and PSAK 55 have led to calls for regulators and professionals to create guidance for users and undertake discussions to solve the challenges and difficulties in applying the standards for financial instruments.

In applying fair value standards, Indonesian companies have to consider available human and capital resources. As opposed to smaller companies, larger companies have the necessary capital in order to apply fair value (Jung, 2013) and to enhance human resource competence. Furthermore, organisational culture and governance are significant factors in being able to comply with regulations, including accounting standards such as fair value. Companies audited by the ‘Big Four’ accounting firms also have the advantage of being able to receive training about developments in accounting standards because the big-four accounting firms provide training and consultation for companies. Meanwhile, companies audited by smaller audit firms have to undertake training through professional bodies such as the IAI. Despite having difficulties with particular standards such as fair value, smaller companies do not have enough resources and funding to overcome these difficulties as larger companies do.

“[With regard to...] the implementation of PSAK 55 which was IAS 32 at that time, the big banks were more prepared to implement it, since it needed resources, human resources, IT, and huge funding to apply it” (Interviewee 11 – Senior Analyst of Banking Industry, Financial Service Authority).

Since fair value application requires extensive professional judgement with respect to the calculative assumptions, the organisations role in facilitating knowledge and training are important.

“It is challenging to determine an assumption, which is at the end, affecting the result. The absence of rules-based [approaches] [forces] us to use professional judgement. It is the role first [of] management, and then the supportive professions such as [the] actuary, appraiser or external auditor. The most important thing is that valuation [outcomes] should not be different among companies resulting from the assumption application” (Interviewee 24 – Head of Accounting, Public Listed Company).

3.5.1.3. Professional Environment

With regard to the *professional environment*, the implementation of fair value has enhanced the role of the appraiser in the process. The appraiser is an independent valuer for measuring the fair value of fixed assets such as property, and also for the business as a whole during mergers and acquisitions. The public accountant (auditor), appraiser, and management accountant (preparer), are all seen as having the most substantial influence in ensuring successful fair value application due to their roles, and competencies in executing professional judgement (Griffith et al., 2015) .

The Indonesian accounting profession is controlled by *Pusat Pembinaan Profesi Keuangan* (PPPK) [Finance Profession Supervisory Centre] under the auspices of the Ministry of Finance, which oversees accountants, appraisers and actuaries. While PPPK has the responsibility for oversight of the legal matters of professionals, the professional accounting body in Indonesia, holds responsibility for setting standards and developing professional competence. The Indonesian public professional body is *Institut Akuntan Publik Indonesia* (IAPI) [Indonesian Institute of Public Accountants]. The appraiser and management accountant professional bodies are *Masyarakat Profesi Penilai Publik Indonesia* (MAPPI) [Indonesian Society of Appraisers] and *Ikatan Akuntan Manajemen Indonesia* (IAMI) [Indonesian Institute of Management Accountants]. The PPPK is responsible for registration and control of the profession. Meanwhile, IAPI, MAPPI and IAMI are responsible for professional competence development, through continuing training and examination.

Regulatory and professional bodies have established new requirements for professionals to join Continuing Professional Development (CPD) programs, which have legal backing through *Peraturan Menteri Keuangan* (PMK) [Ministry of Finance Regulation] No. 25/PMK.01/2014. Professional accountants and appraisers are required to undertake CPD to improve and update their competence, after they pass the Initial Professional Development (IPD) program. An appraisers' educational background is not limited to accounting, but can encompass other majors (including economics), therefore it is critical that they undertake the IPD and CPD in order to improve both competency and skill.

“They (PPPK) require that the appraisers have to have 5 credits in a year, which is held together with the association. The finance ministry regulation also requires 25 credits, in which 5 are held by that ministry. It will be collected and if it is not fulfilled, the appraisers can be downgraded. It also happens to accountants” (Interviewee 5 – Appraiser).

The role of the appraiser is also strengthened by OJK regulations, which state that valuing the assets and business of companies listed on the IDX, requires the service of an appraiser. The number of Indonesian appraisers registered by OJK is 187, who work for or who have

established 71 firms providing valuation services ((OJK), 2015). Meanwhile, the public accountant provides an opinion on the financial reports through an assurance report that the assumptions and valuations provided by the appraiser are reliable. Auditors should have the requisite knowledge, skills and competency when executing professional judgement and in challenging the values provided by management or appraisers.

“We need people (auditors) who have good skill[s] in term[s] of valuation and who have the knowledge about that asset, so the auditing firm can challenge their assumptions. It is back to the competency of the auditor. If they are smart, then it’s good. If they are not, it will not be independent. [It is not] that they are negligent, but they are not independent because they do not understand” (Interviewee 6 – Chairman of Indonesia Financial Accounting Standard Board).

3.5.1.4. Individual Environment

The *individual environment*, as an accounting ecology element, relates to the values that individuals possess that affect organisational practises, including fair value, which require extensive individual professional judgment. Professional ethics and organisational culture and governance, are factors that help to determine the success of fair value implementation. However, the values, interests, goals and obstacles that individuals embody, shape both behaviour and professional judgement; particularly assumptions regarding asset valuation. Stocks are often not actively traded in emerging countries such as Indonesia, and data other than specified market prices are often difficult to obtain. Hence, preparers, as representatives of company management, often face difficulties in applying fair value. This can lead to an appraiser “crafting” values using data or information from unpublished or informal sources.

“In addition to professional judgement, [an] appraiser also need[s] a special skill called “crafting”, to generate comparative data. It is not professional judgment; it is “crafting”. For example, if I need to buy a property, I will act as a buyer, hence I can get information on how much is the market value of the property” (Interviewee 17 - Head of Finance Profession Supervisory Centre, Ministry of Finance).

In order to maintain professional ethics, professionals such as accountants or appraisers, should apply a code of ethics. The code of ethics for auditors in Indonesia is the *Kode Etik Profesi Akuntan Publik* (KEPAP) [Public Accountant Code of Ethics) adopted from the IFAC Code of Ethics. The public accountant code of ethics guides accountants in providing assurance services for companies (clients), so they can act ethically, independently and professionally. Meanwhile the code of ethics of the Indonesian appraiser is *Kode Etik Penilai Indonesia* (KEPI) [Indonesian Valuer Code of Ethics) adopted from the International

Valuation Standard (IVS) issued by International Valuation Standards Council (IVSC)²⁸. It provides ethical guidance for appraisers in providing valuation services for clients.

When fair value requires extensive professional judgment, preparers have a responsibility to behave ethically. Even though the appraiser has a substantial role in assisting in valuation, management has responsibility in assuring that the assumptions within the valuation report given by the appraiser are correct. Management cannot put an appraiser as the first line of defence if there is a mistake in a valuation.

“They (management) don’t need to state that [they have been using] an independent valuer, because they imply an independent valuer is responsible for the valuation. Whether they use an internal or external valuer, it’s management’s responsibility... The valuers have [the onus] to say if they cannot [undertake services] that conflict with professional ethic[s]. They have to [be forthcoming]” (Interviewee 6 – Chairman of Indonesia Financial Accounting Standard Board).

3.5.1.5. Accounting Environment

The fifth accounting element is the *accounting environment*. In Indonesia, accounting regulation and enforcement involves the Ministry of Finance, OJK, BI, *Dewan Standar Akuntansi Keuangan* (DSAK) [Indonesia Financial Accounting Standard Board] and the Indonesian Stock Exchange. Meanwhile, as alluded to in the professional element, Indonesian accounting practices are also influenced by professional bodies who have responsibility in developing and controlling professional competence, by setting professional standards, codes of professional ethics, and organising the training and education of professionals under their authority. Accounting standards in Indonesia are mostly adopted or converged from international standards. Indonesia adopts International Valuation Standards (IVS) and International Standards of Auditing (ISA)²⁹.

Indonesia is now in its second phase of IFRS convergence, the objective of which is to minimise the gap between PSAK and IFRS to one year. i.e. IFRS 2014 will be implemented effectively in 2015. IFRS 13 *Fair Value Measurement* has been converged and codified into PSAK 68 and implemented effective from 2015. In preparation for the standard, Indonesia strengthened the role of the valuer and established regulations and standards for valuation. The Ministry of Finance issued regulation *Peraturan Menteri Keuangan* (PMK) [Finance Ministry Regulation] No. 101/PMK.01/2014 superseding PMK No. 125/PMK.01/2008 to reinforce the role of the appraiser as a supporting profession in economic development

²⁸ The International Valuation Standard Council (IVSC) is a non-profit organisation which produces and implements, in the public interest, universally accepted standards for asset valuations across the world.

²⁹ International Standards of Auditing were issued and developed by the IAASB (International Auditing and Assurance Standard Board), which is also a part of IFAC (International Federation of Accountants). Meanwhile, International Valuation Standards are issued and developed by the International Valuation Standards Council.

(MetroTV, 2015a). Accordingly, OJK has also issued regulations related to registration, independency and reporting guidance for appraisers, especially in providing services for listed companies. Meanwhile, in order to align the valuation standard issued by *Masyarakat Profesi Penilai Indonesia* (MAPPI) [Indonesian Society of Appraisers] and fair value standards issued by DSAK-IAI, MAPPI is now in the progress of aligning and minimising the gap between those two standards. The legal endorsement for professionals and IAI is through the issuance of *Peraturan Menteri Keuangan* (PMK) [Ministry of Finance Regulation] No. 25/PMK.01/2014. Another milestone is the preparation of a draft for the financial reporting law, called as *Undang-undang Pelaporan Keuangan* (UU PK) [Financial Reporting Act] which will provide legal backing for accounting practices in Indonesia. These relate to financial reporting for all Indonesian companies, and the human resources involved in the process of financial reporting ((IAI), 2015b).

Regarding enforcement, regulations have been issued for compliance, involving professional work and financial reports. Regulations for accountants involve Public Accountant Law No. 5 year 2011, *Peraturan Menteri Keuangan* (PMK) [Ministry of Finance Regulation] No. 25/PMK.01/2014 regarding State Registration for accountants. Meanwhile, regulation covering the role, services and responsibility of appraisers is *Peraturan Menteri Keuangan* (PMK) [Finance Ministry Regulation] No. 101/PMK.01/2014. Appraisers providing services for listed companies should comply with OJK regulations pertaining to appraiser services. In order to enforce the compliance of accountants and appraisers in doing their work, *Pusat Pengembangan Profesi Keuangan* (PPPK) [Finance Profession Supervisory Centre], which is under the auspices of the Ministry of Finance (MOF), has been appointed to oversee the work of professionals, including registration, training and (if needed) suspension.

“For both public accountants and appraisers, we have law and regulations, and there is a level of sanctions, starting from notification, followed by improvement, suspension and finally revocation of license. When they are under suspension, we will upload the status on our website to let users know about the professionals’ status” (Interviewee 17 – Head of Finance Profession Supervisory Centre, Ministry of Finance).

Regarding enforcement for listed companies, OJK and IDX as regulatory bodies for listed companies have a significant role in enforcing company compliance in financial reporting. They issued regulations and accordingly required listed companies to comply with their regulations, including financial reporting. OJK issued regulations about financial reporting i.e. VIII.G.7³⁰. It provides guidance for the presentation and disclosure of financial reports.

³⁰ Regulations issued by *Badan Pengawas Pasar Modal* (BAPEPAM) [Capital Market Supervisory Agency] (now OJK) for listed companies, relate to the presentation and disclosure of financial reports. In 2012, it has been revised from its previous year 2000 version, in response to the new accounting standards.

3.5.2. Institutionalisation Fair Value in the Local Context

The convergence of international accounting standards in Indonesia is currently one of gradual convergence. DSAK-IAI translated IFRS into Bahasa Indonesia and codified into PSAKs. Standards for fair value are found in *PSAK 16* (IAS 16 *Property, Plant and Equipment*), *PSAK 13* (IAS 30 *Investment Property*), *PSAK 50* (IAS 32 *Financial Instruments: Presentation*), *PSAK 55* (IAS 39 *Financial Instruments: Recognition and Measurement*), *PSAK 19* (IAS 38 *Intangible Assets*), *PSAK 22* (IFRS 3 *Business Combination*), *PSAK 48* (IAS 36 *Impairment of Asset*) and *PSAK 68* (IFRS 13 *Fair Value Measurement*), which provides a comprehensive and single definition from previous standards.

Local actors are important in order to make global standards (including fair value) successfully implemented within a local context. The interrelation of actors during the standards application, influences how it is enacted (Mennicken, 2008, Greenwood and Hinings, 1996). Implementation involves the process of institutionalisation; a political process where power and interests are important (Albu et al., 2013). Institutionalisation is a process where institutional practices are established involving political activities, actors and organised interests and their relative power (Dillard et al., 2004). Successful institutionalisation depends on “the relative power of the actors who support, oppose or otherwise strive to influence it” (DiMaggio, 1998).

The Gernon and Wallace (1995) framework explains the local context where institutionalisation takes place. It provides a comprehensive picture of the local social, organisational, individual, professional and accounting setting for fair value implementation. Moreover, the framework also reveals the important actors having roles in fair value implementation in Indonesia including regulators, professional bodies, auditors, preparers and appraisers. This section explains the roles of actors in making fair value standards institutionalised, applying the institutional work categorisation involving political, technical and cultural work (Perkmann and Spicer, 2008, Chiwamit et al., 2014).

3.5.2.1. Political Work

Accounting standard setters in each country often have different roles, functions, legitimacy and structures. Standard setting processes in particular countries will usually involve the government and standard setters as part of the regulatory system. The Gernon and Wallace (1995) framework has highlighted the important role of regulatory mechanisms in providing legal enforcement of the accounting system. Regulators in the Indonesian accounting system include *Otoritas Jasa Keuangan* (OJK) [Financial Service Authority], *Bank Indonesia* (BI) [Central Bank of Indonesia], *Dewan Standard Akuntansi Keuangan* (DSAK) [Indonesia

Financial Accounting Standards Board] and the Indonesian Stock Exchange (IDX). OJK is the financial institution regulator, which includes the banking industry for micro prudential matters, and stock market activities. BI also regulates the banking industry, with a specific emphasis on controlling and supervising macro prudential matters. These regulators possess high political legitimacy but low technical legitimacy (Albu et al., 2013) as shown by low technical competence. Meanwhile, DSAK (an independent body affiliated with IAI), as part of the standard setting regulatory system, holds low political legitimacy despite having high technical legitimacy.

The standard setting process is political in nature and involves legitimacy. Legitimacy is important in providing the necessary assurance for establishing accounting standards (Durocher and Fortin, 2010). The involvement of Indonesia in regional and international organisations, such as the G20, has driven IFRS convergence at the local level. Indonesian regulators seek to conform with international and regional membership requirements in order to increase their legitimacy (Colasse and Pochet, 2009). IFRS has been included in the national regulatory system such as those issued by OJK, which require listed companies to comply with PSAK converged with IFRS. The inclusion of IFRS within national regulatory frameworks is driven more by the motivation to maintain membership of global networks rather than by coercive pressure from international organisations (Albu et al., 2013). International organisations are often seen as soft actors which have less coercive actions, hence IFRS implementation will depend on local power (Suddaby et al., 2007).

“Well, Indonesia is a part of a lot of international forums, for instance, the IMF, World Bank, APEC, and some other bilateral [agreements] with neighbourhood countries. [...] It forces us to follow international regulation[s] [to see] whether or not we are ready. The important thing is that we follow, and that includes IFRS. I want to tell you about IFRS. It feels like a new thing for us. As we do not want to be left behind, we follow it” (Interviewee 17 – Head of Finance Profession Supervisory Centre, Ministry of Finance).

IFRS are characterised as principle based accounting standards that have a fair value orientation. Hence, converging IFRS into local standards also means shifting the local paradigm to fair value as well as applying principle-based standards. Fair value is applicable for financial and non-financial assets. In 2010, Indonesia started to require banking and financial institutions to apply fair value for financial instruments. Fair value has been assumed to have more relevant information compared to historical cost, and better reflects financial performance (Power, 2010, Barth et al., 2001).

“I personally like this fair value measurement because recent cases can show the [more] objective value of recent situation[s]. Yet, I want to comment that there is actually an obstacle or challenge for a number of industries that need help from professionals and [the accounting] profession for certain things, which may not [happen] a lot for the time being. So, in trying to stress that point, personally, I think fair value measurement is good, I like the accountability [provided by fair value]” (Interviewee 18- Head of Compliance and Listing Division, Indonesia Stock Exchange).

Regulators play substantial roles and actions in making IFRS and fair value institutionalised within an Indonesian context. Government as a regulatory body, especially the Ministry of Finance, has issued regulations for accountants³¹ and appraisers³² as professionals having important roles in the implementation of accounting standards including fair value. Meanwhile OJK regulates and controls stock market activities. In cooperation with the Indonesian Stock Exchange (IDX), OJK maintains its coercive power in fair value implementation by issuing regulations related to fair value and appraisers, and enforcing sanctions and penalties for listed companies. In order to apply fair value effectively, IDX issued regulations related to the trading activities of public companies. IDX focuses in regulating free float shares by issuing regulations in the form of decrees i.e. *Kep-00001/BEI/01-2014*. This regulation is able to maintain the value of the stocks in the stock exchange.

“In 2014, IDX issued regulation 1A regulating the minimum shares to be traded publicly. When [the] free float is too low, shares are easily manipulated, hence influencing the market value is a reflection of the fair value of the shares” (Interview 19 – Supervisor of Issuer Valuation and Monitoring, Indonesia Stock Exchange).

As part of the commitment for successful IFRS implementation, OJK issued standards pertaining to financial presentation especially for listed companies. They issued regulations about the presentation and disclosure of financial reports³³. It required companies applying fair value standards to provide adequate disclosure to avoid misleading information. With regard to appraisers, the regulations require companies to assign an appraiser when a company applies fair value in measuring its assets. Given that listed companies are under OJK supervision, appraisers providing services for listed companies must be registered by OJK and comply with OJK regulations. OJK issued specific regulations for appraisers³⁴ in the form of

³¹ Regulation and law for accountants involve *Peraturan Menteri Keuangan (PMK)* [Finance Ministry Regulation] No.25/PMK.01/2014 and Public Accountant Law no 5 in 2011.

³² *Peraturan Menteri Keuangan (PMK)* [Finance Ministry Regulation] No.101/PMK.01/2014 pertaining to the appraiser.

³³ Decision of Chairman of Capital Market Supervisory Agency No: KEP-431/BL/2012 is about the Presentation and Disclosure of Financial Report coded as Regulation No. VIII.G.7.

³⁴ OJK has issued regulations related to appraisers engaging in the capital market, including the extent of independence, scope of service and the need for a valuation report.

a decision by the Chairman of the Capital Market and Financial Institutions Supervisory Agency.

The fair value concept has been found to contradict taxation principles ((IAI), 2015a). Revaluation for taxation purposes is different to that for accounting purposes³⁵. Even though the concept of fair value is not aligned with taxation principles, regulators tend to support the implementation of fair value by issuing regulations encouraging companies to apply the revaluation model. Since 2015, government has stimulated tax revaluation by providing an incentive, that being tax income discounts for those who apply the revaluation model for taxation purposes ((IAI), 2015a). The regulator considers that applying fair value will increase financial reporting relevance and better reflect the real value of the company's assets.

The commitment of the government and regulator to adopt and implement IFRS and fair value by establishing regulations and enforcement mechanism indicates that the legitimacy, power and interests of regulators as actors of accounting phenomena (fair value) operate in unison. While maintaining its political legitimacy, government also support fair value standards being translatable by developing and providing adequate technical support and activities, and emphasizing the importance of the standards from a political standpoint (Mennicken, 2008). However, their technical legitimacy is being challenged, as they possess limited human resources to assure public company compliance.

“They do not do tight investigation on the substance of the transaction [...] I think the one who can convince [us off] the consistency of the implementation of the financial report is [the] regulator. It's like in ASIC (Australian Securities and Investment Commission), but for something like ASIC, I am sorry to say that OJK is far from that [standard]. It is because we still see a lot of forms and doing checklists [regarding] compliance, but not substantial compliance” (Interviewee 6 – Auditor and Chairman of the Indonesia Financial Accounting Standards Board).

With regard to implementation of fair value for financial instruments, since 2010, the banking industry and financial institutions are required to apply fair value for their financial instruments. Fair value becomes the dominant meaning system. Regulators issue some regulations, rules and allocate resources to support institutionalisation of fair value.

Regarding professionals, PPPK, under the auspices of the MOF, also has an important role in controlling, regulating and enforcing the Indonesian accounting profession. They regulate and control accountants, appraisers and actuaries, conduct registration for professionals, control professional development and enforce sanctions for misconduct or non-compliance with

³⁵ Indonesia differentiates revaluation for taxation and accounting purposes. For taxation purposes, revaluation is applied to a particular asset and period, and can be revalued in the fifth year after the initial revaluation. Meanwhile, revaluation for accounting purposes requires the revaluation of all assets in the same class, and where a particular asset is revalued, this should be done consistently and regularly, especially when the fair value of an asset changes significantly.

regulations. Since PPPK has control over public accountants, it gains its legitimacy through membership of the International Forum of Independent Audit Regulators (IFIAR). This membership is legitimised by *Keputusan Presiden* (Keppres) [Presidential Decree] No.38 year 2014, which stated that the Indonesian government is a member of IFIAR, and PPPK is a focal point of that membership ((MOF), 2015b). Indonesia is also a member of the ASEAN Audit Regulators Group (AARG), where meetings are held annually to discuss accounting and auditing issues. Similar to accountants, the PPPK also has control over appraisers relating to registration, development and education. PPPK oversees MAPPI in conducting education and training for appraisers.

