

Audit Quality and Auditors' Obligation in Indonesia Post 2011 Accounting Regulatory Enhancement

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Abstract

This paper utilizes institutional theory to explore how Indonesian regulator's efforts in strengthening audit quality (AQ), influenced the auditor's obligation in the country in regulative aspect. The efforts which started in 2011 have been focusing on institutional developments and have become the cornerstone in the developments of the accounting profession. Data of this study comes from reviews of various legal documents in relation with changes in the new regulations. The analysis result shows that following the release of the new law, there have been significant changes in the approach and requirements with regards to auditing framework and profession. It also reveals that the new regulations aim to provide guidance rather than policing the profession, resulting less legal burden on the auditors. This has put a stop on the previous practice of self-regulation to one that is now highly supervised by regulators. From the institutional theory lens, this paper shows how the regulative pillar is mobilized as the foundation to strengthen the accounting profession and AQ. This in turn, shapes value and norms of the normative and cultural-cognitive institutions in the profession. This study contributes to the combination of three pillars in examination of AQ, which are the often-studied regulative pillars in the institutional theory.

Keywords: Audit quality, institutional theory, auditor's obligation, pillars of institution

1. INTRODUCTION

This study is motivated by an enthusiasm to explore the ways in which tremendous regulatory changes at national and global level relation to the improvement of audit quality made by the regulators. The low level of audit quality is commonly attributed as one of aspects contributing to the weakening of the financial market due to the issues in investor's protection (Persakis & Iatridis, 2016). The incident of Enron's accounting scandal and its auditor, Arthur Anderson & Co, has highlighted that regulators are the first constitution to be responsible and to defend against market instability (Healy & Palepu, 2001; Kleinman, Lin, & Palmon., 2014; Lennox, 2009). Since then, various regulatory efforts have been undertaken by many countries, such as US with Sarbanes-Oxley Act of 2002 (Sarbanes, 2002), the UK with the restructuring the Financial Reporting Council (FRC) (Beattie, Fearnley & Hines, 2015), in Australia with Corporate Law Economic Reform Program (CLERP) 2004 (Hossain, 2013) and in Canada with Bill 198/C-SOX rules (Amoako-Adu & Baulkaran, 2008). All these efforts are initiated to improve their respective country's AQ implementation. With regards to this agenda, Indonesia is no exception where one of the crucial Indonesia regulators' efforts was the issuance of the Act No. 5/ 2011 about Public Accountant and Government Regulation No. 20/ 2015, initiated to strengthen its audit quality.

The beginning of the year 2011 has become a starting point for the Indonesian accounting profession to show its commitment to the country through the enhancement of AQ. Since then, Indonesia has made a remarkable

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progress, which is demonstrated by the establishment of a new law¹ by the government specifically for the Certified Public Accountant (CPA) which principally provides a stronger legal backing for the profession. In addition, the new law also includes the establishment of a steering committee, which is one of government agents (KPAP) under the Minister of Finance (MOF), to provide recommendation to the MOF on the accounting profession. The committee also acts as an appeal committee against imposition of administrative sanctions. This part of the Indonesian regulators' efforts is to further raise the standards of AQ in its country.

The efforts by the regulators, particularly related to the changes of regulations for accounting profession were coined due to the lack of confidence among investors as a result from the accounting scandal cases occurring in the country and those as mentioned in the PPPK's news (Asthana, Balsam & Kim, 2009; Kleinman et al., 2014; Unerman & Dwyer, 2004). Thus, this situation has forced the policy makers to revise and amend the auditing framework which have significantly affected the profession, in order to gain back investor's trust towards their business (Asthana et al., 2009). However, the changes in the regulations have also created issues where the consequences are more obligations or responsibilities for the accountants to understand and implement. The issues include the conditional compliance towards the current requirements² and whether these requirements have any impact on the accountants' profession. Taking into consideration the three pillars of institutional theory (Scott, 2008), this paper aims to examine how Indonesian regulator's efforts strengthen audit quality (AQ), and have influenced the auditor's obligation towards the country's regulation, especially after the issuance of the Act No. 5/2011.

The issuance of legally enforceable acts in developed countries revealed some impacts on the AQ directly or indirectly (Amoako-Adu & Baulkaran, 2008; Beattie, 2010; Chen, Sun, & Wu, 2010; Fearnley, Brandt & Hines, 2014; Hossain, 2013). Researches also showed that this Act's issuance also had influenced on auditing standards or framework (Hecimovic, Martinov-Bennie & Roebuck, 2009). Similar to this paper, researchers (Chung, Farrar, Puri & Thorne, 2010; Khoury, 2001; Taddei & Humphrey, 2014) studied how the auditor's liabilities were implemented after the new law. Auditor's liability focuses more on clients or third parties whom auditors owed duty to care for their suffering of financial loss as a result of professional negligence, breaches of contract, criminal act or statute provision on the part of auditors. Therefore, this paper discusses the obligations or responsibilities of the auditor in defining auditor's professional roles to accomplish their professional tasks, including in detecting fraud, especially after the issuance of the Act No. 5/2011. The definition of auditor's obligation or responsibilities in this paper is adopted from SA 240 (Indonesian Auditing Standards) and Young (1997) which concerns on auditor's responsibilities relating to fraud in an audit of financial statements. Based on Young's definition, this study considers that there is no difference between the term "responsibility" and "obligation" since both focus and concern on performing work within auditors' jurisdiction as they deem appropriate and to dominate public definitions of their professional tasks.

As mentioned above, this paper utilizes three pillars of institutional theory as the analysis tool to understand the auditor's obligations or responsibilities due to the regulatory changes. Thus, this study provides initial evidence on the explanation of AQ after the issuance of the Act 5/ 2011, as well as the suggestion to take the next action plans to enhance AQ in Indonesia. Apart from the differences, there is only a handful of research which is related to this concern (Chung et al., 2010). Thus, this topic has not been given much attention in Indonesia

The research data was obtained from reviews of various legal documents and reports concerning regulatory changes, as well as interviews with the regulators and the practitioners. This paper is structured as follows: the second section discusses institutional context of AQ in Indonesia. The third section describes auditor's obligations or responsibilities from the three pillars' perspective. The fourth section discusses the methodology while the fifth section explains the data and finding, and finally the last section is the conclusion.

2. INSTITUTIONAL CONTEXTS OF AQ IN INDONESIA

Indonesia alerts the practitioners to uphold their professionalism in providing and conducting services, and requires them to show the commitments in providing good practice in accounting and auditing reformation. In order to support the implementation of accounting and auditing's reformation, several aspects are considered to be mandatory for the profession and statutory framework for institutional and audit policy development is

¹ The Law No. 5/ 2011 about CPA

² Auditing standards, rules and regulations, etc code

determined, especially in the national level which is conducted by the regulators. By utilizing three pillars of institutional theory, the theoretical framework of the institutional context of AQ in Indonesia