“It’s not that we (PPPK) [undertake] the education, but the association MAPPI [does]. So, we control the quality of the education, such as what we should add, the certification, [setting] the standard, and advanced or continuing education. We make sure that the IPD (Initial Professional Development) and CPD (Continuing Professional Development) are conducted properly” (Interviewee 10 – Head of Section for Professional Assessment – Finance Profession Supervisory Centre, Ministry of Finance).

IFRS has become the dominant system within Indonesian accounting regulation. This provides new legitimating grounds for actions by regulators. Government through OJK, issued regulations requiring public listed companies to comply with PSAKs that are IFRS based³⁶. This new political criterion was translated into a new accounting system by IAI. The introduction of the new accounting system began in 2008, at the first launch of IFRS convergence.

Political work is also conducted by conferring some authority and power to professional bodies. As mentioned in the Gernon and Wallace (1995) framework, the Indonesian professional accounting association is *Ikatan Akuntan Indonesia* (IAI) [Institute of Indonesia Chartered Accountants], which has partnerships with other professional associations including the *Institut Akuntan Publik Indonesia* (IAPI) [Indonesian Institute of Public Accountants], *Institut Akuntan Manajemen Indonesia* (IAMI) [Indonesian Institute of Management Accountants] and *Masyarakat Profesi Penilai Indonesia* (MAPPI) [Indonesian Society of Appraisers]. These professional bodies have high technical skills but low political legitimacy (Albu et al., 2013).

The role and power of this professional body to its members presents a self-regulatory organisation, yet it still subject to government authority. This has been described as a “regulative bargain”, illustrating the interdependence between the profession and government as a regulator (Suddaby et al., 2007). Regarding fair value implementation, IAI, IAPI, IAMI

³⁶ Decision of Chairman of Capital Market Supervisory Agency No: KEP-431/BL/2012 is about the Presentation and Disclosure of Financial Report coded as Regulation No. VIII.G.7.

and MAPPI play important roles in institutionalising fair value into local practice. As self-regulated bodies, professional bodies have an ability to establish educational standards, registration, profession discipline and ethical codes. Regulators confer specific rules and powers to professional bodies, showing the institutional work of creating institutions (Perkmann and Spicer, 2008, Lawrence and Suddaby, 2006).

These professional bodies work together to develop accounting systems in Indonesia. IAI works together with IAPI, IAMI and MAPPI. The Indonesian standard setter i.e. *Dewan Standar Akuntansi Keuangan* (DSAK) [Indonesia Financial Accounting Standard Board] as part of IAI, has a role to develop and set Indonesian accounting standards, known as *Pernyataan Standar Akuntansi Keuangan Indonesia* (PSAK) [Statement of Indonesia Financial Accounting Standards]. DSAK possesses high technical legitimacy, where its members have strong technical skills regarding accounting standards. Its legitimacy increases through its membership of, and by having representation in, the International Federation of Accountants (IFAC). At the regional level, the IAI holds bilateral MOUs with other professional bodies including the Malaysian Institute of Accountants (MIA), Association of Chartered Certified Accountants (ACCA), CPA Australia and the Institute of Chartered Accountants in England and Wales (ICAEW).

At the initial decision to adopt IFRS, the IAI had limited support from government. The IAI was actively running their projects to converge PSAK with IFRS. The IAI had self-funding to develop PSAK and generated its funds from member contributions (AkuntanOnline, 2013).

“The fact is that it’s IAI which prepared the standard and translated IFRSs. IAI has DSAK and we know that they worked hard for it. They worked hard to translate IFRS, as they were the only unit or organization that managed accounting development. Although there is no legal official statement from the government, they kept working on it” (Interviewee 17 – Head of Finance Profession Supervisory Centre, Ministry of Finance).

The government has supported the role and power of IAI as a standard setter and in assisting IFRS implementation. Regulators such as OJK and BI, who are the enforcement institutions, have indicated their support for IFRS (Finance, 2011). The Ministry of Finance issued *Peraturan Menteri Keuangan* (PMK) [Ministry of Finance Regulation] No. 25/PMK.01/2014 as legal back up for IAI to establish the Chartered Accountant (CA) designation, where Indonesian accountants have to be registered by the Ministry of Finance.

The political work is characterised by the establishment of regulatory frameworks (Perkmann and Spicer, 2008, Chiwamit et al., 2014, Lawrence and Suddaby, 2006). Regulators conduct political work by lobbying, and establish rules and regulations that enable institutional action (Lawrence and Suddaby, 2006). Regulators advocate IFRS and fair value practices, align

economic and political interests, construct rules to establish status hierarchies, and create social boundaries within a community of practice. Examples are the membership of Indonesian regulatory and professional bodies at the regional organisation level. Regulators also maintain institutions by increasing the cohesiveness of rules and applying enforcement and monitoring mechanisms to ensure compliance (Lawrence and Suddaby, 2006).

The political work has commenced with the endorsement of IFRS and the promotion of fair value as having more relevant information, showing that *advocacy* works (Perkmann and Spicer, 2008). They establish rules, policies and regulations requiring public companies to comply with PSAK converged with IFRS. Regulatory bodies also require professionals to meet certain requirements in conducting professional work.

Political work also involves *vesting* (Perkmann and Spicer, 2008, Lawrence and Suddaby, 2006) by conferring certain authority, roles and power to specific groups having specific interests in the new accounting system. Indonesian regulatory bodies confer authority to IAI, particularly DSAK, which is under the auspices of IAI in the process of IFRS convergence. Similarly, MAPPI is also given authority to regulate the appraiser, while IAPI regulates auditors in applying IFRS and fair value. The conferring of certain powers and roles is known as *vesting*, which ultimately requires sharing a degree of regulatory or coercive authority (Lawrence and Suddaby, 2006). Professional bodies establish standards and rules for their members regarding their competence, training, education and professional work. Professional bodies have authority to regulate members and require them to comply with established rules.

Actors also do political work by *defining work*, creating rules or constitutive rules enabling institutional action. It involves registration and certification programs for professionals, defining work and membership (Perkmann and Spicer, 2008) of professionals in relation to fair value implementation, such as the registration of appraiser conducting services for listed companies. OJK has issued rules regarding registration, requiring appraisers to be registered by OJK when providing services for listed companies on the stock exchange. PPPK also issued regulations surrounding professionals' qualifications and competence, requiring them to undertake training and continuing professional development.

3.5.2.2. Technical Work

The roles and actions of government, accountants and their associations are crucial in providing an understanding of how accounting rules are applied in practice. In an emerging economy, the development of the accounting profession and its relationship with government, is significant (Devi, 2010). Since the accounting profession has a substantive role in the development of accounting standards and systems (Walker, 1987, Bhattacharjee, 2009), IFRS

convergence and implementation in Indonesia is also influenced by the role of the Indonesian accounting profession.

In the Indonesian context, the IAI has an authority to conduct Continuing Professional Development (CPD) for CA's. The IAI has also converged *IFRS 13 (Fair Value Measurement)* into *PSAK 68 (Pengukuran Nilai Wajar)*, which has been effective since 1 Jan 2015. The IAI as a professional body, has been conducting public hearings on the fair value measurement standard (PSAK 68) by inviting the views of academics, auditors and members of the profession. The IAI also actively leads a discussion with regulators, preparers and other stakeholders about fair value implementation within Indonesia. Together with professionals, regulators are involved in the IFRS Working Group and Regulatory Working Group (RWG), and engage in discussions pertaining to IFRS implementation and challenges, including fair value, in order to improve knowledge and technical competency.

“This consortium is called the RWG (Regulatory Working Group). It's the idea of a big-four firm. They want to make connections with the regulator in each country, and [regarding] Asia... In Indonesia it's called RWG. In Asia we have AARG (Asia Association Regulatory Group). I think that they want to connect to the regulators directly to give feedback, knowledge, and information on what happens in the accounting world” (Interviewee 17 – Head of Finance Profession Supervisory Centre, Ministry of Finance).

Since 2009, the Indonesian banking industry and financial institutions were required to apply fair value standard to their financial instruments. Some obstacles and challenges were identified, hence the implementation was postponed in 2010 (Wahyuni, 2009). Regulatory bodies collaborate with standard setters, professional bodies as well as professionals to discuss the challenges faced by the industry and establish guidance for fair value implementation in the banking industry and financial institutions.

“It has been, in terms of PSAK 55, very crucial. BI played a role with DSAK which compiled PSAK. Furthermore, as far as I remember, we also play role in the funding. The teams are from DSAK and us. Then, when it's done, we created the guidance book together. After that, we gave workshops to the banks. [...] We gathered all banks for 2 days. We created an example case. We invited all banks in Jakarta at that time [...] We created accounting specialists from Bank Indonesia [central bank]. So, there was a group consisting of around 12-15 people who were active in discussing accounting issues. Their background was accounting. We created the accounting specialisation for them (banking industry) to discuss whenever they had difficulties, as Bank Indonesia had no authority to compile and create standards, just like the Indonesian stock market. So, we helped create the guidelines, and if they needed a consultation, we were available” (Interviewee 11 - Senior analyst of Banking Industry OJK and Member of Working Group of IFRS).

The IAPI is a professional body that has an important role in the development of the accounting and auditing profession in Indonesia. The IAPI creates legitimacy by adopting

International Standards of Auditing (ISA) and the International Federation of Accountants (IFACs) *Code of Professional Ethics for Accountants*, as well as IFAC membership. In developing auditing standards based on ISA, IAPI also adopts the audit for fair value standard (outlined earlier), known as *Standar Audit* (“SA”) [Audit Standard] 540. As a professional body for public accountants, the IAPI’s role (through Public Accountant Law No.5 2011) is to undertake professional training and examinations, and provide assurance that the services undertaken by members are in accordance with professional standards and ethics. Recently, the IAPI has also launched the Professional Recognition Program (PRP) for auditors, to increase auditor competence.

“IAPI’s role is more [about] how public accountants do their job to fulfil their [required] operational standard. For example, to audit, they must comply with the audit standard, because there is a public accountant law which states if they don’t follow the Standar Profesional Akuntan Publik (SPAP) [Professional Standard for Public Accountant], they will get criminally punished, just like it is written in Article 55 of the public accountant law. Thus, the IAPI role is to remind public accountants to [ensure] their work sheets are in accordance with standard audit [procedures]” (Interviewee 25 – Auditor and Secretary of the Indonesian Institute of Public Accountant).

With regard to auditing, there are 388 audit firms in Indonesia ((MOF), 2014), 4 of which are affiliated with PWC, Ernst and Young, Deloitte and KPMG³⁷. Large accounting firms are actively involved in managing the profession and the standard setting process. The current chairman of the DSAK-IAI was a partner of a big four audit firm, which ensures a degree of understanding and capability regarding the practical issues of accounting standards. Large firms enjoy power and legitimacy, and possess resources, expertise and institutional reputation (Barrett et al., 2005, Mennicken, 2008). They have international networks and affiliations to consult technically on complex standards such as fair value (Griffith et al., 2015). Fair value has high uncertainties and complex estimations especially in the absence of market information. Large audit firms also provide consultation among its affiliation and to their clients.

³⁷ These 4 audit firms in Indonesia are (1). Tanudiredja, Wibisana & Rekan, affiliated with PWC (2). Purwantono, Suherman & Surja, affiliated with Ernst & Young (3). Osman Bing Satrio & Rekan, affiliated with Deloitte, and (4). Siddharta & Widjaja, affiliated with KPMG.

“We have the virtual network, so, if I want to explain and take a particular position on IFRS which I think is complex, there will be a process called cross consultation, and it’s really appreciated in PWC...It’s based on the PWC position regarding how the IFRS [should be] translated. So, it will [not reflect] IFRS [from a] western ‘taste’ if in France, or an ‘Indonesian’ taste. I do not want it to happen. This virtual network....[allows us to] take the more consistent position, and to take the complex position [...] In addition, if there is an issue, we can raise it globally so that the world [may] know. Sometimes they do not know because the local position is taken without any interaction with the global position” (Interviewee 6 – Auditor and Chairman of Indonesia Financial Accounting Standard Board).

Based on the interviews, this study also documents differences in the audit role and quality between the big four and local audit firms. Big audit firms, including the big four are argued to have better audit quality, professionalism and status (Mennicken, 2010). They provide consultation and training for clients to help address technical issues and often have a specialist (valuation) division. Determining fair value is challenging for preparers hence audit firms provide the necessary consultation and training. The valuation division in the audit firms help auditors to assure that fair value numbers provided by preparers have been appropriately calculated. They also have tight audit procedures and reputational power to force clients to comply, and can provide greater audit assurance related to fair value (Lee and Park, 2013).

“We can get training from [our] auditor PWC. We are also connected to the IAI for training [...] The auditor is more serious because [he is from] PWC. I tried to compare to my colleagues who do not use PWC, but they were flexible” (Interviewee 4 – Head of Accounting, Public Listed Company).

The professional body for management accountants (IAMI) and the IAI, through collaboration, are creating ‘legitimacy’ by collaborating with the U.K based Chartered Institute of Management Accountants (CIMA) to improve the management accounting profession in Indonesia ((IAM), 2015). They periodically hold Continuing Professional Development (CPD) workshops, *Forum Akuntan Manajemen* (Management Accountant Forum) meetings and CFO/CEO professional meetings, namely the “CFO/CEO Round Table”. This event enables management accountants to discuss and debate accounting issues and developments, including fair value issues. Management accountants are often at the forefront of fair value application due to their role in helping to prepare financial report information based on professional judgments, that require assumptions and estimation.

The execution of professional judgment by preparers is regarded as a substantial issue in Indonesia. Their role will increase within the local accounting environment, and will contribute to their legitimacy (Albu et al., 2013). However, due to its complexity and subjectivity, fair value is challenging for professionals including auditors and preparers

(Glover et al., 2014). When market information is not available for determining fair value, estimation and calculation must be applied, and one of a number of methods maybe deployed to achieve this. Hence, in order to increase their competence and ability to exercise judgment, preparers must be involved in professional training undertaken by audit firms, regulators or professional bodies. Large organizations are in a better position from a financial and human resource perspective, to conduct in house training. Small to medium organizations prefer to send accountants to courses and seminars run by professional associations. Unlike public accountants, who are required to undertake professional development and become certified, there are no strict rules for management accountants in Indonesia.

“The problem is that if people join the PPL, they should follow it continuously. The company should be consistent. They send different people, every time, to join the Pendidikan Profesi Berkelanjutan (PPL) [Continuing Professional Development] in a particular company” (Interviewee 12 – Member of National Council, Institute of Indonesia Chartered Accountants).

Even though Indonesian regulators and professional bodies have sought to make fair value understandable at the company level by providing regulatory systems that support fair value application and training for professionals, management continues to rely on independent appraisers for company asset valuation. Management interest regarding fair value application therefore does not mirror that of government and professional bodies.

Implementation of fair value standards has also increased the role of MAPPI, a professional body having responsibility for developing the skills of the appraiser. MAPPI gains its legitimacy through membership of regional and international organisations, such as the ASEAN Valuer’s Association (AVA). It also adopted the International Valuation Standard (IVS), a standard used by appraisers to conduct asset valuations. MAPPI has worked to minimise the substance gaps between the valuation standard and the fair value standard. MAPPI also educates appraisers and oversees its members when they conduct valuations. In order to address issues and problems surrounding fair value standards implementation, MAPPI and other stakeholders such as DSAK-IAI and regulators, have regular discussions and meetings. They progressively develop cohesiveness of rules and standards hence fair value can be applied successfully.

“MAPPI, the primary public appraiser organization, has standards called SPI (Standar Penilaian Indonesia/Indonesian Valuation Standards). SPI refers to a standard called IVS (International Valuation Standard). Similar to SPAP, it follows the ISA. We often conduct meetings among IAPI, MAPPI, and us (the regulator). [...] so [there is] synchronicity. The DSAK-IAI, which is responsible for establishing PSAK, also has consultations with MAPPI and us. So, hopefully it (fair value implementation) runs smoothly” (Interviewee 17 – Head of Finance Profession Supervisory Centre, Ministry of Finance).

The appraiser, an independent valuer, is a certified professional whose role is to undertake measurement and valuation, including that of fair value. The prevalence of fair value requires continuous involvement from valuation experts (Smith-Lacroix et al., 2012) to be able to provide reliable estimation and measurement of fair value (Cotter and Richardson, 2002). Within an Indonesian context, the independent valuer can be a business valuer and/or property valuer ((MOF), 2015a). An appraiser gains his/her legitimacy through regulations issued by OJK that require listed companies to use appraiser services when measuring fair value for businesses and property³⁸. Moreover, BI, as a banking industry regulator, has also issued regulations regarding the use of appraiser services when valuing collateral assets for a loan³⁹.

“The government issued UU [Act] No. 2 year 2012 is about land procurement for the public. I do not remember in which article it is, but it states that land valuation has to use external appraisers and public appraisers. Also in the Bank of Indonesia regulations, [it] states that for the debtors who borrow money from the bank for above 5 billion rupiahs, the bank has to use an external appraiser for valuing the debtor’s collateral assets” (Interviewee 17 – Head of Finance Profession Supervisory Centre, Ministry of Finance).

There is no formal education or designation available for the appraiser in Indonesia. MAPPI (as the professional association) undertakes any necessary appraiser education and training. Meanwhile, PPPK as the regulator, has a role in the supervision, registration and enforcement of appraisers.

“My job is to handle the education. It’s not that I [undertake] the education [personally], but the association, MAPPI [does]. So, we control the quality of the education, such as what we should add, the certification, set the standard, [whether] advanced or continuing education. We make sure that the IPD (Initial Professional Development) and CPD (Continuing Professional Development) run well” (Interviewee 10 – Head of Section for Professional Assessment – Finance Profession Supervisory Centre, Ministry of Finance).

Professional bodies are actors who commit to encouraging the execution of professional judgement in implementing accounting standards (Albu et al., 2013) including fair value. In Indonesia’s case, those professional bodies also have a role in establishing standards, conducting education and training for professionals, and focusing on the development of

³⁸ Regulation VIII.G.7 issued by OJK, is a regulation about the presentation of financial reports. It requires listed companies using the revaluation method, to use an appraiser when valuing assets.

³⁹ *Peraturan Bank Indonesia* [Regulation of Bank of Indonesia] No. 17/10/PBI/2015 about credit financing, requires the assignment of an appraiser for valuing collateral assets for credit purposes.

professional competence and levels of knowledge. Professionalism is a normative isomorphism tool, in that the importance placed on professional judgement within Indonesia, will increase the role and influence of professional bodies, resulting in an increase in their legitimacy and power.

Technical work in the institutionalisation of fair value involves collective actions and collaboration among professional bodies having specific interests and claims for legitimacy. Given that regulators confer certain roles and powers (Lawrence and Suddaby, 2006, Perkmann and Spicer, 2008) to professional bodies, these professional bodies establish rules for members involving training, education, certification and in undertaking professional duties. Professional bodies therefore hold a 'regulative bargain' with regulators and act as self-regulatory bodies. Institutional work also involves a regulative bargain negotiation (Lawrence and Suddaby, 2006) between regulators and professional bodies, so that rules established by actors can be coherent. Professional bodies establish rules to support regulators constitutive rules, which then have an important role in the institutionalisation of accounting practice (Perkmann and Spicer, 2008, Lawrence and Suddaby, 2006).

Technical work is also represented by the *standardisation* (Lawrence and Suddaby, 2006, Perkmann and Spicer, 2007) of rules by professional bodies with respect to fair value. Accounting practice, notably fair value, has been codified into an official standard, IFRS 13 *Fair Value Measurement*. While preparers apply fair value standards, auditors undertake auditing processes based on audit standards for fair value and complex estimates. Similarly, appraisers undertake valuation processes based on a valuation standard aligned with fair value. There is a continuing attempt to harmonise standards among professional bodies involving accounting, auditing and valuation standards.

Professional bodies also provide consultation regarding fair value implementation for their members and external organizations. Large audit firms also provide consultation and training for their clients, and have the ability to address problems surrounding fair value estimation and calculation. Together with regulatory bodies, professionals identify challenges and outline guidance and solutions that can be routinely implemented by organisations.

3.5.2.3. Cultural Work

The political work surrounding the commitment to IFRS and fair value is supported by an element of cultural work. IFRS has been developed to increase the comparability and consistency of financial statements worldwide, whilst increasing the quality and transparency of information, which in turn reduces cost. Professionals and their associations influence how IFRS and fair value are promoted and applied in a particular context. Professionals involved

in fair value application are preparers, auditors and appraisers. Preparers are management accountants or chief financial officers (CFO) having a role in preparing financial reports. They execute professional judgement and implement discretion when measuring fair value (McEwen et al., 2008, Shalev et al., 2013). Preparers are also responsible for ensuring that the company complies with regulations and accounting standards including fair value. In applying fair value, the competence of preparers' is seen as critical, because they must execute professional judgement, and a lack there-of endangers the quality of financial reports.

Indonesia as an emerging economy has not fully developed into an efficient market, and not all shares and financial instruments are traded on the stock exchange. A lack of market information drives preparers to execute professional judgement in obtaining fair value (Laux and Leuz, 2009). Nevertheless, preparers are always tempered by the usefulness of international accounting standards and their complexity (Navarro-García and Bastida, 2010). Managers that possess limited skills in applying fair value, create challenges for auditors who then consequently over rely on appraisers (Glover et al., 2014), which has been the case in Indonesia.

"I use a specialist if I have an impairment test. I also have fixed assets, which have huge values, and intangible assets. I use an appraiser if I use fair value. He puts a number of [values] ranging from A-Z. I [then] have to put that number in the financial report" (Interviewee 4 – Head of Accounting, Public Listed Company).

The successful application of fair value in the organisation depends on human resource competence. Preparers from big companies usually enjoy a favourable environment where the organisation provides resources and facilities to enhance their competence in executing professional judgement. Even though an appraiser conducts measurement of fair value, preparers still have a responsibility to insure that any assumptions and calculations provided by the appraiser are reliable. Preparers, as professionals, need to expand their knowledge jurisdiction (Perkmann and Spicer, 2008) when dealing with fair value involving estimations and assumptions, especially when no market information is available. Fair value should represent current economic reality in which data is based on market related information. Therefore, adequate competence is required to determine fair value using estimation based on non-market information.