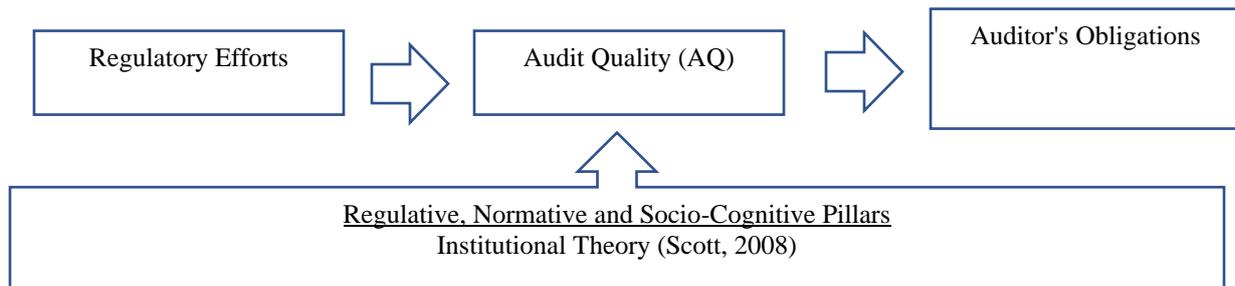


Fig. 1. Theoretical Framework

Based on the figure above, it shows that the accounting regulators who act as carriers of pressures (DiMaggio & Powel, 1983), transform their roles into the efforts and shows how the regulative pillar is mobilized as the basis to strengthen AQ specifically and the accounting profession generally. By issuing new laws and regulations, restructuring the agents under the MOF, building the capacity of accounting association as well as issuing the Audit Quality Indicators (AQI), the country may realize its AQ improvement (PPPK, 2019). Furthermore, the new law and regulation may also shape norm and value within the profession by emphasizing the obligations that emerged from the change and how the accountants need to professionally function in this regard. As mentioned by Meyer and Rowan (1977), the institutionalism involves social processes and obligations which function as rule- like status in social thoughts and actions of the profession. Additionally, according to Scott (2008), it can form the cultural-cognitive institution in the profession, since the process by which actions are repeated and given similar meaning by one profession and others. Thus, this institutional context of AQ in Indonesia can be observed within the profession, its environment as well as organization. It may operate to produce common understanding about the appropriate obligations and responsibilities among the professional

3. THREE PILLARS PERSPECTIVE OF AUDITOR'S OBLIGATION OR RESPONSIBILITY

The enhancement of AQ through regulatory efforts which developments evidenced in Indonesia context, illustrates the expectations by regulators with regards to their efforts for the accounting profession since the year of 2011. Based on the pillars' perspective, some may response to change because the profession "has to" change as regulated (regulative pillar), other may change because it "becomes an expected norm" (normative pillar) and another can simply change because of "the internal reason or value" and then hold on to it (cultural-cognitive pillar) (Scott, 2008).

The role of an auditor is to provide fair assessment of the financial position of a company or organization based on audit evidence. However, based on Indonesia auditing standards (SA 240, par 3) (2012), regarding The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, the auditors also have the obligation to detect and disclose fraud:

"Although fraud is a broad legal concept, the auditor is concerned with fraud that causes a material misstatement in the financial statements".

[SPAP, 2012, p.5]

The existing audit standards require the auditors to detect fraud; instead of assessing the financial position, despite the fact that it should be disclosed in the audit findings as a part of auditor's obligation (Mautz, & Sharaf, 1961; Tuanakotta, 2013). Furthermore, according to the Law No. 5/ 2011 art 30, 55, 56 and 57, an auditor may also be obligated under criminal and civil law. The form of its sanctions is based on the law explaining the detail on the Government Regulation (PP) No 20/ 2015 as well as The Decree of Minister of Finance No 154/ 2017, which were divided into 6 (six) sanctions: suctioning in certain obligation, administration's warning, professional practice restrictions, suspended practice, revocation of practice license and fining.

Therefore, it can be concluded that the profession's position on fraud, responsibility or obligation of an auditor is to give reliable assurance to the users that the audited financial statements are adopting legislative pillar. Thus, anything can be a legally binding decision for the auditor's obligation. In addition, auditors could be prosecuted

in a criminal court for either knowingly or recklessly issuing an inappropriate audit opinion based on the conclusion of conducting audit on these financial statements.

Auditor's obligation or responsibility not only provides regulative insight into its law and standards, but it also shows a partial picture of value construction's system (Scott, 2008). The focus of this perspective is on the roles, beliefs, and norms as a guide for social behavior of the profession. This perspective defines what is appropriate for an auditor's profession. As such, when an institution (in this case the AQ) encourages the "correct" way of auditor's behavior, it will therefore influence individuals as well as organizations actions through normative processes. For example, the obligation or responsibility should enhance their skills, and knowledge through continuing professional development (CPD). CPD contributes to the development and maintenance of professional competence that is appropriate for their work and professional responsibilities. In other words, the auditors should adhere to the ethical and independence requirements, and that auditors possess specific levels of skills and competence required to carry out the audit work effectively.

The cognitive pillar shares social knowledge, which emphasizes on profession's shared perceptions (Scott, 2008). This institutional shape reflects the cognitive structures shared among individual auditors, for example shared skills and knowledge. Scott also mentioned that the cognitive pillar of institutions encourage auditor to follow or imitate schema of activities with strong cultural support.

4. METHODOLOGY

This study is conducted based on an interpretivist approach, which is the construction of various realities based on the perception of key persons within a particular context and setting (Glesne, 1999). The interpretivist approach is to research deep inside the personal experience from the view point of those who live it (Andrade, 2009). Thus, the aim is to understand the complex and many-sided reality and perception of those related to a certain phenomenon. For the purpose of this paper, the phenomenon is the institutional pillars affecting the Indonesia regulators to provide regulatory efforts for the improvement of its AQ, and influence the auditor's obligations post the issuance of the CPA law. In line with this, consistent with the interpretivist approach, qualitative method is adopted. The key element of qualitative method is not to derive at statistical generalization, but rather attempting to immerse themselves in common themes and meaningful data to define conclusion (Guba and Lincoln, 1994).

Data of this study is obtained from reviews of various legal documents and reports in relation with changes in the new regulations. Content analysis technique was used to analyse the data from this study. Content analysis technique is a technique which supports researcher to interpret and systematically evaluate the focus of individuals, groups, organizations and society (Weber, 1990). The data sources include acts, regulations and rules, regulators' website, official report of regulators, press release, international institution's reports, and newspaper/magazine.

Open interview using unstructured questions was also conducted to collect data for this study. A total of 16 participants participated in this study and they consist of the regulators from the MOF agencies as well as from the board of professional bodies and practitioners. The interviews were conducted between 20 minutes to one and half hours. The data were recorded, transcribed and analyzed and coded. Themes that emerged were noted from the analysis.

5. DATA AND ANALYSIS

5.1 The New Framework Following Regulatory Changes

As stated earlier, regulative pillar of institutionalization includes laws and rules that seek to regulate or constrain behavior. This pillar generally uses some type of coercive force to gain compliance that is the compliance on the requirements, concession and / or recommendation of the international institution as well as the ASEAN regional organization. Based on the Report on the Observance of Standards and Codes (ROSC) of Indonesia 2011, Indonesia is recommended to: 1) issue a stronger legal backing rather than the Decree of MOF, 2) restructure the government agents, 3) establish an independent professional body particularly for a public accountant's profession, 4) adopt international accounting and auditing standards, and 5) adopt influential portion of the regulative pillar. In addition, based on the requirements and recommendations, Indonesia may need to impose new regulative processes such as enforcement mechanism. These policies were driven through coercive and regulative means thus the country has to follow them in order to be legitimate in its environment.

Subsequent to the official establishment of Indonesian Institute of Certified Public Accountant (IAPI, 2016), the regulators have proceeded to focus on the enhancement of the statutory and institutional framework which involves ways of monitoring the enforcement of accounting and auditing mechanism are used, and how the basic of effective regulations are placed. Consistencies between the legal frameworks and the adoption of international standards are important to create effectiveness of the law or regulation (Hayes, 2002). The establishment of IAPI aims to fulfill the requirement of World Bank and IFAC which is to be an independent organization for the Indonesian Public Accountant. The establishment then was followed and legally supported by the Act No 5/2011 which was issued in 2011 and became the cornerstone in the developments of the accounting profession. Since the issuance of this law, policies were referred to the law. Stages of regulatory efforts and improvements related to public accountant were carried out intensively and continuously until now. In 2015, the Government Regulation (PP) No. 20/2015 was issued to describe the law technically and practically. The regulation provides a detail and practical explanation of its Act, followed by other regulations. Thereafter, Indonesia has made a remarkable progress and significant efforts in term of strengthening the legal backing for the accountancy profession. The RG01 and PBO3 were claimed to be similar statements with regards to current legal backing. They ensured that this legal backing affects the development for supporting high-quality accounting and auditing practices in Indonesia. RG01 explains:

“(.....) Finally, we have an act that supports the profession, a strong legal backing through appropriate national laws. This is very important to ensure the efficiency as well as the effectiveness of these institutions. (.....) We are sure that these efforts will support the enhancement of high-quality accounting and auditing practice, because with this current regulation, we also have established an Oversight Committee consisting of government agencies and the experts in the professions that provide recommendation to the Minister, which we call KPAP.”

From the above quote, it shows that all the efforts, especially the issuing of new rules and regulations are aimed at safeguarding the quality in auditing mechanism. The interactions between the regulation and the AQ attributes hence will facilitate and strengthen the protective operation in the market generally, and in the auditing atmosphere specifically (Arrunada, 2013). Finally, the last goal is to enhance AQ. Figure 2 shows the main regulatory efforts such as laws and regulations that may be considered. This table presents a summary of new laws and regulations regarding to the accountancy profession and the expected impact on AQ from of 2011 to 2018 (7 years).