"Using appraisers or other professional services helps us provide reliable valuation. However, the valuation numbers are not their (appraisers) responsibility. Valuation results put in the financial report are management or company's responsibility as issuers of financial reports [...]. We also have good auditor[s], who have the capability to challenge assumptions (of valuation) that we have developed. It should be remembered that assumptions (of valuation) should be agreed and developed by management, even though they were supported by [an] appraiser or actuary" (Interviewee 24 – Head of Accounting, Public Listed Company).

Besides preparers, auditors have a substantial role, functioning as a mechanism for control and compliance. The Big 4 audit firms have a significant influence in the development of accounting and auditing practices (Humphrey et al., 2009) as they participate in the development of accounting standards and provide guidance regarding implementation and application (Cooper and Robson, 2006). Moreover, they have a significant role in interpreting accounting standards and applying them within a local context (Cooper and Robson, 2006). Clients see auditors as a key source for consultation on complex transactions. However uncertainty estimates and subjectivity surrounding fair value (Bratten and Bratten, 2013, Griffin, 2011), provides challenges for both preparers and auditors (Griffith et al., 2015). Smith-Lacroix et al. (2012) suggest that the growing prominence of fair value accounting will affect the work of both practitioners' and auditors'. Therefore, auditor competence and skill are of critical importance.

The roles of large audit firms are considered a source for normative isomorphism. They have an important function in IFRS convergence and financial stability within countries, particularly emerging economies such as Indonesia, which lack a broad qualified skill base. Together with regulators, they participate in the Regulatory Working Group (RWG), discussing important issues in accounting and act as consultative bodies for regulators. DSAK and IAI together with stakeholders, including big four firms, also discuss issues regarding fair value implementation with OJK, the IFRS implementation team, BI, IAPI and financial statement preparers (IAI, 2015).

Furthermore, the influence of the big-four audit firms and regulators in ensuring companies comply with standards and regulations (Albu et al., 2013), has influenced the local application of IFRS including fair value standards. In order to support the auditing function, large audit forms have also created and expanded the specialist department i.e. valuer, to cope with complex transactions such as fair value estimation (Smith-Lacroix et al., 2012, Krisandersson and Hulthin, 2012).

“Well, if I am asked how to measure it (audit quality), it will be difficult. It's very intangible. However, for the people who interact with a global listed company, for instance, Telkom or a big company which is audited by big or small auditors, they can be questioned (regarding the audit quality) [...] With some specific company value and specific learning, our people will reach a certain level of knowledge. That's what makes it different [...] Meanwhile, for the public accountant that does not understand it, I am sure that they just receive the worksheet as it is and then just sign it. They might sub contract to value the assets to an independent external valuer who gets the report [...] Meanwhile in PWC, we also have an internal valuer who reviews the work of the external valuer. Whether they use an internal or external valuer, they will be reviewed (by auditors)” (Interviewee 6 – Auditor and Chairman of Indonesia Financial Accounting Standard Board).

Research has emphasized that there is a common perception that big four audit firms are superior than local audit firms (Mennicken, 2008). Consequently, an emphasis is placed on image when offering public services. Since large audit firms have a separate valuation department, they possess the necessary specialist knowledge and capability to challenge fair value numbers provided by management or independent appraisers.

“If we see the big-four firms and several stakeholders, they are the people who actually understand what IFRS is compared to others. They also know the advantages. For the big four firms, they are familiar with IFRS [...] I agree that the main driver in Indonesia are the big-four firms for sure. In my opinion, regulators have more powers of enforcement than the big-four do. The problem is whether the regulators understand IFRS [as well as the Big 4]. That is another issue” (Interviewee 22 – Technical Director of IFRS Implementation, Institute of Indonesia Chartered Accountants).

The inherent complexity in fair value measurement, create challenges not only for auditors or preparers, but also for independent valuers and appraisers. When auditors lack expertise and knowledge regarding fair value measurement, they will rely on specialists when evaluating fair value measurement (Joe et al., 2014). Gernon and Wallace (1995) help explain the importance of the appraiser, as a professional, in fair value implementation within an Indonesian context.

Using appraisers for measuring fair value is assumed to increase the reliability of valuation (Cotter and Richardson, 2002), as there is perceived consistency and expertise in asset valuation. Appraisers undertake professional development through their association, MAPPI. However, other professionals, including auditors, often question the importance of appraisers. In the Indonesian case, the appraiser has no formal academic education requirement at the university level (Antarajatim, 2012). This has raised concerns about the competence and quantity of Indonesian appraisers.

The growing importance of the appraiser in Indonesia is not without problems. Smith-Lacroix et al. (2012) argue that overreliance on appraisers endangers the auditors jurisdiction. They suggest incorporating specialist departments or people within the audit firm’s organisational structure, allowing the auditor to cope more easily with new fair value standards. Management and auditors who lack competence in measuring fair value will over rely on the appraiser (Joe et al., 2014) despite their scepticism about the appraiser’s competence.

“If you mention about valuation, there is another professional who is more expert than the accountant. They are called public appraisers [...] It’s not the accountant’s job to know it, because accountants are used to knowing about historical cost and depreciation. That is different [to] valuation knowledge. I [have] joined the training held by MAPPI too, until quite a high level. That’s why I understand. There is a difference between the fair value in US GAAP with today’s fair value” (Interviewee 17 – Head of Finance Profession Supervisory Centre, Ministry of Finance).

The prominent role of the appraiser has aligned with the shift from historical to fair value orientation. This also creates and increases the interest in, and legitimacy of, the appraiser in relation to fair value application. The appraiser ensures fair values are practicable within an Indonesian context, by providing valuation services and increasing their competence through ongoing education and training.

Institutional work provides the foundation for examining how actors, holding diverse interests, are able to conduct coordination and collective actions to change institutions (Zietsma and Lawrence, 2010, Chiwamit et al., 2014). Lawrence et al. (2002) suggest that inter-organisational coordination contributes to institutional change, especially regarding how different professionals conduct institutional work during the institutionalisation of accounting standards, including fair value. Delbridge and Edwards (2008) also suggest research account for how various actors contribute in diverse ways during the process of institutional change.

Professionals undertake cultural work in the institutionalisation of fair value by expanding the tasks and jurisdiction of professional groups to accommodate new practices (Perkmann and Spicer, 2008). Preparers and auditors should expand their knowledge when applying fair value given complex estimation and uncertainty issues. Preparers should be responsible for the estimation, assumption and calculation of fair value even though appraisers provide assistance in measuring fair value. Hence, preparers must hold adequate knowledge and competence when providing assurances that fair value has been measured reliably. Meanwhile, auditors no longer solely provide opinions about the fairness of financial reports, but they also challenge the numbers provided by preparer or valuers.

The cultural work above align with the work of shaping professional identities. Preparers, auditors and appraisers are professionals involving in fair value implementation. The creation of identities is substantial to the creation of institutions as this depicts the association between actors and the fields in which actors operate (Perkmann and Spicer, 2008, Lawrence and Suddaby, 2006, Bourdieu and Wacquant, 1992). Auditors not only provide opinions based on document verification, but also opinions based on economic reality, or what is deemed 'true and fair'. The prominence of fair value increases the role of the appraiser as an expert providing valuation.

3.6. Conclusions

This paper aimed to investigate how global accounting standards that focus on fair value, are institutionalised within a local context. The national accounting environment, and the relationship between major actors in that environment (each having quests for legitimacy and the maintenance of special interests) influence the institutionalisation of fair value. This paper

applies the Gernon and Wallace (1995) framework to explain the local Indonesian accounting context involving societal, organisational, individual, professional and accounting elements and *institutional work* (Lawrence and Suddaby, 2006) to explain the role of local actors in the institutionalisation of fair value. With regard to fair value implementation, this framework suggests that Indonesia has unique characteristics that shape its political and economic development, organisational culture and practices, individual behaviour, professional development and also accounting regulation and practice. Moreover, it illustrates how local actors involving the Indonesian government, professionals and their associations, play significant roles in the development of accounting knowledge and practice.

Studies have found variation in the degree of IFRS implementation at the country specific level (Karampinis and Hevas, 2011, Zeghal and Mhedhbi, 2006, Bhattacharjee, 2009). The heterogeneity of the national environment and the role of main actors in the institutionalisation of IFRS, are regarded as important factors in explaining these variations. The purposive actions of individual or collective actors and the sectional interests and search for legitimacy that motivate these actors, influence the institutional and local context in which IFRS ultimately operates. They influence how IFRS, particularly fair value standards, are institutionalised (Greenwood and Hinings, 1996).

Institutional work takes into consideration the interrelationship between the institutional actors, and their purposive actions and their interests (Lawrence and Suddaby, 2006), with both influencing the institutionalisation of fair value within Indonesia. This paper suggests that institutional work explains the purposive action of actors, having their own interests and seeking legitimacy, in the institutionalisation of fair value within an Indonesian context by investigating the political, technical and cultural work (Perkmann and Spicer, 2008, Chiwamit et al., 2014). The implementation of fair value is more than just a technical issue. It just as importantly depends on the actor's own interest's and ability to obtain acceptance among the many different actors in the field (Mennicken, 2008) and also involves political, technical and cultural work (Perkmann and Spicer, 2008).

Political work advocates management or accounting innovation and the establishment of regulatory frameworks (Perkmann and Spicer, 2008, Chiwamit et al., 2014). Regulators hold a prominent position in the regulatory process, even though they hold less technical legitimacy (Albu et al., 2013). Regulators gain legitimacy through membership of international organisations, and demonstrate power and influence over institutions through the issuance of regulations, to ensure fair value standards are institutionalised and acceptable. The Ministry of Finance and other regulators are powerful enforcement mechanisms in accounting

standard implementation. Political work also involves conferring authority and power from regulators to professional associations.

Meanwhile, technical work refers to efforts conducted by actors to make institutions fit into particular contexts, by constructing a mental model as the cognitive pillar of an institution (Perkmann and Spicer, 2008). Professional bodies are actors having strong technical legitimacy and play significant roles in supporting fair value institutionalisation and implementation. As self-regulatory bodies, they demonstrate their attempt at the institutionalisation of fair value through the provision of standards, and education and training for members i.e. professionals. They gain their legitimacy by membership of organisations at the regional and/or international level, and also by adopting international standards including fair value.

Regarding cultural work, professionalism is considered an important aspect in the institutionalisation of management or accounting innovation. Professionals need to expand their knowledge jurisdiction and create their identity (Perkmann and Spicer, 2008). Institutionalisation of fair value requires work and action from professionals such as preparers, auditors and appraisers. The preparer has responsibility to ensure that fair value is applied properly by undertaking appropriate assumptions and estimations. Due to its complexity, Indonesian preparers tend to rely on appraisers. However, management still have to be responsible for assuring that the assumptions and estimations provided by the appraiser are reliable. Hence, Indonesian appraisers gain their importance in fair value implementation and have been trying to increase their legitimacy through membership of regional associations and adopting international standards of valuation. Their roles are also strengthened by the support from PPPK under the auspices of the Ministry of Finance and other regulatory bodies, who issue regulations about appraisers and their services.

The auditor also has an important role in executing professional judgement especially in auditing fair value estimates. He provides reasonable assurance about the preparers judgement and estimation. Regarding fair value, the auditor has a role in challenging the assumptions and estimations provided by the appraiser or preparer hence they need to expand their knowledge and competence beyond the traditional auditing skills. The auditor gains his legitimacy through the membership of regional and international audit organisations, increasing his competence and adopting international standards of auditing, including those on fair value and complex estimations.

The political, technical and cultural work will provide stronger effects during institutionalisation, if these are deployed concurrently (Perkmann and Spicer, 2008). In other words, the success of institutionalisation will depend on the combination of the three types of

work as opposed to a single type of institutional work. Moreover, institutionalisation will be successful if institutional work is conducted by various actors across different levels (Perkmann and Spicer, 2008). Regulatory and professional bodies conduct political work in the institutionalisation of IFRS and fair value in Indonesia. Meanwhile, technical and cultural work support political work and are conducted by various actors involving mainly professionals and their associations.

In conclusion, this study finds that a country cannot be considered as monolithic. It argues that the institutionalisation of fair value standards is dependent upon, and is shaped by the purposive action of actors in their quest to obtain legitimacy and interest, who in doing so make fair value standards applicable and acceptable. The different comments and expectations identified across different groups of actors throughout the paper, imply that there is no single or convergent interest among them. There are variations of approaches toward institutionalising global standards into the local context, as shown by the action of actors who seek to individual goals and legitimacy during the process.

This research also provides some implications regarding the diffusion and implementation of global accounting standards. First, different local contexts, including community or actors within particular countries, will react differently towards the institutionalisation and diffusion of global standards. Second, emerging economies, have different environmental and social dynamics compared to advanced markets. Similar actors across countries do not all possess the same level of interest and influence in each country, yet it is the actors that influence the institutionalisation of IFRS.

3.7. References

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3.8. Appendices

Appendix 3.1. List and Detail of Interviews and Interviewees

No	Date	Group of Participants	Code	Role
1	12-May-15	Regulator	Interviewee 1	Senior Advisor Capital Market Supervision of Financial Service Authority
2	13-May-15	Preparer	Interviewee 2	Head of Accounting Public Listed Company
3	16-May-15	Auditor	Interviewee 3	Audit Firm
4	26-May-15	Preparer	Interviewee 4	Head of Accounting Public Listed Company
5	27-May-15	Appraiser	Interviewee 5	Appraiser Firm
6	28-May-15	Auditor/Professional body	Interviewee 6	Audit Firm/Chairman of Indonesia Accounting Standard Board
7	28-May-15	Auditor	Interviewee 7	Audit Firm
8	28-May-15	Auditor	Interviewee 8	Audit Firm
9	29-May-15	Preparer	Interviewee 9	Head of Accounting Public Listed Company
10	29-May-15	Appraiser/Regulator	Interviewee 10	Appraiser Firm/Center of Financial Profession Development
11	1-Jun-15	Regulator	Interviewee 11	Senior analyst of Banking Industry of Financial Service Authority and member of Working Group of IFRS
12	1-Jun-15	Professional body	Interviewee 12	Member of National Council-Institute of Indonesia Chartered Accountants
13	1-Jun-15	Professional body	Interviewee 13	Technical Advisor IFRS Implementation-Institute of Indonesia Chartered Accountants
14	6-Jun-15	Professional body	Interviewee 14	Member of Indonesia Accounting Standard Board
15	9-Jun-15	Auditor	Interviewee 15	Audit Firm
16	9-Jun-15	Appraiser	Interviewee 16	Company Value Advisory of Audit Firm
17	10-Jun-15	Regulator	Interviewee 17	Head of Center of Financial Profession Development
18	10-Jun-15	Regulator	Interviewee 18	Head of Compliance and Listing Division Indonesia Stock Exchange
19	10-Jun-15	Regulator	Interviewee 19	Supervisor-Issuer Valuation and Monitoring Indonesia Stock Exchange
20	10-Jun-15	Regulator	Interviewee 20	Senior Officer-Issuer Valuation and Monitoring Indonesia Stock Exchange
21	12-Jun-15	Auditor/Professional body	Interviewee 21	Accounting Firm and IFRS Implementation team of Institute of Indonesia Chartered Accountants
22	12-Jun-15	Professional body	Interviewee 22	Head of Technical Team- Institute of Indonesia Chartered Accountants
23	12-Jun-15	Preparer	Interviewee 23	Head of Accounting Public Listed Company
24	15-Jun-15	Preparer	Interviewee 24	Head of Accounting Public Listed Company
25	15-Jun-15	Auditor/Professional body	Interviewee 25	Audit Firm and Secretary of Indonesia Institute of Public Accountant
26	19-Jun-15	Appraiser	Interviewee 26	Appraiser Firm

Appendix 3.2. Questionnaire

Based on IFRS 13 *Fair Value Measurement* or *Pernyataan Standar Akuntansi Keuangan 68 (PSAK 68)* [Statement of Financial Accounting Standard No. 68]

Market participant

The determination (definition) of a potential market participant (para 9) is a critical step in the determination of fair value. In developing assumptions of market participants, an entity need not already have identified specific market participants. Rather, it should develop a profile of potential market participants by considering some factors such as *(a) the specification of asset or liability, (b) the principal (or most advantageous) market for the asset or liability; and (c) market participants with whom the entity would enter into a transaction* (para 22).

1. Based on your experience, what problems (if any) do you foresee, or have experienced to date, in identifying who is a market participant?

Principal and Most Advantageous Market

To determine the *principal market*, management needs to evaluate the level of activity in different markets and document which particular market price is used and what process was followed to determine the appropriate market to use for determining fair value. The *most advantageous market* is ‘The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs’ (IFRS 13.A).

2. What problems (if any) do you anticipate, or have experienced to date, when determining a “*principal market*” and/or the “*most advantageous market*” when undertaking fair value measurement?

Assets and Liabilities

The extent to which a market participant takes the characteristics of the asset and liability (*including location, conditions and restrictions*) into account when pricing it at measurement date is crucial. (para 11)

3. What challenges (if any) do you foresee, or have experienced to date, in determining the *characteristic of an asset and liability* when determining their fair value?

Fair value measurement may be applied to a stand-alone asset or liability (for example, an equity security, investment property or an intangible asset) or a group of related assets and/or liabilities (for example, a business), depending on the circumstances. The determination of how fair value measurement applies depends on the *unit of account* (para 14). The unit of account is determined based on the level at which the asset or liability is aggregated or disaggregated in accordance with the IFRS requirements applicable to the particular asset or liability being measured.

4. What problems (if any) do you anticipate, or have experienced to date, in determining the “*unit of account*” when undertaking fair value measurement?

The price

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions, being an *exit price*, regardless of whether that price is directly observable or estimated using another valuation technique (para 24).

5. What problems (if any) do you foresee, or have experienced to date, when using *exit price* as a basis for undertaking fair value measurement?

Application to Non-financial assets

Fair value of an asset is required to be determined using its *highest and best use* (para 27). The highest and best use of a non-financial asset takes into account the use of the asset that is *physically possible, legally permissible and financially feasible* (para 28).

6. What problems (if any) do you expect to encounter, or have encountered to date, in applying the “*highest and best use*” principle for measuring a non-financial asset?

Liabilities and entity’s own equity instruments

The transferral concept for liabilities clarifies the previous IFRS definition of fair value, which required fair value for liabilities to be “*the amount for which a liability could be settled, between knowledgeable willing parties...*”. Liabilities can be settled by extinguishing or transferring them to another party. IFRS 13 clarifies that fair value is not based on the price to settle a liability (*settlement value*) with the existing counterparty, but rather to transfer it to a market participant (*transfer value*) of equal credit standing on the measurement date (para 34).

7. What problems (if any) do you anticipate, or have experienced to date, in using *transfer value* compared to *settlement value* when measuring the fair value of liabilities?

When a quoted price for the transfer of an identical or a similar liability or entity’s own equity instrument is not available and the identical item is held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument from the perspective of a market participant that holds the identical item as an asset at the measurement date (para 37).

8. What problems (if any) do you expect to encounter, or have encountered to date, when measuring your liability or your own equity instrument based on assets held by other market participants?

When a quoted price for the transfer of an identical or a similar liability or entity’s own equity instrument is not available and the identical item is not held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument using a valuation technique from the perspective of a market participant that owes the liability or has issued the claim on equity (para 40).

9. What problems (if any) do you expect to encounter, or have encountered to date, when measuring your liability or your own equity instrument based on the market participant that owes the liability or has issued the claim on equity?

Fair value at initial recognition

Transaction prices may not equal fair value. Fair value under IFRS 13 is based on an exit price concept (para 57). Transaction prices are not always representative of exit prices, although in many cases they are.

10. What problems (if any) do you expect to encounter, or have encountered to date, in measuring the *initial recognition* of assets and liabilities under this ‘exit price’ measurement approach?

Valuation techniques

There are three (3) valuation techniques or approaches for fair value measurement; (a) market, (b) cost, and (c) income.

The *market approach* is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities, or group of assets and liabilities, such as businesses (Appendix A)

11. What challenges (if any) do you anticipate, or have encountered to date, in applying the *market approach* to valuation?

The *cost approach* is a valuation technique which reflects the amount that would be currently required to replace the service capacity of an asset (often referred to as current replacement cost). (Appendix A)

12. What challenges (if any) do you anticipate, or have encountered to date, in using the *cost approach* to valuation?

The *income approach* is a valuation technique that converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. Fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts. (Appendix A)

13. What challenges (if any) do you anticipate, or have encountered to date, in using the *income approach* to valuation?

Inputs to valuation techniques

Determining the significance of a particular input to a fair value measurement is a matter of judgement. Valuation techniques used to measure fair value shall maximise the use of

relevant observable inputs and minimise the use of unobservable inputs. There are three Level inputs to fair value measurement; Level 1, Level 2 and Level 3.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date (para 76).

14. What problems (if any) do you foresee, or have experienced to date, in applying Level 1 inputs within Indonesia?

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including the quoted price for similar assets and liabilities in active or inactive market and inputs other than quoted prices. (para 81)

15. What problems (if any) do you foresee, or have experienced to date, in applying Level 2 inputs within Indonesia?

Level 3 inputs are unobservable inputs for the asset or liability. Developed using best information available in the circumstances, including entity's own data and adjusted with other market participant data. (para 86)

16. What problems (if any) do you foresee, or have experienced to date, in applying Level 3 inputs within Indonesia?

Chapter 4 (Paper 3): Fair Value Implementation within an Indonesian Context: Modernity in Accounting and The Reshaping of Reliability

4.1. Abstract

Purpose: This study aims to investigate the extent to which fair value is constructed by social actors when transforming data into monetary units, and the effect this has on the concept of reliability. This study also discusses subjectivity and conflict among actors within an Indonesian context, through notions of trust and risk proposed by Giddens (1990).