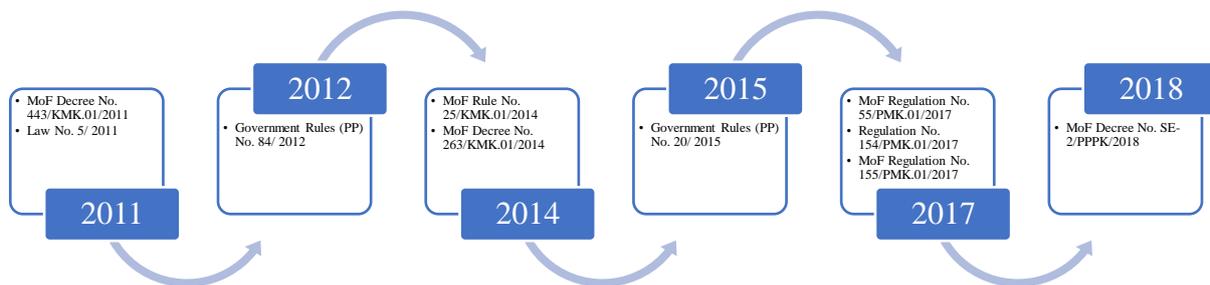


Fig. 2. Theoretical Framework

Based on the figure above, the efforts that have been established generally involved factors enhancing AQ or factors that are being expected to impact the improvement of AQ. Hence the new legal and regulatory framework specifically focuses on developing strong foundation of AQ. Important elements of AQ are added into the law or regulations which are then issued as regulated by IFAC where the interactions among the elements are considered. The expected impact from the regulatory changes on AQ is shown on table 1 below.

Table 1 The Expected impact from the Regulatory Changes on AQ from 2011 to 2018

Regulation/ Law/ Minister Decree	Year	Content	Expected Impact on AQ
The Decree of Minister of Finance No. SE-2/PPPK/2018	2018	Guidelines for applying the principles of recognizing risk based service users for accountants and public accountants	- Effective enforcement on CPA and accountant's profession
The Ministry of Finance Regulation No. 155/PMK.01/2017	2017	The Changes of The Ministry of Finance Regulation No. 55/PMK.01/2017 about Recognizing Service Users for Public Accountants and Accountants	- Risk assessment in providing services, as well as preventing criminal act money laundering or funding crime terrorism
The Ministry of Finance Regulation No. 154/PMK.01/2017	2017	The Regulation for Developing and Supervising Public Accountants (detail guidance of the Act and Government Regulation)	
The Ministry of Finance Regulation No. 55/PMK.01/2017	2017	Principles to Recognize Service Users for Public Accountants and Accountants	
Government Rules (PP) No. 20/ 2015	2015	The practice of public accountant	- Trigger to increase number of public accountants and audit firms - Control the accountants independency due to the audit tenure - Quality review and inspection
The Ministry of Finance Decree No. 263/KMK.01/2014	2014	The Decision for IAI as the accountant's professional body (association)	- IAI supports to improve the quality of corporate financial reporting in which will be audited by public accountants
The Ministry of Finance Rule No. 25/KMK.01/2014	2014	The state's registered of accountants	Regarding the improvement of competency
Government Rules (PP) No. 84/ 2012	2012	The establishment of KPAP (the Committee of Public Accountants' Profession)	- Control and supervise the public audit practices - As a mediator among regulator, practitioners and association body
Law No. 5/ Indonesian Law	2011	Public Accountant	Monitoring and reporting CPA practices, legal aspect of audit result
The Ministry of Finance Decree No. 443/KMK.01/2011	2011	The Decision for IAPI as the public accountant's professional body (association)	IAPI supports and facilitate members to improve competency, skills, knowledge, ethics etc

Source: P2PK (2019), compiled by the researchers

Based on the table above, the regulators believe that the importance of having a definite act regulating public accountants (practitioners) in a more comprehensive manner may tap the growth of business, particularly in auditing. This is supported by Act No. 5/2011, Government Regulation (PP) No. 20/ 2015 and MOF Regulation No 154/PMK.01/2017. The law and regulation have successfully addressed the auditing framework for public accountants. The statutory efforts above also demonstrate the integrated mechanism between accounting and auditing. According to a regulator RG01:

"(.....) Further improvements are necessary to ensure that Indonesia emerges as a country that practices holistic approach to accountancy in the developing world and with a strong emphasis on audit quality."

As shown in Table 1, every issuance of act, law or regulation has an expected impact on AQ, direct or indirect. The expected impact from the new regulations on AQ involves the control over independency through the audit tenure, since independency and audit tenure have positive influence and are perceived to improve AQ (Rahmina & Agoes, 2014). In addition, the enactment of Act No. 5/2011 has a specific purpose as a legal backing to monitor

the CPA practice. This is very crucial and useful for audit stakeholders as they need to be informed about the current CPA practice.

In measuring the effectiveness of the CPA practice, the most appropriate tool to be used is the Audit Quality Indicator(s) (AQIs) (Martin, 2013; Bedard, Johnstone & Smith, 2010). Correspondingly, in December 2018, Indonesia has issued AQIs to public accountants as well as other stakeholders. The AQIs covers nine (9) indicators that include auditors' competency, ethic and independency, chargeable hours of partners and auditors in an engagement, quality control system, quality review or inspection's result, audit tenure, governance structure of the firm, and information concerning the basis of employee's benefit (PPPK, 2016).

Instead of issuing the AQIs, both are arranging several programs in many aspects such as the CPD program, FGD program, audit laboratory program and "mini SPAP program"³. According to PB03, the main purpose of these programs is to provide an applicable formulation of policies which can be implemented in every audit firm and comply with the updated standards as well as the law and regulations.

As above mentioned, the collaborative program between the MOF's agencies and the IAPI marks as a shift in the concept of the regulator's role. The collaboration emphasizes on the effort's attention to work together in order to enhance the AQ and this involves the collaboration with professional bodies. Previously, the regulators role was performed as "a regulator in the sense of facilitator" whose work only focuses on the regulatory part such as issuing rules or regulations. As stated by RG02, fewer efforts were being done to understand the practices of the profession. Thus, the new collaborative efforts have been well established and directly support the process of improving AQ. All these efforts have already been included in the articles of the concerning Act and Regulation.

Apart from explaining the process of regulative pillars, this paper also describes the normative pillar which focuses on norms and values as a guide to social and political behavior among public accountants. The values and norms which provide guidance for this profession are basically included in the auditing standards and code of ethics which are currently adopted by the country. The standards as well as the ethic codes consist of prescriptive elements that define the right and appropriate practices in being a professional public accountant. All the primary elements of the normative pillar involve a system of norms, expectations, values, and roles that seek to influence the profession's behavior (Scott, 2008).

The profession's behavior may be shown in the cultural-cognitive pillar. Since this pillar of institutionalization involves professions' shared beliefs with reference to what is generally taken for granted because they have to accept whatever the standards and code of ethics determined by the regulators. Cultural-cognitive aspects are basically more difficult to recognize and identify because they are typically more entrenched (Scott, 2008). The aspect of the cultural-cognitive pillar explored in this discussion is about the change of values internalized into its profession willingness. Thus, it can be concluded that the difference between the normative with the cultural-cognitive pillars relates to the differences obligation and willingness.

The aspects of the normative as well as cultural-cognitive pillars are the major points regulated in the Act 5/2011 which practically explain the auditing and ethic codes. The aspects are such as admission procedures of being a CPA, practicing license, CPD program, auditor's rotation and cooling off period, quality reviews and inspection and also the audit fee. These aspects describe the approach and requirement regarding public accountant practice and aim to further strengthen the regulatory framework for auditing practice in this country. Moreover, the MOF Regulation No. 155/PMK.01/ 2017 as mentioned above, emphasizes that the accountants are also recommended to conduct "sectoral risk assessment" in the purpose of preventing criminal act money laundering or funding crime terrorism. This means that it influences the auditor's obligation as well. As a recap, the regulators work closely with the professional bodies as well as the practitioners, and they supervise the practitioners regularly and intensively. These roles and efforts explained above have put the regulators into a debatable obligation in accounting and auditing forums. Details about the auditor's obligation regarding to the current law and regulation are discussed in the following section.

5.2 The Obligations of Auditors in Indonesia after the Issuance of Act 5/ 2011

The developments conducted by the regulators show different concepts among parties, including the professions, particularly in the understanding of the obligation of auditor. Most of the policies are in the definition of an ideal condition which is substantially more applicable for large (global affiliation) audit firms, since the difference in nature of audit firms in Indonesia between the local and the global audit firms are quite high. Thus, this condition

³ Mini SPAP is a set of auditing standards for conducting audit in small and medium-sized entities

makes it difficult for the regulators to treat the audit firms equally in following the law and regulation's enforcement. Thus, this promotes the regulators to consider focusing on providing guidance rather than sanctioning or policing them.