Design/methodology/approach: Phenomenography is used as a qualitative method to identify the concept and social construction of fair value with respect to reliability. This study undertakes semi structured interviews with 26 (twenty-six) participants, representing preparers, valuers, auditors, a regulator and professional bodies. This study also utilizes secondary data, including newspapers and official websites of regulators and professional bodies, to provide an understanding of the Indonesian context with respect to fair value implementation.

Findings: The fair value standard is complex, and involves varying degrees of subjectivity with respect to what constitutes ‘reliability’ and ‘faithful representation’, the terms of which are largely socially constructed. The determination of fair value also relies on the appraiser, in addition to the auditor, as an expert, increasing the probability of collaboration during the valuation process. Determining consensus involves a degree of trust between the auditor and appraiser, however unfavourable local environmental factors in Indonesia increase the risks associated with the expert system.

Research limitations/implications: There are three implications from the study. First, ‘faithful representation’ as a liability concept, is one that is socially constructed based on consensus. Second, fair value has changed the way data and information is transformed into monetary language as different domains of expert systems work collaboratively. Third, implementation of fair value within emerging economies challenges the conception and construction of fair value, as issues of conflict and trust arise among expert systems.

Originality/value: This research investigates the reshaping of reliability within an emerging economy that has no liquid market. It also investigates how notions of trust and risk operate within ‘expert’ systems within modern society proposed by Giddens (1990).

Keywords: Reliability, social construction of consensus, trust, risk

4.2. Introduction

Global convergence to IFRS is one of the major aims of the IASB and the success of the convergence project has been widely discussed by scholars (Holthausen, 2009, Ball, 2006). For many countries, the adoption of IFRS results in a system change from rules based to principles based, and from historical cost into fair value accounting. However, issues arise regarding the extent to which national standards and practices on fair value, can be converged with fair value as required by IFRS. Some studies have argued whether fair value is a feasible

measurement basis, given the requirement for rigorous judgment and estimation (Ronen, 2008, Müller, 2013, Christensen and Christensen, 2013, Laux and Leuz, 2009).

IFRS 13 *Fair Value Measurement* is a standard that has high degree of subjectivity and estimation (Lee and Park, 2013, Nellessen and Thomas, 2011, Landsman, 2007). Fair value is not defined singularly, but in reference to an approach for determining an *exit price*⁴⁰. In the absence of market information, exit price is determined using calculations and estimations. The inherent subjectivity and estimation within fair value, may affect reliability. Accordingly, studies have investigated reliability issues surrounding fair value (Power, 2010, Jeppesen and van Liempd, 2011, Machado et al., 2015, Barth, 2007, Nellessen and Thomas, 2011).

Ongoing issues about the complexity and reliability surrounding fair value and its implementation, particularly within capital markets subject to dysfunction, motivates this study. IFRS 13 relies on market value as a valuation basis. Some proponents of fair value argue that despite its complexity, fair value is relevant for decision making, as it better reflects financial performance (Power, 2010, Barth et al., 2001) and the current market situation (Palea, 2014). Fair value requires a higher degree of transparency, hence leading to greater relevance of accounting information. However, a higher degree of professional judgement is also required, which can lead to a trade-off between relevance and reliability (Christensen, 2010) as fair value reliability can be questionable in dysfunctional markets.

Reliability is a fundamental qualitative characteristic within the conceptual framework (Power, 2010). It has been argued that reliability should essentially reflect ‘faithful representation’ and not ‘verifiability’ (Barth, 2007, Kadous et al., 2012, Whittington, 2008). According to Barth (2007), ‘faithful representation’ means that “information reflects the real world economic-phenomena that it purports to represent”. Precise calculation, which is the feature of verifiability, does not necessarily equate to faithful representation. However, the idea and concept of reliability changes over time. The shifting paradigm from historical cost to fair value has also altered the concept of reliability. Reliability is not confined to the notion of factual objectivity. It is composed of different actor perceptions, who are involved in the process where parameters of value consensus have been established by standards-setters without totally eliminating the subjectivity of that value consensus (Power, 2010). With respect to fair value, reliability is socially constructed through consensus of estimates between actors involved in the process (Power, 2010, Jeppesen and van Liempd, 2011, Machado et al., 2015).

⁴⁰ According to IFRS 13 *Fair Value Measurement*, an exit price is defined as being “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”.

IFRS 13 *Fair Value Measurement* argues for “exit price”, defining fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” (IFRS, 2015). The objective of fair value measurement is to provide guidance on how to measure the exchange price of an asset and liability by capturing its value (Landsman, 2007). However, in the absence of an active market, application of fair value may face more problems and challenges (Landsman, 2007, Cairns, 2006) especially for non-financial assets (Barlev and Haddad, 2003). Measuring the fair value of assets or liabilities that are not traded in an active market requires estimation of market information (Cairns, 2006), resulting in a degree of subjectivity.

Emerging countries are characterised as those whose economies are intent on attaining the same function as more advanced capitalist markets (Ezzamel and Xiao, 2011), but who currently lack the components of a well-functioning capital market (Peng and Bewley, 2010). Fair value accordingly, is more easily attainable in developed economies with well-functioning liquid capital markets (Penman, 2007, Barlev and Haddad, 2007, Ball, 2006). Therefore, applying fair value in emerging countries results in greater problems and challenges (Peng and Bewley, 2010), and more subjectivity when applying calculations and estimations (Machado et al., 2015).

IFRS and fair value are current accounting regimes (Smith-Lacroix et al., 2012), inscriptions which link global and local contexts. With respect to the concept of modernity of Giddens (1990), Jones and Dugdale (2001) proposed the notion of an “accounting regime”, a governance system which operates at the macro, micro and personal level through inscriptions and calculations linking the global and local. Any accounting regime that embraces IFRS and fair value, is socially constructed, involving political, economic and ideological dimensions. In the modernity, Giddens (1990) proposed the notion of *trust* and *risk*, including modernity in accounting represented by the accounting regime. Smith-Lacroix et al. (2012) use the concept of trust and the expert system in explaining trust in the expert work provided.

Modernity is characterised by “time and space distancing” suggesting the vacuum of the local physical setting of time and space and global standardisation of them. It is also seen as a “dis-embedding” process, i.e. “the “lifting out” of social relations from its local context, and their restructuring across almost indefinite spans of time and space (Giddens, 1990). In organisational studies, this is the way the modern rationalised organisation associates the local with the global. Accounting contributes to this dis-embedding as a social practice, as it constructs information whereby concrete events and things are recreated as abstract values. Accounting consists of measurement, technique and criteria, which move through time and space (Jones and Dugdale, 2001).

During the dis-embedding process, two mechanisms are proposed: the symbolic token and the expert system. When an accounting system is applied in day-to-day practice, it will be embedded into specific contexts of action. Fair value represents a symbolic token, illustrating how information is transformed into monetary language. Fair value also involves an expert system, defined as “professional expertise that organise large areas of the material and social environments in which we live today” (Giddens, 1990, p. 27). The application of fair value involves professionals representing their expert systems, which raises issues of trust among them.

Giddens (1990) suggests trust is a necessary condition for the risks faced in modern life. Risk is identified as the possibility of an unwanted result as consequences of an actor’s activities or decisions. Trust, in modern life takes two forms, i.e. trust in the system and trust in the person.

“Trust may be defined as confidence in the reliability of a person or a system, regarding a given set of outcomes or events, where that confidence expresses a faith in the probity or love of another, or in the correctness of abstract principles (technical knowledge)” (Giddens, 1990, p. 34).

Fair value, in an accounting regime, represents modernity, “a social practice constructed through the dis-embedding and re-embedding of accounting as an abstract system” (Jones and Dugdale, 2001). It also represents a symbolic token, and involves an expert system, whereby experts work on the application of fair value. This also raises issues of trust in the system and person, both of which contain risk.

This paper aims to investigate the implementation of fair value standards in Indonesia, an emerging country, having less liquid markets, and a slower development of the accounting profession, with respect to the application of reliability. This paper analyses the process of construction of fair value. It discusses the challenges and issues of subjectivity and conflict among involved actors, using the theoretical lens of Giddens (1990) use of trust and risk. This paper seeks to discuss reliability within a broader social sense, by questioning and rejecting, like other authors (Hines, 1988), the economic reality of accounting numbers and the view that reality can be objective.

This research in Indonesia is important for several reasons. First, Indonesia is a developing country with an emerging market that has been converging its national accounting standards with IFRS, including IFRS 13 *Fair Value Measurement* codified as *Pernyataan Standar Akuntansi Keuangan* (PSAK) [Statement of Financial Accounting Standard] 68. IFRS convergence has also highlighted the use of fair value within financial reporting, which has been mandatory for financial instruments and voluntarily for non-financial instruments. There

are 120 banking organizations, 37 of which are listed on the Indonesian Stock Exchange which plays a substantial role in Indonesian economic development ((BI), 2012). The banking industry is significantly affected by fair value given that the nature of its business involves financial instruments. However, given that fair value is also applied to non-financial instruments, it is also relevant for other organizations whose assets include investment property, intangible assets, and property, plant & equipment (PPE).

Second, Indonesia is an emerging economy having a semi-efficient and illiquid market (Republika, 2015). Its supporting institutional environment for implementing fair value is weak ((IAI), 2013). Implementing complex accounting standards such as fair value, is evidently more challenging, which in turn affects the reliability of fair value numbers. In turn reliability, which is socially constructed, is influenced by the actors involved in the process and the surrounding institutional environment.

Third, implementing complex and principles based accounting standards such as fair value, requires adequate knowledge from professionals. Indonesian professionals have been identified as lacking the necessary technical competence, which impedes professional judgment (WorldBank, 2011). As complex standards require professional judgement (Chand et al., 2010), this in turn can affect the quality of financial reporting.

This research also contributes to the accounting literature in various ways. First, this study investigates the issues of fair value implementation, particularly the construction of fair value by deconstructing IFRS 13 *Fair Value Measurement* using a qualitative research approach. Investigating implementation issues based on the standard of fair value measurement can provide a deeper understanding of fair value implementation within a developing country. Previous studies have investigated fair value implementation issues (Machado et al., 2015, Griffith et al., 2015b, Griffith et al., 2015a, Landsman, 2007, Barth et al., 2001) focusing on capital market research and auditor judgement. Whilst studies have been undertaken within developing countries (Alexander et al., 2012, Peng and Bewley, 2010, Machado et al., 2015) limited studies have investigated the construction of fair value, and its subsequent reliability, in markets lacking liquidity.

Second, due to market unavailability, subjectivity, and the use of extensive estimation, there have been issues surrounding the reliability of certain fair values (Christensen and Christensen, 2013, Power, 2010). These issues are more pronounced in economies that do not have a well-functioning capital market or a less liquid and active market (Landsman, 2007). An unfavourable institutional environment, and challenges in implementing fair value, lead to greater reliability problems. Reliability is the fundamental qualitative characteristic of financial reporting (Barth et al., 2001, Sloan, 1999). Fair value has changed the idea of

reliability from faithful representation into social construction via consensus (Machado et al., 2015, Power, 2010, Jeppesen and van Liempd, 2011).

Third, this research investigates the concept of fair value implementation, and the subjectivity and estimation that it implies, from the perspective of various stakeholders including regulators, professional bodies and professionals. It will provide an understanding of how reliability is effected and reshaped in the social construction of fair value in a developing country context. Scholars have identified challenges and problems in fair value implementation (Laux and Leuz, 2009, Barlev and Haddad, 2003) and the subjectivity of fair value in relation to calculation and estimation, but there have been no studies conducted on how the subjectivity of fair value reshapes the reliability concept in a developing country. Drawing on the idea of Giddens (1990) about modernity, this study focuses on how the expert system generates confidence (trust) in the current accounting regime with respect to reliability.

4.3. Literature Review

4.3.1. Fair Value Measurement

Fair value measurement is a single framework offered by IFRS when valuing financial and non-financial items required by other standards (Carrington and Tirmén, 2014). It is applicable to standards such as IAS 16 *Property, Plant and Equipment*, IAS 40 *Investment Property*, IAS 36 *Impairment of Asset*, IAS 38 *Intangible Assets*, IFRS 3 *Business Combination*, IAS 32 *Financial Instruments: Presentation* and IFRS 9 *Financial Instruments* (which supersedes IAS 39 *Financial Instruments: Recognition and Measurement*). In measuring fair value, professional judgment must be applied given the principles based approach, and due to considerable assumptions and estimations involved in assessing fair value, resulting in significant uncertainty.

According to IFRS 13 *Fair Value Measurement*, fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” ((IFRS), 2015). This concept is widely known as an “exit price” and requires measurement from the perspective of market participants rather than the entity. The definition of fair value has given rise to “a hypothetical transaction” (paragraph 7) which allows for the estimation of a hypothetical exit price. This definition is a resolution of the controversy of whether fair value should be based on the amount received by the owner upon selling an asset (exit value) or the amount paid to buy a new one (entry value) (Miller and Bahnson, 2007). Fair value measurement also suggests that transactions must be ‘orderly’. Orderly transactions are where there are no inactive market situations or distress, or

financial crisis (Bougen and Young, 2012). Hence, market value from transactions is not always determinative to fair value, because fair value is not always generated from an orderly transaction due to illiquidity or market distress.

Fair value should be measured using hypothetical transactions in the principal market or in the most advantageous market (Benston, 2008, (PWC), 2011). The *principal market* is the market with the greatest volume and level of activity. Meanwhile, the *most advantageous market* is the market which maximizes the amount that would be received to sell the assets or minimise the amount that would be paid to transfer the liability, after taking into account transaction and transport costs. Determining the principal market is challenging as particular assets might be traded across markets ((PWC), 2011), each having their own market value, hence making it difficult to determine which market value is providing the highest volume and activity level which can be considered as principal or the most advantageous market. For assets other than financial assets, determining market value for measuring fair value is challenging when no active markets are available for those assets, hence estimation and professional judgment are applied (Carrington and Tirmén, 2014).

In calculating an estimated exit-price for non-financial assets, fair value measurement requires us to use the *highest and best use* principle. This principle emphasises that assets should be measured at their highest and best utilization from the perspective of market participants, even if the entity intends a different use ((PWC), 2011). In applying this principle, it should consider the use of the asset with regard to three factors, those being what is “physically possible, legally permissible and financially feasible” ((IFRS), 2015). A use that is *physically possible* refers to the physical characteristic that market participants should consider when pricing the asset, including its location or size. A use that is *legally permissible* takes into account the legal zoning or restrictions of the assets when pricing. A use that is *financially feasible* considers whether the use of the asset that is *physically possible* and *legally permissible* also generates income or cash flow as a return on investment that markets participants would requires when putting the asset to use. Applying the highest and best use principle in Indonesia will involve greater subjectivity and more challenges. This is because Indonesia’s urban development and zoning has, in many instances, not been co-ordinated or implemented appropriately, resulting in buildings being constructed in areas not designated for that purpose ((IAI), 2013). For example, non-commercial buildings have been built and exist among other commercial buildings, allowing non-commercial buildings to be valued at their best use (as a commercial-building would).

Fair value is applicable to other IFRSs which use fair value as a measurement basis, including financial assets and liabilities, investment property, intangible assets, share-based payments,

property, plant and equipment (PPE) and biological assets (Cairns, 2006). The implementation of fair value will depend on the *unit of account*. IFRS 13 *Fair Value Measurement* (Appendix A) defines unit of account as “the level at which an asset or a liability is aggregated or disaggregated in an IFRS for recognition purposes” ((IFRS), 2015). Assets and liabilities can be measured individually or as a class/group.

There are three valuation techniques applied to fair value estimation to determine the exit price of assets and liabilities ((PWC), 2011, (IFRS), 2015). First, the *market approach*, is a valuation technique that “uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business”. Second, the *income approach* that “converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount”. Third, the *cost approach*, also referred to as replacement cost, is a “valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset” ((IFRS), 2015).

The valuation technique chosen will depend on the inputs available in fair value measurement in the market at that time. IFRS 13 establishes a three-level hierarchy for inputs to fair value measurement ((IFRS), 2015). Inputs refer to the assumption the market participants will use in pricing the assets and liabilities, and are categorised as either observable or unobservable (Palea, 2014). More observable inputs are preferred over unobservable inputs. When a quoted price for identical assets or liabilities is available in the active market (Level 1), it must be used as a basis for fair value measurement. If not, a company must use level 2 or level 3 inputs. Level 2 inputs are quoted prices for similar assets or liabilities in active markets or identical or similar assets or liabilities in non-active markets. Level 3 inputs are unobservable inputs using an estimation model to determine fair value. When fair value is determined using observable quoted prices in an active market, it is referred to as mark-to-market, requiring no valuation technique. Using an estimation from unobservable Level 3 inputs to determine fair value refers to a mark-to-model approach (Laux and Leuz, 2009, Hitz, 2007). Using level 2 and level 3 inputs require valuation techniques in measuring fair value and greater subjectivity. Each entity should use valuation techniques and all relevant market information that are available so that it maximizes the use of observable inputs.

Fair value estimate problems are faced by preparers, auditors, users and standard setters (Bell and Bell, 2012). Current auditing standards may make it difficult for auditors to provide assurance of fair value when there is a high degree of uncertainty, especially for level 2 or level 3 inputs (Earley et al., 2012, Bratten and Bratten, 2013). Level 2 and level 3 inputs deal with difficult valuation estimates and involve valuation techniques which are often difficult to

verify (Benston, 2008). Some studies have investigated the use of specialists in undertaking fair value, and find there is no consensus among them regarding the appropriate models and valuation bases (Bratten and Bratten, 2013, Joe et al., 2014, Nellessen and Thomas, 2011). This is also called a mark-to-model problem (Laux and Leuz, 2009, Barlev and Haddad, 2003). From the perspective of preparers, fair value is challenging due to interpretation difficulties, subjectivity and complex estimations requiring professional judgement (Jeppesen and van Liempd, 2011). Some studies suggest fair value is challenging for preparers and auditors (Barlev and Haddad, 2003, Jeppesen and van Liempd, 2011).

Indonesia is an emerging market which is not as liquid as advanced markets where most shares are actively traded (Republika, 2015). Indonesia also lacks a market for non-financial assets, resulting in difficulties in generating valuation inputs for determining fair value. Therefore level 2 and 3 inputs are used in Indonesia when measuring fair value, which in turn requires more assumptions and estimations. Given that an emerging country, such as Indonesia, is characterised by lower levels of technical ability and professional competence (Pacter, 2012, Irvine, 2008), it needs to improve competence (WorldBank, 2011) for there to be adequate capability in executing professional judgement.

Fair value measurement is applicable for financial and non-financial assets. Studies have investigated the implementation of fair value accounting on PPE (Herrmann et al., 2006), investment property (Nellessen and Thomas, 2011) and financial instruments (Khurana and Kim, 2003, Brousseau and Brousseau, 2013). Financial instruments, consisting of both financial assets and liabilities, are the items most affected by fair value measurement. Studies on the fair value of financial instruments have been conducted on non-financial institutions (Khurana and Kim, 2003, Gebhardt, 2012) as well as on financial and banking institutions (Brousseau and Brousseau, 2013). Applying fair value for non-financial instruments is more challenging and controversial given that assumptions and estimations made by preparers are subjective compared to financial instruments (Jung, 2013, Christensen and Christensen, 2013).

Estimation uncertainty is the key feature that differentiates fair value from other measurements because it requires extensive assumptions and estimations (Bratten and Bratten, 2013, Bell and Bell, 2012, Christensen and Christensen, 2012). Extensive use of estimation uncertainty and a high degree of subjectivity can result in different accounting values, that in turn affect net income and financial position. High uncertainty can lead to non-reliable accounting figures, especially when no active market exists for non-financial assets (Bell and Bell, 2012).

High uncertainty estimates are also triggered by volatile economic conditions, which lead to misspecification of the valuation model. Observed prices might be an inappropriate basis upon which to measure fair value. Indonesia is exposed to this risk because its stock market has a high degree of volatility (Solihin, 2015). Hence, companies need to apply a valuation technique and extensive estimation when measuring fair value, which raises questions as to reliability. Reliability issues, subjectivity and extensive judgment of fair value estimates, have all been found to be significant factors in certain studies (Lee and Park, 2013, Nellesen and Thomas, 2011, Landsman, 2007).

Different institutional settings influence the implementation of fair value accounting. Whilst fair value implementation is challenging in developed countries (Gebhardt, 2012), emerging countries face greater challenges given that international accounting standards were developed in more advanced countries with differing levels of social, economic and cultural development. Pacter (2012) argues that fair value implementation in emerging countries can be problematic due to a lesser degree of professional competence, market problems and weak supervision from regulators.

Studies have provided evidence that in emerging countries, the level of knowledge possessed by professionals is important when implementing fair value (Kumarasiri and Fisher, 2011, Alexander et al., 2012). Moreover, the process of adoption and implementation of fair value is challenging given that many elements normally associated with a well-functioning capital market are not available (Chen and Chan, 2009).

4.3.2. Fair Value and The Reshaping of Reliability

Opponents of fair value suggest that fair value measurements are biased, and prone to management error and manipulation, which in turn pose serious threats to reliability (Hitz, 2007). Using judgement in applying fair value may increase uncertainty and reduce reliability (Lee and Park, 2013). Issues regarding the relevance and reliability of fair value have been debated for decades (Bell and Bell, 2012, Song and Song, 2010), and are shaped by factors including accounting standard complexity and the degree of uncertainty surrounding estimation (Bratten and Bratten, 2013, Bell and Bell, 2012). The fair value inputs hierarchy, consisting of observable level 2 and unobservable level 3, have induced greater uncertainty estimation due to the subjectivity and application of statistical modelling for estimating fair value (Bratten and Bratten, 2013). Moreover, level 3 inputs, which are unobservable, are prone to management bias and error (Song and Song, 2010) making it less reliable. In addition to the fair value complexity issue, the level of valuation knowledge possessed by professionals, legal factors, market liquidity, and the institutional environment within a

particular country, all affect the ‘faithful representation’ of fair value estimates (Bratten and Bratten, 2013).

The examination of accounting measurement reliability commenced with Ijiri and Jaedicke (1966), and is considered an important and fundamental qualitative characteristic of financial reporting (Power, 2010, Barlev and Haddad, 2003). The reliability concept has previously depended on the concepts of verifiability and representational faithfulness (Barlev and Haddad, 2003). However, recent exposure drafts on the conceptual framework propose to replace the term “reliability” with the phrase “faithful representation” ((IASB), 2015), which has been supported in previous literature (IASPlus, 2010, Power, 2010, Barth, 2007). “To be useful, financial information must not only be relevant, it must also represent faithfully the phenomena it purports to represent” (IASPlus, 2010). Therefore, even though accounting numbers can be precisely calculated, that does not necessarily imply the representation of real economic phenomena.

In relation to accounting based principles and changes in fair value, the reliability concept from a valuation perspective is not aimed to be an objective examination of realities or facts. It is instead seen as one of social construction (Power, 2010). With regard to reliability, fair value is obtained from the collective judgment of the market.

“Accounting reliability is ultimately a matter of sufficiency of social consensus and powerful proponents of fair value have succeeded, at least for a while, in shifting the basis of that consensus from the legal reality of documented transactions to the financial reality of asset and liability values based on discounted estimates of future cash flows”.

According to Hines (1991), accounting information does not represent economic reality as an independent construct and cannot be seen as possessing faithful representation, as it is a social construction of that economic reality, shaped by social and political forces.

Inherent in the fair value standard are complex estimations and assumptions that proxy an estimated price that might be received in the market. In the absence of market information and a liquid market, calculations based on estimation and modelling become the dominant methodology (Power, 2010). Absence of real markets result in measurements of fair value in ‘imaginary markets’ (Benston, 2008) with ‘imaginary measurements’ that are often being based on ‘hypothetical’ transactions (Jeppesen and van Liempd, 2011). “When fair values are not restricted to actual market prices, the values must be based on imaginary prices that might be offered by hypothetical independent acquirers of its assets and liabilities who are participants in non-existent markets” (Benston, 2008). Managers should therefore apply valuation models, and auditors needs to both challenge and subsequently verify these figures.

The nature of fair value is therefore imaginary and fictional, with a 'real market' never being obtainable, only estimations of market price (Power, 2010).

Fair value is obtained through the social construction of consensus among actors involved in the process (Power, 2010, Machado et al., 2015, Jeppesen and van Liempd, 2011). When enough people collectively share meaning, institutional 'facts' arise. Fair value, based on market value, is then seen as truth, and in turn is faithfully represented. However, in the absence of a liquid market, fair value may use level 2 or 3 inputs, resulting in estimation and modelling, hence the existence of subjectivity (Bratten and Bratten, 2013).

Asset characteristics such as condition, location and restriction, must be taken into account when determining the measurement of particular assets. This not only requires managers to determine those characteristics, but managers must also consider how market participants would consider these characteristics (Jeppesen and van Liempd, 2011). The auditor has responsibility for determining that characteristics chosen by management, represent the assumptions of market participants, which involve social construction. Similarly, in determining what are orderly market transactions, the auditor has to verify that management has consulted with, and is exposed to, the auditor in order to reach consensus.

Subjectivity also arises when management has to choose the valuation technique that is appropriate to the circumstances, given the availability of sufficient data (Jeppesen and van Liempd, 2011). Valuation techniques will depend upon the inputs available, i.e. level 1, 2 or 3 inputs. Management has to maximise the use of *observable* inputs over *unobservable* inputs. Auditors have to verify and challenge management assumptions, estimations and at the end, reach a consensus on valuation.

Professional judgement and subjectivity (in defining market, market participants, valuation techniques, and highest and best use) therefore exists when measuring the fair value of an asset (Jeppesen and van Liempd, 2011).

The fair value regime emphasizes the relationship among different systems of expertise that need to collaborate within the field, including auditors, appraisers and management. Fair value implementation has increased the requirements for managers to execute professional judgement. The judgement and subjectivity of preparers in estimating fair value will affect the quality of financial reporting. The evolution of fair value from historical cost has changed how accountants perceive the 'economic reality' of financial statements (Jeppesen and van Liempd, 2011). The growing prominence of fair value to financial reporting also increases its audit significance. Greater promulgation of the fair value concept has increased auditor engagement with fair value and complex estimates. The subjectivity and uncertainty within

fair value estimates create challenges for auditors when assessing the assumptions and values provided by preparers (Lee and Park, 2013, Griffith et al., 2013), and when auditors assess estimates (Griffith et al., 2013).

When a manager possesses limited ability and skill to assess fair value, the auditor will rely on an appraiser (specialist) as an alternative measurement benchmark (Glover et al., 2014), as is the case when auditors lack knowledge and expertise in fair value measurement (Jeppesen and van Liempd, 2011, Power, 2010), that can endanger auditing legitimacy (Jeppesen and van Liempd, 2011). As fair value extensively involves an appraiser's professional judgement (King, 2009), their role has become more prominent. Studies have explored the use of third party specialists in auditing (Joe et al., 2014, Griffith et al., 2013). Griffith et al. (2013) found that over reliance on appraisers, as well as auditor failure to obtain an understanding of managerial estimates and assumptions, have engendered lower audit quality. When professionals do not possess adequate competence, they might not be able to appropriately execute professional judgement, resulting in less reliable financial information.

4.3.3. Fair Value Regime and Modernity in Accounting

In the last three decades, accounting has been seen as a series of social and institutional acts involving individuals, entities and processes, which are then transformed to achieve particular goals (Miller, 1994). Accounting has the power to influence individuals and society. Hence it is necessary to explore accounting not only based on its practices and information generated from accounting practices, but also its influence on ways of thinking and social relations. Hence, understanding accounting as a regime is appropriate to describe this phenomenon (Jones and Dugdale, 2001), articulated as sets of discourses and social practices that aim to govern economic life through calculations and inscriptions that allow linkages to develop between the global and the local.

Giddens (1990) analysis of modernity is helpful in explaining the nature of the accounting regime. The modernity concept is influenced by Giddens' development of "structuration theory". According to Macintosh and Scapens (1990):

Structuration theory is concerned with the interplay of agents' actions and social structures in the production, reproduction, and regulation of any social order. Structures, existing in virtual time and space, and are drawn upon by agents as they act and interact in specific time-space settings, which are themselves the outcome of those actions and interactions.

Giddens suggest that social practices will both socialise (constitute) individuals as actors and realize (embody) structures. Structures and actions are social practice referred to as "different ways of looking at the same thing". Systems, such as accounting systems, are structured and

restructured in social practices. Hence, systems have structures, involving signification, legitimation and domination.

This paper does not focus on Giddens' structuration theory, but rather on the ways Giddens applies it toward the sociology of modernity, and to provide an understanding of accounting as a regime. According to Giddens (1990) "dynamism of modernity derives from the separation of time and space and their recombination ...". In modernity, time and space become separated and abstract. Time is standardised and space has uniform measurements. This standardisation and uniformity creates a vacuum from specific local physical settings because time and space becomes global. This process is referred to as "dis-embedding", defined as "the 'lifting out' of social relations from its local context and their restructuring across almost indefinite spans of time and space (Giddens, 1990).

In organisational studies, dis-embedding is the way a modern rationalised organisation associates the local with the global. Accounting contributes to the dis-embedding as a social practice, constructing information whereby concrete events and things are recreated as abstract values. It consists of measurement, technique and criteria, which move through time and space (Jones and Dugdale, 2001). Measurement is a complex process, with the data production generated from social construction emerging from a negotiated social order. Accounting supplies techniques, described as a transformation of data into information and criteria as an evaluation of the information against plans, standards and targets.

Along with the dis-embedding process, modernity also proposes a re-embedding process which is "the reappropriation of dis-embedded social relations so as to pin them down (however partially or transitorily) to local conditions of time and space" (Giddens, 1990, p. 79). With respect to accounting, the re-embedding of accounting as an institution is formed by the social relations of the local context whilst simultaneously shaping its own contexts.

During the dis-embedding process, Giddens (1990) proposes two mechanisms, i.e. *symbolic token* and *expert system*. The 'symbolic token' refers to money, and explains the transformation of data and information into monetary language (Jones and Dugdale, 2001). Meanwhile, the 'expert system' represents "systems of technical accomplishment or professional expertise that organise large areas of material and social environments in which we live today" (Giddens, 1990). Fair value, being part of IFRS, is changing the way data is transformed into monetary language (Machado et al., 2015), and the symbolic token is the use of estimation, judgement and the degree of subjectivity.

Giddens' concept of modernity also emphasises modern forms of risk and ways to create a sense of security related to them. He focuses on how to trust expertise in identifying and

managing risk, whilst maintaining awareness that expert systems are themselves not completely reliable and bearing their own risks. Risk is characteristic of modern life, representing unwanted results as consequences of actors' activities and decisions. Expertise might have limitations when faced with risk, hence Giddens identifies a necessary condition for modern life being 'trust'. Related to ontological security, trust refers to "the confidence that most human beings have in the continuity of their self-identity and in the constancy of their surrounding social and material contexts of action. A sense of the reliability of persons and things, so central to the notion of trust, is basic to feelings of ontological security" (Giddens, 1990, p. 92).

Accounting is one example of an institution of modernity that involves an expert system of providing assurance about guaranteed economic information, and its relationship with trust and risk (Jones and Dugdale, 2001). Modernity is characterised by trust within the expert system. Hence, the relationship between the expert system and the modern society, depends on trust, and a "belief in the credibility of a person or system, considering a given set of outcomes or events" (Giddens, 1990). In the context of modernity, trust in the system is more important than trust in the person. Nevertheless, trust in the system, supported by personal trust, will provide confidence surrounding risk within modern society (Giddens, 1990, Jones and Dugdale, 2001). Fair value is a symbolic token, where professionals, as technical experts, transform information and data into monetary units differently, through their own subjectivity and estimation. As modernity contains uncertainty risk, it needs trust when managing those risks (Jones and Dugdale, 2001).

An individual experts commitment to the knowledge and principles that underlie the expert system is not fixed, but is reflexive, in-turn influencing the extent of their trust on their own expert system (Gendron and Suddaby, 2004). An expert cannot be expert in all areas, hence forms of collaboration are needed when complex issues are faced (Smith-Lacroix et al., 2012). Auditors or managers subcontract valuation work to other expert domains, such as appraisers.

Fair value figures are obtained through social construction of consensus among market participants, as well as actors involved (Power, 2010, Jeppesen and van Liempd, 2011). Management has to provide an estimation based on what market participants would consider. Fair value figures represent different perceptions of value. Consensus on fair values also comes from experts within different expert domains, such as management, appraisers and auditors. As a consequence, auditing has changed. It is not only about correspondence with external reality or accepted criteria, but involves the social construction of reality and the achievement of consensus (Jeppesen and van Liempd, 2011).

This study investigates the concept and challenges of fair value, identifies the process of fair value construction, and discusses issues surrounding the degree of subjectivity and conflict among actors. Using Giddens (1990) theoretical lens, this paper focuses on the performance of expert systems in shaping accounting values, and the use of these systems as a means by which to build trust within the local accounting regime. It also explores the social construction of fair value, and its impact on reliability, in a setting without an active and liquid market. This study also embraces Hines (1991) perception of accounting information as not necessarily representing economic reality, but rather a new reality where ‘faithful representation’ is socially constructed. This will change on how fair value reliability is explained and reshaped within a local accounting regime.

4.4. Research Methodology

In order to investigate the process of construction of fair value and practitioner experience regarding fair value implementation, this study utilizes a qualitative research approach to provide a deeper understanding of fair value implementation in Indonesia. This study applies phenomenography, the main purpose of which is to investigate “the qualitatively different ways in which people experience or think about various phenomena” (Sherman and Webb, 1988). Chua (1986) proposed the interpretive paradigm to explain that people act based on the subjective meanings of actors. Hence, in order to understand their actions, it is necessary to understand how actors think.

This study conducted one-on-one semi-structured interviews with 26 stakeholders including 16 professionals, 6 regulators and 4 professional bodies. The interviews were between approximately 40-90 minutes in duration. Professionals having active processes in the measurement and verification of fair value include 5 preparers, 4 appraisers and 7 auditors. According to Sin (2010), this method is the most appropriate method for generating perceptions and understanding the processes surrounding a particular phenomenon. The regulators and professional bodies will provide an understanding of the regulatory system related to the expert system, and issues among professionals (experts) including levels of trust and degree of conflict.

Interviews were designed as open-ended. The study deconstructs IFRS 13 *Fair Value Measurement* in order to build a list of interview questions. The deconstruction of IFRS 13 aims to provide guidance in generating an understanding of the conception and construction of fair value. Participants were asked about the challenges of fair value implementation, in particular its understanding, conception and construction. Meanwhile, regulator and

professional body interviews were based on questions of accounting ecology (Gernon and Wallace, 1995)⁴¹, particularly related to accounting and the professional environment.

Interviews were conducted in the Indonesian language (*Bahasa Indonesia*) and took place at the participants' place of work. Interviews were recorded with the participant's consent. Audio data was then transcribed and translated into English. The study generated over 300 pages for thematic analysis. Documents were uploaded into the NVivo software program, to support thematic analysis. For data analysis, this study followed a 6 (six) phase process, as suggested by Braun and Clarke (2006). This involved; 1) data familiarization, 2) initial code generation, 3) theme search, 4) theme review, 5) theme definition and naming, and 6) report production. According to the data, this study identifies themes related to the concept of fair value, trust and reliability.

This study also uses secondary data including the official websites of regulators and professional associations, as well as data from newspapers, in order to provide a comprehensive understanding of the Indonesian context related to fair value implementation.

4.5. Discussion and Analysis

4.5.1. Fair Value Implementation in Indonesia: Local Context and Subjectivity

Fair value is seen as superior to historical cost in terms of economic valuation (Penman, 2007), and in most of the qualitative characteristics of financial reporting, with an exception for reliability (Herrmann et al., 2006). Within modern society, the accounting system brings together information and data from different sources and converts this into a monetary language, which represents a "symbolic token" to the accounting system (Jones and Dugdale, 2001). Fair value, as part of IFRS, has changed the way data is converted into monetary language.

Data availability, subjectivity of estimation, professional competence, and standard complexity, all influence the reliability of fair value measurement and how fair value is transformed into monetary language, within an Indonesian context. Given the complex nature of fair value estimation, implementation of fair value within IFRS is even more challenging in countries with unfavourable environments (Karampinis and Hevas, 2011).

Fair value is not a single definition, rather it consists of several valuation concepts and approaches when determining an exit price (Power, 2010). The nature of fair value is based on the concept of exit price and is market-based. The fair value standard introduced exit price

⁴¹ According to Gernon and Wallace (1995), accounting ecology consists of 5 elements, namely societal, organisational, individual, professional and accounting. The professional element involves the knowledge, training and competence of professionals. Meanwhile the accounting element includes accounting and auditing standards and enforcement mechanisms.

as the new concept replacing entry price. This concept states an exit price as *“the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”* (IFRS), 2015). It is a selling price, in contrast with an entry price which emphasises the payment amount for acquiring assets (acquisition price). Determining exit price needs to consider what assets are subject to measurement, the market of those assets and the valuation techniques (Jeppesen and van Liempd, 2011). Changing the paradigm from an entry to an exit price is not an easy process because the perspective of valuation changes from one of a buyer perspective into a seller perspective.

“The acquisition cost is used which is also called the entry price. It’s like representing the buyer. Meanwhile from the exit price, it is based on...fair value and represents the seller. If we want to sell at certain price, well, the seller hopes the highest economic potential, and the buyer will hope for the smallest. Then, the sellers will value the asset...using the highest and best use premise. For the appraisers, it’s very contradictive. That’s why they use the different basic value, in between the old and new one” (Interviewee 5 – Appraiser).

Professionals find it difficult to apply exit price for fair value. The subjectivity of determining an exit price is challenging not only for preparers or users, but also for auditors (Jeppesen and van Liempd, 2011) who engage in the auditing of fair value, where management assumptions, estimations and calculation techniques need to be reviewed (Glover et al., 2014, Bell and Bell, 2012).

“How do we decide the fair value from the given loan? If we apply an exit price, it means that for example, I have 10 billion credit. If I sell this credit to the other party, how much does he want to [pay]? We have to reach [an agreement]. The other party does not necessarily want to buy for 10 billion. He will look at the credibility of my customers” (Interviewee 21 - Auditor).

The key principle is that exit price should be based on the perspective of market participants. Previous accounting standards involving fair value did not take into account market participants, but IFRS 13 *Fair Value Measurement* emphasises market participants as important players in determining fair value. When no real transaction is available, market participants should assume a hypothetical transaction (Jeppesen and van Liempd, 2011, (IFRS), 2015). The transaction between market participants should be conducted as an ‘orderly transaction’. When an object is not available in the market or in the absence of an actual market, it is difficult to generate market value for an underlying asset, hence valuation techniques should be applied (Bell and Bell, 2012).

“If an orderly transaction is merged with the market participant, it means that it’s an open market. That is fair as it fits the market value. The problem is when the object is not available in the market...we must apply a valuation technique” (Interviewee 5 – Appraiser).

Determining the ‘principal’ market or the ‘most advantageous’ market can be challenging as there are often different interpretations between entities when determining principal market and the most advantageous market (Jeppesen and van Liempd, 2011). The principal market or most advantageous market refers to a market with the highest volume and activity ((IFRS), 2015). For financial instruments, assets are traded in the stock market, hence it is easier to obtain a quoted price. However, there is an issue for assets other than financial instruments which are not actively traded, hence preparers should apply calculation, estimation and modelling. Some assets will be measured based on areas that provide higher values, where markets participants have an incentive to undertake a transaction.

“I think that this should not be a problem if we talk about financial instruments. A market can be an interbank market or the stock market. So, I think that it’s not a problem. This will be a problem [however] if the commodity, let’s say in Jakarta and Jayapura, is different with regard to the value of the same asset” (Interviewee 21 - Auditor).

Fair value requires appropriate inputs into the valuation technique. The inputs could be observable or unobservable, and from a direct market price or adjusted market price. Direct quoted market prices without adjustment are categorised as level 1 inputs, while observable inputs, either adjusted comparable market price and non-market price for similar assets, are seen as level 2 inputs. Level 3 inputs are value generated from the modelling of unobservable value. Theoretically, level 1 inputs should be more reliable compared to level 2 and level 3 inputs because they are measured using the liquid market price for identical assets (Palea, 2014, Song and Song, 2010). When there is not enough market information, the objective of fair value measurement remains the same. i.e. determining exit price using a valuation technique. For assets other than financial assets or shares, such as property and land, Indonesia has no database for recording transactions based on transaction price ((MOF), 2013), making it difficult to generate data to effectively measure fair value. Similarly, for financial instruments, the Indonesian market is both inefficient and illiquid (Republika, 2015) as some stocks are not actively traded. Hence it is challenging to obtain a quoted price in an active market from an orderly transaction. Even though the application of Level 1 inputs is less challenging because they are observable, this is not the case in illiquid markets, resulting in less reliable market values (Milburn, 2008).

“For me, applying Level 1 inputs is also quite challenging given that some assets are not actively traded, hence it is difficult to get a quoted market, which can affect the reliability of fair value” (Interviewee 24 - Preparer).

The challenges in applying level 1 inputs when data is unavailable, results in the application of level 2 or level 3 inputs. Level 2 and 3 inputs are more challenging because of subjectivity,

estimations and assumptions (Lee and Park, 2013, Earley et al., 2012) and high degrees of information asymmetry (Palea, 2014). Level 3 inputs involve estimation and modelling, given that data are not available in the market and are unobservable. Fair value that is not based on market value is also known as marked-to-model, and is difficult to verify and threatens reliability (Benston, 2008). While observable inputs are based on market data, unobservable inputs reflect the assumptions of the entity or management about market participants ((IFRS), 2015).

“Well, level 3 inputs are due to assumptions. They heavily depend on assumptions, for example the interest rate. In fact, when we are making an assumption, we must have some basis upon [which] we can [obtain] the data, and whether the source is reliable or not. Hence they also affect fair value numbers” (Interviewee 26 – Appraiser).

The input level and data availability, define the technique used for calculating fair value. When fair value inputs are not directly observable, a valuation method should be applied (Carrington and Tirmén, 2014). There are three valuation techniques used in fair value; (1) market approach, (2) cost approach, and (3) income approach. The market approach uses prices and other relevant information obtained from market transactions involving comparable and identical assets. The income approach applies techniques to calculate projected cash flows based on current market expectations. Meanwhile, the cost approach calculates the amount required to replace the service capacity of assets, known as current replacement cost. Current replacement cost requires judgement for economic, physical and functional obsolescence when estimating replacement price for a particular comparable utility asset.

“It is because the market has limited data, that there will be an alternative to apply valuation techniques. Orderly, the first approach is market approach, income approach, and then the cost approach based on the data availability and appropriateness”. (Interview 5 – Appraiser).

Management must choose the most appropriate valuation technique and data that is sufficiently available. This involves subjectivity, where management uses their own assumptions and discretion in executing professional judgement (Jeppesen and van Liempd, 2011, Lee and Park, 2013) such as in projecting future cash flows (Ronen, 2008). Indonesia has limited market data, as well as for unobservable inputs, resulting in calculations being more judgemental and subjective.