According to Article 29 of to Act No. 5/2011, audit firm or licensed accountant is obliged for civil, administrative and criminal. The terms civil obligation is usually specified in the engagement letter between an audit firm and the audited entity in which both parties must keep the data and information of the entity's operations confidential. If they reveal or expose confidential information, the entity may pursue compensation for the resulting losses.

On the other hand, the administrative obligation⁴ is defined as the way licensed auditor provides the entity with an obvious false opinion. In this case, the auditor's license may be officially cancelled by the MoF. Last but not least, the criminal obligation⁵ may be applicable when the licensed auditors use their authority for their personal purposes and violates the rights of an entity or related parties, and in which they may be prosecuted. The penalty for the offence will be decided by the authorized agency in compliance with laws, rules and regulations which may include the cancellation of the signed auditing engagement letter prohibition to sign an auditing engagement letter in the next year deduction on the agreed audit fee and compensation payment on an agree sum to the audited entity (client).

Thus, as mentioned above, significant progress has been achieved and regulatory efforts are normally heading to the right direction. There is a need to improve AQ and to further strengthen the effectiveness of monitoring and enforcement mechanism which will have an impact on enhancing AQ confidence in this profession's service. There is also a need for reviews on the laws and regulation to clarify such ambiguity, particularly due to role and responsibility of all parties involved in the AQ framework, thus making the auditor's obligation much clearer. In other words, it can be said that the Indonesian laws could not stipulate the obligation strictly in which the licensed accountant is relevant.

6. DISCUSSION

As shown in the previous sections, the Indonesian MoF agencies as well the professional bodies have carried out many initiatives and efforts to enhance the AQ. These initiatives and efforts include the establishment or the restructuring of MoF agencies as well as the professional bodies⁶, adoption of new standards, issuance of new laws and the amendments of the existing ones to support the process of AQ implementation in the country. More specifically, Indonesia has taken several steps forward to improve AQ and enhance legislation.

During the post issuance of the Act No. 5/ 2011, the efforts conducted by the regulators are more comprehensive and directly addressing the profession. The efforts also show that the regulators have put a consistent legal framework in line with the global changes to meet the demands and manage an integrated mechanism between accounting and auditing to achieve a better audit quality implementation as well as reporting quality in Indonesia. However, the regulators are also aware that in developing effective legal and regulatory framework they must also take into consideration of the consistency aspects. This is because there is still other prevailing legislation, therefore discussion with other agencies under the MoF is necessary to maintain the legal consistency aspect. In addition, this framework shall satisfy a number of requirements of the AQ practices and the consideration of market economy where all audit firms shall be granted equal access to commercial and legal certainty in carrying out their business activities. In doing so, the regulators have provided many programs to reduce the gap among audit firms as well. This era also sets out the basic principles in promoting the profession to the parties concerned and the stakeholders in order to make them aware about the efficient and transparent auditing business climate, and accordingly, this shall be implemented along with the consistent law enforcement.

Based on the identification of auditing framework mentioned above, one can observe several significant differences in the auditor obligations. Firstly, the enactment of Act 5/2011 on one hand serves as the legal backing for the CPA (auditor) and on the other, protects the public who acquires the professional service. The public themselves must also play a role in this process since they are subjected to the violations on their rights and are in the best position to either file a complaint to the audit firms or, ultimately, to the regulatory and judicial bodies. In addition, the Act intended to make the accountants oblige not only to the client's company but also to other stakeholders and third parties. The responsibility and obligation is borne by the individual accountant as well as the audit firm.