“For example, we think that the discount rate is this much, then add it with the various market risks [present] in Indonesia. The challenge is not about getting the data, but [deciding] which data we will use” (Interviewee 4 - Preparer).

Fair value measurement for tangible non-financial assets will apply the highest and best use principle. This principle suggests that fair value must consider the ability of market

participants to be able to generate economic benefit from assets through use, or selling it to other participants who will use it in its highest and best use. The application of highest and best use has been found to be problematic in Indonesia. Indonesia has a unique environment. Urban planning and development, including zoning, are not well managed, and non-commercial buildings can exist within commercial areas ((IAI), 2013). Moreover, there is no data centre to analyse real estate transactions. A lack of data surrounding transaction values makes it difficult to provide a market value for assets ((MOF), 2013). Determining the highest and best use is challenging and is a source of uncertainty when assuring that fair values ‘faithfully’ represent economic reality.

“We value the land just like that. Then we value the building using depreciation. [That is] we build a new building minus depreciation. So, to get the value of the building, it should be the build value subtracted with depreciation. In addition, to get the value of the land, we subtract the obtained value of the land with the value of the building. I am both an accountant and appraiser. As an accountant, it [the value of the building] cannot be zero all of a sudden [even though the building has no economic value] [...] If we dare to take the HBU approach, it provides relevant information, but [from the perspective of an appraiser] that application may not be correct because the value of [the depreciated building] is supposed to be zero” (Interviewee 10 - Appraiser).

Implementation of fair value in Indonesia is challenging given that the institutional environment is not favourable and fair value standards are considered complex. The uncertainty of fair value estimates provides the possibility for managerial subjectivity and bias (Griffith et al., 2015a). Fair value is not defined singularly but is made up of a number of definitions and approaches when estimating an exit price (Power, 2010). However, even if management bias does not exist, there will be a considerable amount of uncertainty in the fair value estimates especially for fixed assets such as property (Selling and Nordlund, 2015).

The conception and social construction of fair value in this study focuses on how information and data is transformed into fair value amounts within Indonesia, that has an illiquid market (Reksamedia, 2014) as well as institutional weaknesses with regard to fair value implementation.

4.5.2. Fair Value: Risk, Trust and Reshaping of Reliability

Implementation of IFRS is challenging, whether in developed or emerging economies, however countries having unfavourable institutional environments face greater challenges (Karampinis and Hevas, 2011). Given that IFRS is characterised as fair value oriented, implementing fair value within an unfavourable environment also faces greater challenges. IFRS 13 *Fair Value Measurement* is inherently a principles-based, as opposed to rule-based standard, whereby only principles for recognition and measurement of transactions are provided. IFRS 13 requires judgement from professionals, hence the competence of those

professionals is paramount. Before IFRS convergence, Indonesian professionals were exposed to rule based accounting standards; hence they found difficulty in executing professional judgment when implementing IFRS because they had not been trained, or provided the power to question and form independent assessments or judgement. They primarily followed directions and implemented set rules. Moreover, in addition to needing to broadly understand the characteristics of principles-based standards, fair value is also complex, has high estimation uncertainties and involves higher subjectivities compared to other standards. Indonesia as an emerging country, has (1) an unfavourable local context in implementing fair value, including an illiquid capital market (Republika, 2015), (2) inappropriate urban development resulting in the existence of non-commercial buildings within commercially zoned areas ((IAI), 2013), (3) unavailability of databases for land and property transactions ((MOF), 2013), as well as (4) a lack of competent professionals (WorldBank, 2011).

Applying fair value raises problems of reliability and verifiability when assets have no observable market price (Barth, 2007) or the market is illiquid (Milburn, 2008, Chorafas, 2006). When a market is not available, fair value is generated through calculation and estimation, reflecting greater subjectivity. In applying the highest and best use principle within the Indonesian context, urban development and data centres are important factors in providing reliable fair value figures. Data centres manage data about land or property transactions and their transaction value. The local environment in Indonesia inherently has a higher degree of subjectivity and problems with fair value, given that professionals need to apply greater discretion and judgment when undertaking measurement. Applying fair value in an emerging economy and unfavourable environment raises issues of reliability. In the absence of an active market, applying fair value will impact subjectivity when measuring assets using complex estimates and valuation models (Machado et al., 2015).

“How is it in a developing country such as Indonesia? First, I assume all data limitations are quite significant. Second, it’s our infrastructure regulations. How we arrange good urban areas, how we have good land administration, and why hasn’t good land usage supported market production, which is reliable. These weaknesses make it difficult for appraisers to use reliable data. So, they use a lot of models. It’s the challenge in Indonesia. So if we want to use fair value, we need to improve our infrastructure. Unfortunately, no one supports that (Interviewee 5 – Appraiser).”

Estimation, assumptions, unavailability of data, subjectivity and discretion in measuring fair value will affect the reliability of fair value numbers (Chorafas, 2006). Reliability is an important qualitative characteristic of financial reporting, and is no longer to be identified with ‘verifiability’, but instead ‘faithful representation’ (Power, 2010, Barth, 2007). However,

the concept of reliability is dynamic, changing over time, having relative significance, which can be treated as social consensus (Ijiri and Jaedicke, 1966).

Fair value is constructed by consensus among actors involved in the process (Jeppesen and van Liempd, 2011, Power, 2010, Machado et al., 2015). Determining exit price from the perspective of market participants involves consensus, particularly the characteristics of assets or liabilities, such as their condition, location and any restrictions. Not only does the manager consider the assets characteristic, but he also has to think from the perspective of market participants. This leads to a “constructivist view of reality” (Hines, 1988), because fair value is constructed based on a market simulation process. Assets should be exchanged in an orderly transaction, based on the market participants’ construction of reality.

“An (orderly transaction) has to have a willing buyer and a willing seller...market participants...who will always be careful and possess knowledge. That’s what makes the orderly transaction. The transaction must happen without any force. (Interviewee 10 – Appraiser).

As a consequence, an auditor has to confirm that management discretion represents market participant assumptions and considerations. This situation illustrates that the auditor also participates in the social construction of reality regarding fair value, one that is based on consensus (Machado et al., 2015, Jeppesen and van Liempd, 2011).

Defining the principal market or the most advantageous market is a subjective process which could differ between entities based on the assumptions and discretion of management. Management will choose the market with the highest volume and activity, and an auditor should verify this judgement. This process is a social construction, in which the auditor is exposed to management discretion in achieving consensus (Jeppesen and van Liempd, 2011) about the principal market or the most advantageous market.

In the absence of an actual transaction, a hypothetical transaction should be assumed between market participants. This also represents social construction between market participants. The application of the highest and best use principle ensures that market participants consider the physical possibility, legal permission and financial feasibility of an asset. It provides a major change to the auditor paradigm because the auditor must have assurance about the validity of the management construction of those factors (Jeppesen and van Liempd, 2011). An exhaustive search is not necessary, but the entity and its auditor are required to make a subjective decision that assets can be used differently.

“The highest and best use is from the perspective of market participants, right? It depends on the market participants, either from the buyer or from us to decide the best use of this land [assets]” (Interviewee 21 – Auditor).

Similarly, determining valuation techniques is another example of subjectivity because management maximise the use of observable inputs and minimise the use of unobservable inputs. Management will use the value agreed between market participants or use the value available in the market, even though value is not reliable because it does not represent an orderly transaction due to illiquidity or non-active characteristics of the Indonesian market.

“When they don’t get the value in the market, they will use other [references] for that appraisal. So, when we use the quote of the market price, actually it may not be a natural value. But the value that can be used in the transaction can be used by both parties as a price to be negotiated and this is agreed as such. Thus, in Level 1 the market quote used here doesn’t really [provide] any problems. But when they are not in the market, like fixed assets and those related to them, they will directly refer to [the calculation and estimation made by] entity” (Interview 18 - Head of Compliance and Listing Division Indonesia Stock Exchange).

Based on the above explanation, determining fair value involves subjectivity in relation to determining particular assets, market price, highest and best use and the valuation technique. Recent developments have suggested that issues involving subjectivity have been outsourced to an independent valuator or appraiser (Power, 2010). When management and auditors lack competence and confidence in determining fair value, they will rely on appraisers (Joe et al., 2014) .

“The main issue is the appraisers roles, because like it or not, we talk about PSAK 68 to all our stakeholders. Even we expect the big Kantor Akuntan Publik (KAP)[accounting firm] to have an internal valuer whereby they can rely on the valuer for generating [fair value] figures [...] They all agree, that’s why the valuers’ role will be very crucial during PSAK 68 implementation” (Interviewee 22 - Head of Technical Team, Institute of Indonesia Chartered Accountants).

Nevertheless, even though the appraiser undertakes valuation, management still have overall responsibility for the estimations and calculations within financial statements, and the auditor is responsible for providing reasonable assurance of managerial estimates and values (Griffith et al., 2015a). An auditor cannot merely verify the reasonableness of fair value based on an ‘external reality’, but must verify based on the appraiser or management’s construction of fair value (Jeppesen and van Liempd, 2011). An auditor is required to verify management’s assumptions, which are based on the social construction of consensus among market participants (Power, 2010). Given that fair value calculations are subjective in nature, people have different perceptions about the assumptions and estimations included in the calculation.

“... I am happy that we use the appraiser quite well. We also have a pretty good auditor, one that can challenge each assumption that we develop, but an assumption is only an assumption, despite it being agreed and developed by management. Even though a person will say, “oh that is only an assumption, by an appraiser or an actuary” it is still agreed by management. Referring to what happened, the appraiser is not questioned, but management is. Why is x percent used, why is discount rate x percent used, right?” (Interviewee 24 – Preparer).

Based on the above explanation, fair value has reshaped the reliability concept, to a point where the achievement of reality is difficult. Instead it is a social construction of reality, achieved through consensus (Jeppesen and van Liempd, 2011, Power, 2010). Fair value reflects the social construction of consensus among experts, and it affects the expert system of professionals involved i.e. management, appraisers and auditors. Consensus becomes the key factor in fair value reliability (Power, 2010, Machado et al., 2015, Jeppesen and van Liempd, 2011).

IFRS 13 *Fair Value Measurement* or PSAK 68 is inherently characterised as a standard with high uncertainty and subjectivity. With regard to reliability, the uncertainties and subjectivities of fair value can be construed as acceptable ‘facts’. The objective of accounting is no longer to report based on economic ‘reality’ but on social construction of consensus (Jeppesen and van Liempd, 2011, Power, 2010). Management compiles a set of relevant information at the measurement date, which consider the assumptions that market participants would take. The construction of management is exposed to the auditor, who then verifies, resulting in the achievement of consensus for fair value figures.

Fair value has also substantially changed the expertise within accounting where an auditor “outsources” the opinion in terms of relying on other experts for valuation (Power, 2010). Fair value suggests that auditors need to review the valuations provided by appraisers to be assured that the valuation is trustworthy (Smith-Lacroix et al., 2012). Previously, an auditor verified the reasonableness of accounting numbers based on external economic reality, and in accordance with established criteria based on GAAP. Currently, in the fair value regime, the auditor, under particular circumstances, is also required to develop his estimates to evaluate management estimates (Jeppesen and van Liempd, 2011).

Fair value as a symbolic token within modern society, which changes how data is transformed into monetary accounts (Jones and Dugdale, 2001). The accounting system in modern society involves trust and risk. Modernity is characterised by the trust in the abstract system of ‘expertise’, which can be delegated to various parties. Giddens (1990) suggests this situation requires trusting not only in the system (methods and principles) but also in the person or

individual ‘expert’. The outsourcing of valuation to appraisers may raise a conflict among expert systems, especially between auditors and appraisers (Smith-Lacroix et al., 2012).

“It’s politic. The appraisers want to appraise so that they get a job. They lobby (the regulator) so that they can get a job. In fact, it is not stated in global IFRS that a valuation needs an appraiser” (Interviewee 6 – Auditor).

Fair value has consequences where auditors and management rely on another domain of expertise, i.e appraiser. Auditors have to judge whether an appraiser’s expertise is trustworthy (Smith-Lacroix et al., 2012). Auditors question whether they should follow a designated method (and place trust in the system) and also whether appraisers hold adequate knowledge to conduct the valuation (placing trust in the person). Building trust is not easy, and it has been found that trust and doubt are intertwined during the implementation of fair value (Smith-Lacroix et al., 2012).

“It needs appraisal [...] However, the auditor still needs to verify (the figures) [...] It is used to determine the reasonableness of the methodology. The appraiser is the one who knows it in detail, but he still needs to use his competency to determine whether the model or the assumption is reasonable or not, whether the projected cash flow makes sense or not, and whether the cash flow is supported by reliable calculations or not [...] We will [need to] use the valuation method if it’s not observable. The challenge is whether the appraisal/valuer company is professional or not. I’m worried that it will keep changing without having strong evidence to support changes in assumption. I’m also worried that one appraiser will be different to another appraiser although the circumstances remain the same... It’s important that the appraisal office be professional” (Interviewee 7 – Auditor).

Regardless of doubts among system experts regarding the implementation of fair value, collaborative relationships are necessary. Experts such as management, appraisers and auditors seek consensus in the implementation of fair value. An expert cannot be a master in all areas and need to work collaboratively in complex tasks. “The auditor [...] cannot be expected to have detailed knowledge and experience of specialists in other disciplines but he/she must nevertheless form an opinion of inter alia the need for specialist evidence and the competence and objectivity of the specialist” (Power, 1996).

4.6. Conclusions

IFRS are a set of principle-based standards developed in Anglo-Saxon countries that also possess fair value orientation. Principle-based, as opposed to rule based standards, requires a high degree of professional judgment from professionals in generating accounting figures. Indonesia has converged its national accounting standards to IFRS and has been effectively implementing these since 2012. Indonesia is an emerging country, having however an unfavourable environment in terms of IFRS implementation, and particularly fair value implementation. It has an illiquid capital market (Republika, 2015), inappropriate urban

development resulting in the existence of non-commercial buildings within commercially zoned areas ((IAI), 2013), unavailability of databases for land and property transactions ((MOF), 2013), as well as a lack of competent professionals (WorldBank, 2011). Hence, implementation of IFRS and fair value with its complexity is challenging in Indonesia, particularly when dealing with executing professional judgement because historically, Indonesian professionals were more exposed to rule-based standards.

This study aims to investigate the construction of fair value, by discussing the subjectivity and challenges surrounding fair value with respect to reliability. It takes into account the conflict issues among experts within Giddens (1990) analysis of modernity, and the theoretical lens of trust and risk within an Indonesian context, having no active and illiquid capital market particularly related to fair value implementation. Modernity suggests two disembedded mechanisms i.e. symbolic token and expert system. Accounting system, particularly fair value which is also known as a current accounting regime, is a symbolic token that has changed the way information is transformed into monetary accounts by the application of judgment, estimation and calculation. Meanwhile, the expert system refers to professional expertise, and the organisation of the social environment, and the large quantity of material gathered by experts and actors involved in the valuation and verification process surrounding fair value, which include the manager, appraiser and auditor.

The current accounting system is a reflection of modernity, as suggested by Giddens (1990), which explains the complexity of social inter-relationships between actors. Data is constructed subjectively by considering what market participants would consider, and experts will then achieve consensus regarding the fair value figure. The prominence of fair value highlights the relationship between different systems of expertise (Smith-Lacroix et al., 2012). Some forms of collaboration are needed among experts, i.e. management, appraisers and auditors, when applying fair value through a complex standard. Fair value implementation highlights and represents inter-jurisdictional relationships, whereby different systems of expertise collaborate in a field. Management and auditors depend on appraisers because valuation is seen as beyond the skills of the preparer and auditor.

Actors in the fair value system provide substantial input and the joint work of experts with different capabilities engenders power conflict (Machado et al., 2015). Conflicts occur while actors search for consensus, and of particular relevance is the trust auditors place in appraisers. However, both auditor and appraiser constantly seek consensus regarding fair value (Jeppesen and van Liempd, 2011) and do collaborative work (Smith-Lacroix et al., 2012) while applying fair value.

Some factors have negative connotations and provide risks to the expert system. These factors include Indonesia's unfavourable environment when applying fair value, which provides risks to the system. They involve difficulties in measuring fair value data as well as a lack of clarity between urban and infrastructure development, inactive markets, unavailability of databases for land and property transactions, and the low skills of professionals. Fair value has been demonstrated to have been implemented with a greater degree of success in countries with favourable financial reporting environments and a well-functioning capital market (Barlev and Haddad, 2007, Ball, 2006, Penman, 2007). The lack of key elements to support a well-functioning capital market will inhibit successful implementation of fair value in emerging economies (Peng and Bewley, 2010).

This study supports the argument by Power (2010) of the necessity to reshape the concept of reliability. Reliability is an important qualitative characteristic which places emphasis on truthful representation instead of verifiability (Power, 2015, Barth, 2007). However, due to greater subjectivity, inherent complexity and uncertainties in generating market information, fair value reliability becomes one of social construction, based on the arguments and beliefs of experts. This also supports the argument that the concept of a "true and fair view" is actually a vision of reality of a particular social group (Macintosh, 2009). With regard to trust in the modernity, this study supports the argument that trust is a necessary condition in the modern world when faced with risks (Giddens, 1990, Jones and Dugdale, 2001). Trust in a system such as an accounting system is unavoidable; hence there will be continuing attempts to secure the trust of people involved in the accounting system.

This research discusses reliability in a wider social sense, questioning the economic 'reality' concept represented by accounting numbers (Hines, 1988), as it is impossible to assume this 'reality' as something objective. It is instead socially constructed, as is accounting itself more broadly. When fair value is not directly observable by the market, valuation techniques will be applied (Bougen and Young, 2012, Barlev and Haddad, 2003, (IFRS), 2015), which ultimately are subject to 'judgments' by different experts.

This research provides a number of implications. First, reliability, previously known as faithful representation, has changed to one of social construction of consensus, particularly consensus of what constitutes 'reality'. Second, fair value, known as symbolic token, has changed the way data and information is transformed into a monetary language. Work is collaborative among different domains of expert systems. Third, implementation of fair value within emerging economies characterised by different institutional, educational, cultural and social backgrounds, provide different conceptions and constructions of fair value, which result in issues of conflict and trust among expert systems.

4.7. References

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4.8. Appendices

Appendix 4.1. List and Detail of Interviews and Interviewees

No	Date	Group of Participants	Code	Role
1	12-May-15	Regulator	Interviewee 1	Senior Advisor Capital Market Supervision of Financial Service Authority
2	13-May-15	Preparer	Interviewee 2	Head of Accounting Public Listed Company
3	16-May-15	Auditor	Interviewee 3	Audit Firm
4	26-May-15	Preparer	Interviewee 4	Head of Accounting Public Listed Company
5	27-May-15	Appraiser	Interviewee 5	Appraiser Firm
6	28-May-15	Auditor/Professional body	Interviewee 6	Audit Firm/Chairman of Indonesia Accounting Standard Board
7	28-May-15	Auditor	Interviewee 7	Audit Firm
8	28-May-15	Auditor	Interviewee 8	Audit Firm
9	29-May-15	Preparer	Interviewee 9	Head of Accounting Public Listed Company
10	29-May-15	Appraiser/Regulator	Interviewee 10	Appraiser Firm/Center of Financial Profession Development
11	1-Jun-15	Regulator	Interviewee 11	Senior analyst of Banking Industry of Financial Service Authority and member of Working Group of IFRS
12	1-Jun-15	Professional body	Interviewee 12	Member of National Council-Institute of Indonesia Chartered Accountants
13	1-Jun-15	Professional body	Interviewee 13	Technical Advisor IFRS Implementation-Institute of Indonesia Chartered Accountants
14	6-Jun-15	Professional body	Interviewee 14	Member of Indonesia Accounting Standard Board
15	9-Jun-15	Auditor	Interviewee 15	Audit Firm
16	9-Jun-15	Appraiser	Interviewee 16	Company Value Advisory of Audit Firm
17	10-Jun-15	Regulator	Interviewee 17	Head of Center of Financial Profession Development
18	10-Jun-15	Regulator	Interviewee 18	Head of Compliance and Listing Division Indonesia Stock Exchange
19	10-Jun-15	Regulator	Interviewee 19	Supervisor-Issuer Valuation and Monitoring Indonesia Stock Exchange
20	10-Jun-15	Regulator	Interviewee 20	Senior Officer-Issuer Valuation and Monitoring Indonesia Stock Exchange
21	12-Jun-15	Auditor/Professional body	Interviewee 21	Accounting Firm and IFRS Implementation team of Institute of Indonesia Chartered Accountants
22	12-Jun-15	Professional body	Interviewee 22	Head of Technical Team- Institute of Indonesia Chartered Accountants
23	12-Jun-15	Preparer	Interviewee 23	Head of Accounting Public Listed Company
24	15-Jun-15	Preparer	Interviewee 24	Head of Accounting Public Listed Company
25	15-Jun-15	Auditor/Professional body	Interviewee 25	Audit Firm and Secretary of Indonesia Institute of Public Accountant
26	19-Jun-15	Appraiser	Interviewee 26	Appraiser Firm

Appendix 4.2. Questionnaire

Based on IFRS 13 *Fair Value Measurement* or *Pernyataan Standar Akuntansi Keuangan 68 (PSAK 68)* [Statement of Financial Accounting Standard No. 68]

Market participant

The determination (definition) of a potential market participant (para 9) is a critical step in the determination of fair value. In developing assumptions of market participants, an entity need not already have identified specific market participants. Rather, it should develop a profile of potential market participants by considering some factors such as *(a) the specification of asset or liability, (b) the principal (or most advantageous) market for the asset or liability; and (c) market participants with whom the entity would enter into a transaction* (para 22).

13. Based on your experience, what problems (if any) do you foresee, or have experienced to date, in identifying who is a market participant?

Principal and Most Advantageous Market

To determine the *principal market*, management needs to evaluate the level of activity in different markets and document which particular market price is used and what process was followed to determine the appropriate market to use for determining fair value. The *most advantageous market* is ‘The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs’ (IFRS 13.A).

14. What problems (if any) do you anticipate, or have experienced to date, when determining a “*principal market*” and/or the “*most advantageous market*” when undertaking fair value measurement?

Assets and Liabilities

The extent to which a market participant takes the characteristics of the asset and liability (*including location, conditions and restrictions*) into account when pricing it at measurement date is crucial. (para 11)

15. What challenges (if any) do you foresee, or have experienced to date, in determining the *characteristic of an asset and liability* when determining their fair value?

Fair value measurement may be applied to a stand-alone asset or liability (for example, an equity security, investment property or an intangible asset) or a group of related assets and/or liabilities (for example, a business), depending on the circumstances. The determination of how fair value measurement applies depends on the *unit of account* (para 14). The unit of account is determined based on the level at which the asset or liability is aggregated or disaggregated in accordance with the IFRS requirements applicable to the particular asset or liability being measured.

16. What problems (if any) do you anticipate, or have experienced to date, in determining the “*unit of account*” when undertaking fair value measurement?

The price

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions, being an *exit price*, regardless of whether that price is directly observable or estimated using another valuation technique (para 24).

17. What problems (if any) do you foresee, or have experienced to date, when using *exit price* as a basis for undertaking fair value measurement?

Application to Non-financial assets

Fair value of an asset is required to be determined using its *highest and best use* (para 27). The highest and best use of a non-financial asset takes into account the use of the asset that is *physically possible, legally permissible and financially feasible* (para 28).

18. What problems (if any) do you expect to encounter, or have encountered to date, in applying the “*highest and best use*” principle for measuring a non-financial asset?

Liabilities and entity’s own equity instruments

The transferral concept for liabilities clarifies the previous IFRS definition of fair value, which required fair value for liabilities to be “*the amount for which a liability could be settled, between knowledgeable willing parties...*”. Liabilities can be settled by extinguishing or transferring them to another party. IFRS 13 clarifies that fair value is not based on the price to settle a liability (*settlement value*) with the existing counterparty, but rather to transfer it to a market participant (*transfer value*) of equal credit standing on the measurement date (para 34).

19. What problems (if any) do you anticipate, or have experienced to date, in using *transfer value* compared to *settlement value* when measuring the fair value of liabilities?

When a quoted price for the transfer of an identical or a similar liability or entity’s own equity instrument is not available and the identical item is held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument from the perspective of a market participant that holds the identical item as an asset at the measurement date (para 37).

20. What problems (if any) do you expect to encounter, or have encountered to date, when measuring your liability or your own equity instrument based on assets held by other market participants?

When a quoted price for the transfer of an identical or a similar liability or entity’s own equity instrument is not available and the identical item is not held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument using a valuation technique from the perspective of a market participant that owes the liability or has issued the claim on equity (para 40).

21. What problems (if any) do you expect to encounter, or have encountered to date, when measuring your liability or your own equity instrument based on the market participant that owes the liability or has issued the claim on equity?

Fair value at initial recognition

Transaction prices may not equal fair value. Fair value under IFRS 13 is based on an exit price concept (para 57). Transaction prices are not always representative of exit prices, although in many cases they are.

22. What problems (if any) do you expect to encounter, or have encountered to date, in measuring the *initial recognition* of assets and liabilities under this ‘exit price’ measurement approach?

Valuation techniques

There are three (3) valuation techniques or approaches for fair value measurement; (a) market, (b) cost, and (c) income.

The *market approach* is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities, or group of assets and liabilities, such as businesses (Appendix A)

23. What challenges (if any) do you anticipate, or have encountered to date, in applying the *market approach* to valuation?

The *cost approach* is a valuation technique which reflects the amount that would be currently required to replace the service capacity of an asset (often referred to as current replacement cost). (Appendix A)

24. What challenges (if any) do you anticipate, or have encountered to date, in using the *cost approach* to valuation?

The *income approach* is a valuation technique that converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. Fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts. (Appendix A)

17. What challenges (if any) do you anticipate, or have encountered to date, in using the *income approach* to valuation?

Inputs to valuation techniques

Determining the significance of a particular input to a fair value measurement is a matter of judgement. Valuation techniques used to measure fair value shall maximise the use of

relevant observable inputs and minimise the use of unobservable inputs. There are three Level inputs to fair value measurement; Level 1, Level 2 and Level 3.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date (para 76).

18. What problems (if any) do you foresee, or have experienced to date, in applying Level 1 inputs within Indonesia?

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including the quoted price for similar assets and liabilities in active or inactive market and inputs other than quoted prices. (para 81)

19. What problems (if any) do you foresee, or have experienced to date, in applying Level 2 inputs within Indonesia?

Level 3 inputs are unobservable inputs for the asset or liability. Developed using best information available in the circumstances, including entity's own data and adjusted with other market participant data. (para 86)

20. What problems (if any) do you foresee, or have experienced to date, in applying Level 3 inputs within Indonesia?

Chapter 5: Conclusion

This chapter provides a summary of the research, including overall findings and implications, recommendations for IFRS implementation in emerging countries, and limitations and suggestions for further research. This chapter ends with an overall conclusion.

5.1. Overview

The aim of the thesis is to examine the context and impact of the local accounting environment on the outcome of IFRS convergence and implementation. In order to achieve this aim, the thesis has the following objectives: (1) to examine the facilitating and impeding factors within the Indonesian accounting environment influencing the extent of success of IFRS implementation; (2) to investigate the institutionalisation of IFRS, with a particular focus on fair value; (3) to investigate the understanding and construction of fair value, and the transformation of the concept of reliability within an Indonesian context. Chapter 2 seeks to achieve the first objective by applying the Gernon and Wallace (1995) accounting ecology framework to explain the accounting environment within an Indonesian local context, and to investigate the contextual factors influencing IFRS implementation. Chapter 3 investigates objective 2 by analysing the efforts of actors and their purposive actions in the institutionalisation of IFRS and fair value. Chapter 4 seeks to address objective 3 by illustrating how fair value is constructed, and how reliability is transformed, by considering trust and risk within the expert system. The following sections present a summary of the findings of the study, the contribution and implications of these findings, limitations of the study, suggestions for further research in the field, followed by overall conclusion.

5.2. Summary

This thesis provides evidence that accounting is essentially embedded within its particular local context of jurisdiction. This local context, involving the political, economic and cultural domains, cannot be isolated from IFRS convergence and implementation. It is an essential part of it. Contextual factors influence the degree of success of IFRS implementation, which in turn influences *de facto* comparability of financial reports. The process of convergence is not only about adoption of IFRS or *de jure* harmonisation, but is also related to implementation. Given that adopting countries around the world have different localised accounting environments, *de jure* harmonisation is not automatically followed by *de facto* harmonisation. The contextual factors and their implications are discussed in the three papers outlined below.

Paper 1 (chapter 2) investigates the local context of the accounting environment in Indonesia using the accounting ecology framework proposed by Gernon and Wallace (1995). Indonesia has unique societal, organisational, individual, professional and accounting environments which are different from Anglo-Saxon countries, where IFRS was developed. IAI has initiated a convergence of Indonesian accounting standards with IFRS, which has been followed by a commitment by the Indonesian government as part of its international membership to bodies such as the G20. IFRS are essentially principles-based standards with a fair value orientation. This raises specific issues and challenges in Indonesia. Fair value remains controversial in both Anglo and non-Anglo Saxon countries, given that it has a high degree of subjectivity and uncertainty. Paper 2 (chapter 3) investigates the institutionalisation of fair value involving the role of local actors. Institutionalisation of fair value is influenced by the local actors conducting institutional work consisting of political, technical and cultural work (Perkmann and Spicer, 2008). The purpose of paper 3 (chapter 4) is to investigate the construction of fair value and how it affects the reliability concept. The concept of reliability has changed over time from one of verifiability and truthful representation, to social construction of consensus. IFRS and fair value are the current regimes in accounting, which also represent modernity in accounting.

5.3. Findings

The findings highlight potential issues surrounding IFRS convergence within an Indonesian context. IFRS has been developed, discussed, and debated in Anglo-Saxon countries, and has been implemented in more than 100 countries around the world to date, each having different local accounting environments. The local context of each jurisdiction influences the interpretation and application of IFRS and degree of comparability of financial reporting. Hence, it is important to investigate the accounting environment in a jurisdiction considered as having different institutional settings to those where IFRS was developed. Previous studies have found that emerging countries that did not have an Anglo-American or common law legal framework faced more challenges during IFRS implementation (Albu et al., 2013, Alp and Ustundag, 2009, Jain, 2011, Bhattacharjee, 2009, Irvine, 2008).

In 2004, Indonesia made its first public pronouncement regarding IFRS convergence, with implementation by 2008, which due to challenges, was postponed until 2012. Hence, since 2012, Indonesian public companies have been required to implement all applicable IFRSs codified into PSAKs. The Indonesian government has also committed to follow the agreement of G20 countries to adopt IFRS as a single set of global accounting standards to enhance financial report credibility. The first phase of IFRS convergence in Indonesia has been in place since 2012, whereby 95% of IFRS has been adopted and codified into PSAK. In 2014,

Indonesia announced the second phase of IFRS convergence, with the objective of reducing the gap between IFRS and PSAK.

IFRS convergence in Indonesia has not been without challenges. The local context of any accounting environment cannot be ignored as an important aspect in successful IFRS implementation. The principles-based and fair value orientation of IFRS has resulted in implementation difficulties. Due to extensive requirements for estimation and judgement, fair value standards are controversial (Zhang et al., 2012) and challenging, not only in advanced markets such as Europe (Gebhardt, 2012) but also in emerging economies such as China (He et al., 2012).

5.3.1. The Critical Success Factors of IFRS Implementation in an Emerging Economy: The Case of Indonesia

This paper delivers an understanding of how the local context of an accounting environment influences or is influenced by IFRS convergence and implementation. The local Indonesian context has been identified holistically using the *accounting ecology framework* proposed by Gernon and Wallace (1995) consisting of five separate but intersecting elements i.e. societal, organisational, individual, professional and accounting environments. Based on an analysis of those elements, this thesis identifies certain challenges regarding IFRS implementation within an Indonesian context.

The main challenges and problems include the lack of legal backing and enforcement, the lack of coherent regulations, difficulties in implementation of complex standards such as fair value, and the lack of professional competence when executing professional judgement. Incoherent regulations and synchronicity between taxation law, capital market requirements and company law are hampering IFRS implementation within Indonesia. Tax regulators are still deliberating as to whether they will, or will not adopt IFRS. Indonesia company law also creates challenges, as it requires Indonesian companies to comply with Indonesian accounting standards instead of IFRS in preparing financial reports. Even though the financial services authority of Indonesia (*Otoritas Jasa Keuangan* or OJK) issues regulations related to IFRS, and has an authority to regulate capital market activities, enforcement is not effectively applied and is not backed up by accounting laws or financial reporting laws that regulate how companies implement IFRS.

Therefore, it is important to strengthen law enforcement and synchronise regulations. Regulators must have the same orientation as to how accounting standards and practices in Indonesia will be developed and applied. Accounting regulatory bodies also have to issue

regulations and laws to support IFRS implementation, including financial reporting law and accounting law.

IFRS are characterised as principle-based standards which creates problems when there is an absence of competence professionals to execute professional judgement. A lack of competence has also been identified as a major challenge to the exercise of professional judgement. Indonesian professionals face even greater challenges with a complex standard such as fair value. The problem is amplified by the lack of appropriate training, education, and IFRS practical guidance for users, including preparers, public accountants and other professionals such as appraisers.

Moreover, given that English is not a first language in Indonesia, IFRS requires translation into the native Bahasa Indonesia, creating further problems surrounding translation and interpretation. Professionals draw on professional judgement for recognition, measurement and presentation of financial reports. Professionals who do not have adequate training and education, find difficulties in applying principles-based standards. Hence ongoing professional education and training programs are critical in being able to enhance professional competence. Some professional education programs, such as continuing professional development programs will enhance professional skills, and help accountants engage in critical thinking whilst executing professional judgement. In order to overcome problems of interpretation, this thesis also suggests the IAI issue practical guidance for IFRSs. The shift from rules-based to principles-based standards, and different professional qualification levels, have resulted in interpretation problems.

5.3.2. The Influence of the Localised Accounting Environment and Institutional Works in the Institutionalisation of Fair Value Accounting in Indonesia

This thesis finds that fair value is technically challenging in nature and involves estimation uncertainties and assumptions. The local context influences fair value implementation, especially on how fair value is institutionalised within an Indonesian context. Institutionalisation of IFRS and fair value depends on the roles of local actors, having their own interests and seeking legitimacies. The purposive actions of individual or collective actors and the sectional interests and search for legitimacy that motivate these actors, influence the institutional and local context in which IFRS ultimately operates. Using the framework of institutional work (Lawrence and Suddaby, 2006), this thesis finds actors conduct political, technical and cultural works (Perkmann and Spicer, 2008) in making IFRS and fair value institutionalised.

Political work aims to establish the regulatory frameworks in the institutionalisation of IFRS and fair value within an Indonesian context. It also involves the endorsement of IFRS and the promotion of fair value as a standard possessing more relevant information, showing the *advocacy* works. The political works also involve *vesting* (Perkmann and Spicer, 2008, Lawrence and Suddaby, 2006) by conferring certain authority, roles and power from Indonesian regulatory bodies to specific groups having specific interests in the new accounting system i.e. accounting professional bodies. Actors also conduct political work by *defining work*, creating rules or constitutive rules enabling institutional action. It involves registration and certification programs for professionals, and defining works and membership.

Meanwhile, technical work refers to efforts conducted by actors to make institutions fit into a particular context, by constructing mental model as a cognitive pillar of an institution. Professionals and their associations mainly conduct technical work. They are actors having strong technical legitimacy and play significant roles in supporting fair value institutionalisation and implementation. As self-regulatory bodies, they demonstrate their attempt at the institutionalisation of fair value through the provision of standards, and education and training for their members. Professional bodies conduct technical work by *standardisation* (Lawrence and Suddaby, 2006, Perkmann and Spicer, 2007) of accounting practice, notably fair value which has been codified into an official standard IFRS 13 *Fair Value Measurement*. While preparers apply fair value standards, auditors conduct auditing process based on audit standards for fair value and complex estimates. Similarly, appraisers conduct valuation based on a valuation standard, which has been aligned with the fair value standard. There is a continuing attempt to harmonise standards among professional bodies involving accounting, auditing and valuation standards.

Professional bodies also provide consultation regarding fair value implementation for their members and for broader society, including companies and non-governmental organisations. Accordingly, the large audit firms provide consultation and training for their clients, and are in a better position to overcome problems of fair value estimation and calculation. Together with regulatory bodies, professionals identify challenges and outline guidance and solutions, which can be routinely implemented by organisations.

With regard to cultural work, Indonesian professionals seek to expand their knowledge jurisdiction and create their identities (Perkmann and Spicer, 2008). Preparers and auditors are required to expand their knowledge, whereby they must deal with assumptions, measurement and estimation uncertainties regarding fair value. Preparers must hold adequate knowledge and competency in order to provide assurance that fair value has been measured reliably.

Meanwhile, the auditor no longer solely provides opinions about the fairness of financial report, but also challenges the numbers provided by the preparer or valuer.

The effects of the political, technical and cultural works are stronger when those works are deployed concurrently. The combination of those three works will promote the success of institutionalisation of IFRS and fair value in the Indonesian context rather than any single type of institutional work. Moreover, successful institutionalisation requires actions from actors from different levels and affiliations. Political works are conducted by regulatory and professional bodies, while professionals and their associations work in collaboration in conducting technical and cultural works.

5.3.3. Fair Value Implementation within Indonesian Context: Modernity in Accounting and The Reshaping of Reliability

This thesis also aims to provide an understanding of how accounting regimes and modernisation change the way information is transformed into monetary units through expert systems. The current accounting regime such as IFRS, particularly fair value, has changed the way information is transformed into monetary units, through greater reliance on independent judgment, estimation and calculation. The expert system gathers the actors who possess expertise in the valuation and verification process of fair value, including the manager, appraiser and auditor. The regime of fair value has also changed our understanding of the reliability concept, from one of economic reality to that of social construction by consensus. Real market value as a basis for fair value cannot be independently obtained, instead there is only consensus of estimates between actors involved in the process (Power, 2010, Jeppesen and van Liempd, 2011, Machado et al., 2015) .

IFRS is a current accounting system reflecting a modernity as suggested by Giddens (1990), which explains the complexity of social inter-relationships between actors. Fair value as part of IFRS also reflects modernity, whereby it also involves social inter-relationships between actors. The prominence of fair value places emphasis on the relationship between different systems of expertise. Data is constructed subjectively by considering what market participants would consider, with experts eventually achieving consensus regarding the fair value figure. Collaboration is required among experts, i.e. management, appraisers and auditors when applying fair value as it involves complex estimates. Expert systems in Indonesia, involve a degree of trust and risk in the fair value regime. There is a need to understand how fair value is constructed based on local contextual factors, including the absence of an active and liquid market for certain assets, coupled with the lack of a sufficient level of professional competence by professionals. Fair value will be mainly based on unobservable data, requiring estimation, assumption and consensus among actors and market participants Even though

there are a number of actors involved the fair value system, the joint work of experts with different capabilities brings power conflict (Machado et al., 2015). This thesis finds that conflicts present themselves whilst actors search for consensus, an example being the trust auditors place in appraisers. However, they constantly seek for consensus of fair value and do collaborative works.

Table 7. Summary of The Thesis

International Financial Reporting Standards (IFRS) Convergence in Indonesia : Contextual Factors and Fair Value Implementation		
Paper 1: Critical Success Factors effecting IFRS Implementation within an Emerging Economy: The Case of Indonesia	Paper 2: The Influence of the Localised Accounting Environment and Institutional Work in the Institutionalisation of Fair Value Accounting in Indonesia	Paper 3: Fair Value Implementation within an Indonesian Context: Modernity in Accounting and The Reshaping of Reliability
Purpose: To investigate the critical success factors surrounding successful IFRS implementation within an Indonesian context.	Purpose: Analyse efforts of actors and their purposive actions in the institutionalisation process of fair value within an Indonesian context.	Purpose: Analyse the construction of fair value, discuss the subjectivity and challenges of fair value with respect to the concept of reliability, taking into account conflict issues among experts.
Research Question: What are the success factors of IFRS implementation within an Indonesian context?	Research Question: What is the process for institutionalisation of fair value in Indonesia?	Research Question: How are the construction of fair value and its relation to the concept of reliability in Indonesian context?
Design/Methodology/Approach: <ul style="list-style-type: none"> Accounting Ecology Framework (Gernon and Wallace, 1995). Primary data obtained through interviews and secondary data obtained from press releases, newspapers and official websites of regulatory and professional bodies. 	Design/Methodology/Approach: <ul style="list-style-type: none"> Institutional work which elaborates on Lawrence and Suddaby (2006) and Perkmann and Spicer (2008). Primary data obtained through interviews and secondary data obtained from press releases, newspapers and official websites of regulatory and professional bodies. Inductive thematic analysis was conducted to generate themes based on the data observation. 	Design/Methodology/Approach: <ul style="list-style-type: none"> The concept of reliability (Power, 2010) and modernity in accounting (Giddens, 1990). Primary data obtained through interviews and secondary data obtained from press releases, newspapers and official websites of regulatory and professional bodies. Phenomenography analysis was conducted to understand people experiences or thoughts about various phenomena.
Findings: <ul style="list-style-type: none"> The main challenges and problems that have been identified related to the Indonesian local context include the lack of legal backing and enforcement, the lack of professional competence especially in executing professional judgement, the lack of coherent regulations and the difficulties in the implementation of complex standards such as fair value The critical success factors for IFRS implementation are to strengthen law enforcement and synchronise regulations. Regulators must have the same orientation regarding how accounting standards and practices in Indonesia will be 	Findings: <ul style="list-style-type: none"> Various Indonesian local actors from different levels conduct multiple institutional works, involving political, technical and cultural works. Political work aims to establish the regulatory frameworks in the institutionalisation of IFRS and fair value within an Indonesian context. Meanwhile, technical work refers to efforts conducted by actors to make institutions fit into a particular context, by constructing mental models as cognitive pillars of an institution. Cultural work is conducted by Indonesian professionals by expanding their knowledge jurisdiction and create their identities. 	Findings: <ul style="list-style-type: none"> Fair value has changed the way information and data is transformed into monetary units. Fair value has reshaped the concept of reliability, from one of economic reality to that of social construction by consensus. Data is constructed subjectively by considering what market participants would consider, and how experts achieve consensus regarding the fair value figures. In an Indonesian context having no-active and liquid market, risks are more exposed in the expert system. Conflicts are also presented while actors search for consensus, especially related to

developed and applied. Accounting regulatory bodies also have to issue regulations and laws to support IFRS implementation. Moreover, ongoing developments as well as education and training programs for professionals are critical in being able to enhance professional competence to support successful IFRS implementation.		the trust auditors place in appraisers.
Limitations: <ul style="list-style-type: none"> • Respondents have the important roles in IFRS convergence and implementation, but their small number limits the ability to generalise from the results. 	Limitations: <ul style="list-style-type: none"> • Respondents have important roles in IFRS convergence and implementation, but the small number of respondents in relation to the population overall, limits the generalizability of the results. 	Limitations: <ul style="list-style-type: none"> • Respondents have important roles in IFRS convergence and implementation, but the small number of respondents in relation to the population overall, limits the generalizability of the results.
Originality/Value: <ul style="list-style-type: none"> • This study applies the <i>Accounting Ecology Framework</i> (Gernon and Wallace 1995) to explain the Indonesian local context of accounting environment. With regard to IFRS implementation, it suggests critical factors for successful IFRS implementation. 	Originality/Value: <ul style="list-style-type: none"> • This study elaborates <i>Institutional Work</i> proposed by Lawrence and Suddaby (2006) and Perkmann and Spicer (2008) to explain how the fair value standard is institutionalised within a local context characterised by unique actor roles. 	Originality/Value: <ul style="list-style-type: none"> • This study investigates the reshaping of reliability in an emerging economy with a limited active and liquid market. It also investigates the trust and risk of the expert system in the modern society proposed by Giddens (1980), especially related to the trust auditors place in appraisers.