⁴ It also relate to the Article No. 53 about administration sanction (Act No. 5/2011)

⁵ Article No. 55

⁶ (PPAJ-P2PK; BAPEPAM-LK-OJK; Central Bank; IAPI; KPAP etc)

Secondly, accountants have to maintain their practicing license by fulfilling the annual requirement of personal competency development, re-registering the license and renewing the professional membership status after the Act was put into effect where they are not required to do so in prior to the enactment issuance. Another important aspect is the involvement of the regulators in term of supervising the profession. Auditing has changed from an essentially self-regulated profession to one that is highly supervised profession by the regulators. The change shows much about what laws and regulations may, or may not, be able to accomplish in regard to AQ. In addition, this involvement also ensures sustainable development of auditing particularly, and contributes to a clearer and healthier economy in general. The laws and regulations set out the basic rules of AQ while lining out a few aspects on protecting the legitimate rights and obligations of shareholders, establishing standards for professional acts and morality of practitioners (auditors). The laws and regulations also serve as the basis for assessing the implementation of AQ. They represent a good start and show that AQ is being taken more seriously by the Indonesian professionals.

Finally, it can be concluded that under the three pillars of institution (regulative, normative and cultural-cognitive), significant progresses have been achieved and regulatory efforts are normally heading to the right direction. Results also show that majority of the participants agreed that there is a need to improve the quality of audit and further strengthened the effectiveness of monitoring and enforcement mechanism which will have an impact on enhancing AQ confidence in this profession's service. Reviews of laws and regulation are also required to clarify such ambiguity, particularly due to role and responsibility of all parties involved in the AQ framework, thus will clarify the auditor's obligation among them in the same definition.

Apart from the significant progress, there are three types of auditor's obligation mentioned on Article 29 of to Act No. 5/2011, namely civil, administrative and criminal obligations. However, this law does not stipulate the obligation stringently and clearly, to which the licensed auditor is relevant. Most of the policies are in the definition of ideal condition substantially which is more applicable for large (global affiliation) audit firms, since the difference in nature of audit firms in Indonesia between the local and the global audit firms are quite high. Thus, this condition makes it difficult for the regulators to treat the audit firms equally in following the law and regulation's enforcement. Thus, this promotes the regulators to consider focusing on providing guidance rather than sanctioning or policing them. In addition, under the current law, they are not required to carry professional indemnity insurance which should be insured appropriately. This may cause ambiguity in the implementation of enforcing the current law and regulation.

7. CONCLUSION

Utilizing three pillars of institutional theory, this study shows the developments of regulatory changes that provides substance in the auditing framework subsequent to the issuance of the law with the emphasis on the auditing profession in the development after the year of 2011. The study also explores the auditor's obligations related to the changes due to the expected impact on the improvement of AQ in Indonesia. The results indicate that there are crucial aspects which show significant policies. After the issuance of the law, the auditing framework shows more interactions among parties involved and were highly supervised by the regulators. It is also important to note that the regulatory changes occurred are the efforts and initiatives of the regulators to enhance the AQ in Indonesia. By keeping abreast with the current developments on AQ which promotes the changes made in the legal and regulatory frameworks, it has specifically ensured that the auditing standards remain excellent and up-to date. However, in order to ensure effective regulatory developments, in this case the auditing framework, the regulators should clearly define the roles, rights, and the responsibility of all parties involved in the AQ framework such as the regulators themselves, auditors, management of companies, users, preparers, and other stakeholders. Inconsistencies can be mitigated by developing clear definitions and conducting thorough reviews on the prevailing legislations and pointing out the technical regulations that could provide clauses that will likely be against the higher legislations. Therefore, these reasons need to be clearly explained

Finally, the study shows at least three auditor's obligations according to the new act, namely: civil, administrative and criminal obligations. According to the principles, auditors can only be found obliged, if they have been acting negligently. In addition, it also shows the obligation due to the regulatory changes as well as the suggestion to take the next action plans in order to enhance AQ in Indonesia. In this matter the regulators consider focusing on providing guidance rather than sanctioning or policing the accountants.

This present study has limitations, particularly with regards to the questionnaire approach where it may potentially create biases in participants' responds. However, in order to minimize the risks, this study has selected a proper group of participants from the regulators who are directly responsible to the profession, and these individuals are

from the board of P2PK, board of IAPI and IAI, senior global and local practitioners who have been practicing and obtaining experience for more than 5 years in this field. Further research is suggested to explore the subject of regulatory changes, particularly related to the auditing framework, which may extend the participants by considering the preparers, users as well as other relevant stakeholders, in order to draw on insight how the audit regulation relate to the public interest. Notwithstanding, this study contributes to the institutional theory's often-studied regulative pillar through the combination of three pillars in the examination of AQ.

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