5.4. Contribution to Accounting Literature

This thesis provides contributions to the accounting literature in a number of ways. Primarily, it provides evidence as to how the local context of the Indonesian accounting environment, contributes to the successful implementation of IFRS. Specifically, this thesis also provides the following contributions.

First, understanding IFRS convergence and implementation will be important in the local context because IFRS's are largely a product of Anglo-American thought and development, but nevertheless are applied in non-Anglo-American countries with different environmental settings. The environmental setting may influence or be influenced by accounting practices. The macro and micro institutional environment affecting accounting practices in a particular country, can also be seen as accounting ecology that affects successful implementation of IFRS. Gernon and Wallace (1995) proposed an accounting ecology framework that provides a holistic explanation of the local accounting environment involving societal, organisational, individual, professional and accounting elements. Some studies have applied accounting ecology to explain the accounting environment through IFRS adoption (Hellmann et al., 2010,

Perera and Baydoun, 2007, Baker and Barbu, 2007, Tsunogaya and Chand, 2012). Differences in the legal system and tax orientation of societies that are Anglo-American oriented, and those that are not, have seen problems and challenges surrounding IFRS adoption and implementation (Albu et al., 2013, Bhattacharjee, 2009). The political, economic, professional development and individual interests in a particular country will influence or be influenced by accounting practices. This thesis suggests, given that institutional settings in emerging economies differ to that of developed countries, the challenges as well as factors effecting successful IFRS implementation will also differ. This provides a basis upon which to understand how emerging countries can successfully implement IFRS.

Second, this thesis provides evidence that *isomorphism*, as the heart of institutional theory, is difficult to achieve in a non-homogeneous environment. Institutional theory focuses on the homogeneity of practices (isomorphism) in adopting the structures, technologies, methods or techniques that are validated socially (DiMaggio and Powell, 1983), without considering the roles of actors in making them applicable in the local context. Countries are not always homogeneous, each having their own specific environment, hence the occurrence of isomorphism is difficult (Rodrigues and Craig, 2007). The role of local actors conducting purposive actions in the institutionalisation of global standards into the local context is regarded as substantial. Although previous studies have applied isomorphism within institutional theory (Hassan et al., 2014, Irvine, 2008) to explain IFRS adoption and implementation, this study focuses on how the actors, having interests and quests for legitimacy, conduct purposive actions to change institutions in the process of IFRS and fair value institutionalisation.

Lawrence and Suddaby (2006) suggest the use of institutional work in accounting research, in order to understand the purposive actions of individuals or collective actors in changing institutions i.e. creating, maintaining and disrupting institutions. In order to explore how the fair value standard is implemented into a national and consequently localised context, this thesis elaborates upon the institutional works proposed by Lawrence and Suddaby (2006) and Perkmann and Spicer (2008). Perkmann and Spicer (2008) suggest that in order to institutionalise accounting or management innovation, actors conduct purposive actions, categorised as political, technical and cultural works.

Third, reliability is one of the important qualitative characteristics of financial reporting and places emphasis on truthful representation instead of verifiability (Power, 2015, Barth, 2007). However, due to the subjectivity, inherent complexity and uncertainties in generating market information, reliability of fair value becomes one of construction, based on the arguments and

beliefs of experts. The concept of reliability is dynamic, changing over time, having relative significance and may be treated as social consensus (Ijiri and Jaedicke, 1966). Fair value is socially constructed involving political, economic and ideological dimensions. Consensus has become the substantial factor for fair value reliability (Power, 2010, Machado et al., 2015, Jeppesen and van Liempd, 2011). IFRS and fair value are accounting regimes that represent the modernity of accounting. Giddens (1990) proposed modernity sociology consists of two mechanisms i.e. *symbolic token and expert system* and has also proposed the notion of *trust* and *risk* within modernity. Fair value is a symbolic token that has changed the way data is transformed from information into a monetary account. Fair value involves expert systems, which in turn requires trust among actors in these systems.

5.5. Implications

This thesis provides valuable insights into the context in which accounting operates in Indonesia, an emerging country. *De facto* implementation of IFRS might be hindered because each country has a unique accounting environment. As such, it is likely that other countries face similar issues regarding IFRS implementation. In order to achieve comparability of financial reporting through IFRS convergence and adoption, it is important to consider and highlight the issues raised in this thesis. Therefore, this thesis has policy implications that are important for other countries having similar features or similar accounting environments. Other emerging countries might have similar characteristics regarding their capital market, professional development, economic development or political development. This thesis shows, that apart from IFRS adoption and convergence, countries need to adjust aspects of their accounting environment such as their regulations, professionals' qualifications and enforcement mechanisms. Other countries having similar features may follow these strategies to achieve successful IFRS implementation.

This thesis also has important implications for standard setters such as the IASB. Countries having different strategies for IFRS adoption and implementation may have different issues. Moreover, different accounting environments also face different problems and challenges. Some countries may adopt IFRS by using a gradual strategy rather than a 'big bang' approach for IFRS adoption. Moreover, they also translate IFRS into local languages that have different meaning and interpretation, resulting in difficulties in achieving financial report comparability. This thesis finds that IFRS has been translated into the Indonesian language, which creates problems surrounding meaning and interpretation. Moreover, each country has specific problems and challenges during adoption and implementation, hence the IASB should consider these problems and accommodate different practices into its agenda so they

can be discussed and addressed. This variation among countries will lead to inconsistencies in IFRS interpretations, which will consequently reduce the comparability of financial reports.

This thesis also has important implications for researchers within the international accounting field. The proposed frameworks might provide insights into the research methods and theoretical development of future studies that explore the local environment area and the institutionalisation of accounting practice, and its effect on the concept of reliability. This thesis offers several methodological and theoretical suggestions that might be useful for further studies. In particular, this thesis is also important and relevant to those who are concerned with fair value. The findings of the thesis show, fair value is controversial, consisting of estimation uncertainties that can make implementation problematic. This thesis seeks to redress the limited number of studies exploring how institutionalisation of IFRS and fair value are influenced by the role of local actors.

The findings of the thesis are also important in that it improves our understanding of how current accounting regimes can influence and re-evaluate our understanding of fundamental accounting concepts, including what is deemed reliable, and how information is comparable. Given that IFRS has been adopted and implemented in more than 100 countries, each having its own accounting eco-system, it is important to conduct further research on how the institutionalisation of IFRS affects the quality of financial reports, including their reliability and comparability. This thesis also suggests that differences in accounting practice cannot be understood by one single factor at the expense of localised environmental factors. Examining the holistic environment, and the local context factors that influence accounting practices will greatly enhance research within international accounting. The phrase “think global act local” can equally apply to our understanding of International Accounting as it can for the context in which it was originally applied, that being the social and environmental challenges facing society.

This thesis also provides important implications for practitioners. Given that IFRS is principles-based and also has fair value orientation, professionals have to undertake professional judgement during implementation. The findings of the thesis show that professional competence is important in executing professional judgment. Moreover, this thesis suggests that education, training and professional development are paramount, and fundamental to enhancing professional competence in emerging countries.

This thesis also has important implications for investors, especially for those who want to invest across countries. *De facto* consistency might be difficult in reality and investors might be misled to assume that uniformity exists. Investors must consider the local context of the

accounting environment, including the dynamics and challenges in the particular country when implementing IFRS.

5.6. Limitations and Suggestions for Further Research

This thesis provides a detailed analysis of IFRS implementation in Indonesia. The thesis however is not without its limitations. First, the contextual factors which have been discussed in this thesis might be different in other countries. Professional competence and enforcement for example, might differ between due to cultural characteristics rather than educational factors.

Second, the voices of respondents are critical to this research, as they play important roles during IFRS convergence and implementation in Indonesia. However, only 26 participants from a diverse group of participants were interviewed. Therefore, caution must be exercised to analyse and generalise the results of IFRS implementation in Indonesia and other countries. Third, reflections by participants at interviews are, to a degree, necessarily influenced by time and place. A person's reflections on the IFRS implementation process now, may differ over time, given the advantages of hindsight and after a longer period by which to assess implementation in its greater context. This is particularly so given that IFRS convergence is still ongoing in Indonesia.

There are some suggestions for future research related to the topic of this thesis. First, examination of IFRS implementation maybe be better explored at the organisational level given that organisations are the most influenced by the implementation of IFRS. It would be worthwhile to elaborate upon the accounting practices at the organisational level, where practical challenges and obstacles in an organisations ability to adapt to the new accounting regime (as opposed to an individual's own reflection), can be explored in greater detail.

Second, further research can elaborate and conduct additional data collection through participatory observations along with more interviews, to obtain more comprehensive pictures and nuances on IFRS convergence and implementation within an Indonesian context. Observations at the organisational level, for example via case study of a particular organisation grappling with IFRS implementation, will provide more information regarding its challenges and problems, and implications for organisational efficiency and effectiveness.

Third, further research may elaborate upon other theoretical lenses to examine how organisations respond to IFRS implementation.

5.7. Overall Conclusion

This thesis analyses and examines the influence of the contextual factors surrounding the accounting environment on IFRS implementation. It focuses on Indonesia, as an emerging economy case study.

The local context of the accounting environment cannot be separated from the implementation of IFRS. IFRS has largely been developed by Anglo-Saxon countries, using Anglo-Saxon thought processes, understanding of issues, reference points, and frameworks for analysis. Hence the implementation of IFRS in local contexts that have different frames of reference, may elicit different issues, challenges, problems and institutionalisation processes, and different ways of approaching the same problem. Based on local contextual analysis, some challenges have been identified resulting in the suggestion of factors affecting successful IFRS implementation within an Indonesia context. Meanwhile, the institutionalisation of IFRS and fair value also involves the efforts and struggle of local actors, each shaped by their own psychological, cultural, social and economic standpoints. At the end of the day, whilst IFRS implementation can be seen by some as a technical activity, it is at its core, fundamentally a social activity, a social science, undertaken by actors who are not separate from some external 'reality' of accounting, but indeed help to shape, and in turn are shaped by, the surrounding environment in which accounting is operationalised.

5.8. References

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Appendices

Appendix 1. List and Details of Interviews and Interviewees

No	Date	Group of Participants	Code	Role
1	12-May-15	Regulator	Interviewee 1	Senior Advisor Capital Market Supervision of Financial Service Authority
2	13-May-15	Preparer	Interviewee 2	Head of Accounting Public Listed Company
3	16-May-15	Auditor	Interviewee 3	Audit Firm
4	26-May-15	Preparer	Interviewee 4	Head of Accounting Public Listed Company
5	27-May-15	Appraiser	Interviewee 5	Appraiser Firm
6	28-May-15	Auditor/Professional body	Interviewee 6	Audit Firm/Chairman of Indonesia Accounting Standard Board
7	28-May-15	Auditor	Interviewee 7	Audit Firm
8	28-May-15	Auditor	Interviewee 8	Audit Firm
9	29-May-15	Preparer	Interviewee 9	Head of Accounting Public Listed Company
10	29-May-15	Appraiser/Regulator	Interviewee 10	Appraiser Firm/Center of Financial Profession Development
11	1-Jun-15	Regulator	Interviewee 11	Senior analyst of Banking Industry of Financial Service Authority and member of Working Group of IFRS
12	1-Jun-15	Professional body	Interviewee 12	Member of National Council-Institute of Indonesia Chartered Accountants
13	1-Jun-15	Professional body	Interviewee 13	Technical Advisor IFRS Implementation-Institute of Indonesia Chartered Accountants
14	6-Jun-15	Professional body	Interviewee 14	Member of Indonesia Accounting Standard Board
15	9-Jun-15	Auditor	Interviewee 15	Audit Firm
16	9-Jun-15	Appraiser	Interviewee 16	Company Value Advisory of Audit Firm
17	10-Jun-15	Regulator	Interviewee 17	Head of Center of Financial Profession Development
18	10-Jun-15	Regulator	Interviewee 18	Head of Compliance and Listing Division Indonesia Stock Exchange
19	10-Jun-15	Regulator	Interviewee 19	Supervisor-Issuer Valuation and Monitoring Indonesia Stock Exchange
20	10-Jun-15	Regulator	Interviewee 20	Senior Officer-Issuer Valuation and Monitoring Indonesia Stock Exchange
21	12-Jun-15	Auditor/Professional body	Interviewee 21	Accounting Firm and IFRS Implementation team of Institute of Indonesia Chartered Accountants
22	12-Jun-15	Professional body	Interviewee 22	Head of Technical Team- Institute of Indonesia Chartered Accountants
23	12-Jun-15	Preparer	Interviewee 23	Head of Accounting Public Listed Company
24	15-Jun-15	Preparer	Interviewee 24	Head of Accounting Public Listed Company
25	15-Jun-15	Auditor/Professional body	Interviewee 25	Audit Firm and Secretary of Indonesia Institute of Public Accountant
26	19-Jun-15	Appraiser	Interviewee 26	Appraiser Firm

Appendix 2. Questionnaires

Gernon and Wallace (1995) framework

1. In your opinion to what extent does political, economic and market development, as well as culture, influence the implementation of IFRS in Indonesia? (*Societal environment*)
2. To what extent does firm size, organizational culture, technology and human and capital resources influence the implementation of IFRS in Indonesia? (*Organizational environment*)
3. How does the education, skill and competence level of financial statement preparers and auditors influence IFRS implementation in Indonesia? (*Professional environment*)
4. From your perspective, does individual ethical values and behavior influence IFRS implementation in Indonesia? If so, how do they do this? (*Individual environment*)
5. Based on your experiences, do you think auditing, accounting, financial reporting practices as well as regulatory, enforcement and monitoring mechanism influence IFRS implementation in Indonesia? If they do, in what way? (*Accounting environment*)

Based on IFRS 13 *Fair Value Measurement* or *Pernyataan Standar Akuntansi Keuangan 68 (PSAK 68)* [Statement of Financial Accounting Standard 68]

Market participant

The determination (definition) of a potential market participant (para 9) is a critical step in the determination of fair value. In developing assumptions of market participant, an entity need not already have identified specific market participants. Rather, it should develop a profile of potential market participants by considering some factors such as (a) *the specification of asset or liability*, (b) *the principal (or most advantageous) market for the asset or liability*; and (c) *market participants with whom the entity would enter into a transaction* (para 22)

25. Based on your experience, do you foresee problems in identifying who is market participant ?

Principal and Most Advantageous Market

To determine the *principal market*, management needs to evaluate the level of activity in various different markets and document which particular market price is used and what process was followed to determine the appropriate market to use for determining fair value. The *most advantageous market* is ‘The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs’ (IFRS 13.A).

26. What problems (if any) do you anticipate when determining a “*principal market*” and/or the “*most advantageous market*” when undertaking fair value measurement?

Assets and Liabilities

The extent to which a market participant takes the characteristics of the asset and liability (*including location, conditions and restrictions*) into account when pricing it at measurement date is crucial. (para 11)

27. What challenges (if any) do you foresee in determining the *characteristic of an asset and liability* when determining their fair value?

Fair value measurement may be applied to a stand-alone asset or liability (for example, an equity security, investment property or an intangible asset) or a group of related assets and/ or liabilities (for example, a business), depending on the circumstances. The determination of how fair value measurement applies depends on the *unit of account* (para 14). The unit of account is determined based on the level at which the asset or liability is aggregated or disaggregated in accordance with the IFRS requirements applicable to the particular asset or liability being measured.

28. What problems (if any) do you anticipate in the determination of the “*unit of account*” when undertaking fair value measurement?

The price

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions, being an *exit price*, regardless of whether that price is directly observable or estimated using another valuation technique (para 24).)

29. What problems (if any) do you foresee when using *exit price* as a basis for undertaking fair value measurement?

Application to Non-financial assets

Fair value of an asset is required to be determined using its *highest and best use* (para 27). The highest and best use of a non-financial asset takes into account the use of the asset that is *physically possible, legally permissible and financially feasible* (para 28).

30. What problems (if any) do you encounter in applying the “*highest and best use*” principle for measuring a non-financial asset?

Liabilities and entity’s own equity instruments

The transferral concept for liabilities clarifies the previous IFRS definition of fair value, which required fair value for liabilities to be “*the amount for which a liability could be settled, between knowledgeable willing parties...*”

Liabilities can be settled by extinguishing or transferring them to another party. IFRS 13 clarifies that fair value is not based on the price to settle a liability (*settlement value*) with the existing counterparty, but rather to transfer it to a market participant (*transfer value*) of equal credit standing on the measurement date (para 34).

31. What problems (if any) do you anticipate in using *transfer value* compared to *settlement value* in measuring fair value of liabilities?

When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument from the perspective of a market participant that holds the identical item as an asset at the measurement date (para 37)

32. Do you expect to encounter liability measurement problems based on assets held by other market participant? If so, what specific difficulties do you face

When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is not held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument using a valuation technique from the perspective of a market participant that owes the liability or has issued the claim on equity (para 40)

33. Do you expect to encounter measurement problems based on this valuation technique? If so, what specific difficulties do you face.

Fair value at initial recognition

Transaction prices may not equal fair value. Fair value under IFRS 13 is based on an exit price concept (para 57). Transaction prices are not always representative of exit prices, although in many cases they are.

34. Do you expect to encounter any problems in measuring the *initial recognition* of assets and liabilities under this measurement approach?

Valuation techniques

There are three (3) valuation techniques or approaches for fair value measurement; (a) market, (b) cost, and (c) income.

The *market approach* is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities, or group of assets and liabilities, such as business (Appendix A)

35. What challenges (if any) do you anticipate in applying the *market approach* to valuation ?

The *cost approach* is a valuation technique which reflects the amount that would be currently required to replace the service capacity of an asset (often referred to as current replacement cost). (Appendix A)

12. What challenges (if any) do you anticipate in using the *cost approach* to valuation?

The *income approach* is a valuation technique that converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. Fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts. (Appendix A)

21. What challenges (if any) do you anticipate in using the *income approach* to valuation?

Inputs to valuation techniques

Determining the significance of a particular input to a fair value measurement is a matter of judgement. Valuation techniques used to measure fair value shall maximise the use of relevant observable inputs and minimise the use of unobservable inputs. There will be three inputs of fair value measurement; level 1, level 2 and level 3.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. (para 76).

22. What problems (if any) do you foresee in applying Level 1 inputs within Indonesia, as an emerging market?

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted price for similar assets and liabilities in active or inactive market and inputs other than quoted prices. (para 81)

23. What problems (if any) do you foresee in applying level 2 inputs?

Level 3 inputs are unobservable inputs for the asset or liability. Developed using best information available in the circumstances, including entity's own data and adjusted with other market participant data. (para 86)

24. What problems (if any) do you foresee in applying Level 3 inputs?

Appendix 3. Themes and Coding for Critical Success Factors of IFRS Implementation within An Emerging Economy : The Case of Indonesia.

Accounting Ecology Framework (Gernon and Wallace, 1995)	
Theme	1st Level Coding
Societal Environment	Political Development
	Economic Development
	Legal System
	Government
	Population
	Land Area
	Language
	Culture
Organisational Environment	Organisation culture
	Governance
	Size
	Human Resource
	Capital Resource
	Technology
	Type of Management
	Disclosure
	Local and Multinational
Individual Environment	Goals
	Obstacles
	Opportunities
	Threats
	Resources
	Individual Value
Professional Environment	Self Regulator
	Defender
	Innovator
	Education and Training
	Registration

	Professional Ethics
	Audit Quality
	Audit Fee
	Competence
	Auditor as Gate Keeper
	Big-for and non big-four
	Accountant Demography
	Appraiser
	Professional Service
Accounting Environment	Reporting Rules
	Accounting Standards
	Auditing Practices
	Auditing Standards
	Enforcement
	Accounting Practices
	Accounting Regulations
	Guidance
	Profession Associations

Appendix 4. Codes and Themes for The Influence of the Localised Accounting Environment and Institutional Work in the Institutionalisation of Fair Value Accounting in Indonesia.

Codes	Issues Discussed	Themes Identified	Organising Themes	Global Themes
Promotion	International organisation Regulation Good standard	International organisations	Advocacy	Political Work
Needs	Competency	Need certification program	Defining	
Power/Authority	Conferral	Confer power	Conferring	
Standard	Accounting standard Auditing standard Valuation standard	Standard for financial reporting and fair value Standard for auditing Standard for valuation	Standardisation	Technical Work
Practical	Education Consultation Collaboration	Educating professional Providing guideline	Education	
Task	Professional task	Expanding professional task	Creating normative network	Cultural Work
Identity	Roles	Specific professionals roles	Constructing identity	

Appendix 5. Codes and Themes for Fair Value Implementation within Indonesian Context: Modernity in Accounting and The Reshaping of Reliability

Themes	1st Level Coding
Fair Value	Exit Price
	Highest and Best Use
	Valuation Inputs
	Valuation Techniques
	Unit of Account
	Market Participants
	Markets
	Financial Asset
	Non-financial Asset
	Orderly Transaction
	Urban Planning
Expert System	Trust
	Risk (difficulty, local context)
Reliability	Assumption
	Consensus

Appendix 6-8 (pages 212-218) removed from Open Access version as they may contain sensitive/confidential content.