

FACTORS OF AUDITOR'S READINESS IN IMPLEMENTING IFRS IN INDONESIA

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ABSTRACT

Accounting standards in Indonesia has harmonically been ready to implement international accounting standards or International Financial Reporting Standards (IFRS). The purpose of this study was to find out the effect of readiness on the competence, expertise and experience of auditors on the implementation The International Financial Reporting Standard (IFRS) in Indonesia in 2012. This study has shown that auditor's competence and experience had significant influence while they will implement of IFRS in Indonesia in 2012 but auditor's expertise didn't have significantly influence towards the implementation of IFRS. Questionnaires were distributed to selected auditors who work in several Public accountant offices. The implication is that auditors should have good knowledge to make sufficient adjustments while they want to convert the SAK (General Accounting Standard in Indonesia) to IFRS. They also have to understand the technique of audit in international environment by formal and informal education. Junior auditors need to improve audit skills and self confidence in order readiness to implement IFRS.

Key words: *competence, expertise, experience, and International Financial Reporting Standard.*

FAKTOR KESIAPAN AUDITOR TERHADAP PENERAPAN IFRS DI INDONESIA

ABSTRAK

Standar akuntansi di Indonesia telah menjadi keseragaman dalam mengimplementasi standar akuntansi internasional atau dikenal dengan international financial reporting standards (IFRS). Tujuan penelitian ini untuk menemukan pengaruh kesiapan pada kompetensi, keahlian dan pengalaman auditor dalam menerapkan IFRS di Indonesia pada 2012. Ditemukan bahwa kompetensi dan pengalaman auditor berpengaruh secara signifikan pada saat mereka mengimplementasikan IFRS di Indonesia pada 2012. Namun, keahlian tidak berpengaruh sama sekali. Kuesioner dipakai dalam mengumpulkan data yang diberikan kepada auditor di kantor akuntan publik. Implikasi penelitian ini adalah auditor harus memiliki pengetahuan yang baik agar bias beradaptasi dari SAK kepada IFRS dan juga memahami teknik audit di lingkungan internasional dengan pendidikan baik formal maupun informal. Auditor junior memerlukan pengembangan keterampilan audit dan kepercayaan diri untuk siap menerapkan IFRS.

Kata Kunci: *kompetensi, keahlian, pengalaman, dan Standar Pelaporan Keuangan Internasional.*

INTRODUCTION

The global era has demanded that there should be a system of international accounting that can be standardized internationally in every country. In other words, it is expected to have harmonization of international accounting standards, in order to make comparable financial information, to conduct competitive analysis and good relations with customers, suppliers, investors and creditors. But, this harmonization process has a problem when implementing such as nationalism spirit and culture of each country. There is always a different system of government in each country for example differences in interests between multinational companies and a national company that greatly affect the process of harmonization between countries, as well as high costs that would have raised to change accounting principles or accounting standard.

Accounting standards in Indonesia has together to implement international accounting standards or International Financial Reporting Standards (IFRS). This is due to the fact that Indonesian accounting standards has referenced to U.S. GAAP (United States Generally Accepted Accounting Standards) currently and, the near future, they will adopt IFRS but not fully. In fact when looking at financial accounting standard (SAK), some chapters are already adopting IFRS harmonization.

Adoption by Indonesia at this time is not comprehensive, only part of chapter is harmonized. IFRS was a single standard which has high quality accounting reporting and accounting framework. Thus, the users of financial statements can easily compare the entity's financial information between countries in different parts of the world. Implications of adopting IFRS means adopting a global financial reporting language that would create a company globally understood. A company will have greater competitiveness when adopting IFRS in its financial statements.

George T. Tsakumis, David R Campbell SR, and Timoty SD (2009) study described

factors that influence differences in interpretation and application of IFRS in Europe (EU). The variables used are concerned with the interpretation and application of IFRS. Test instrument was by means of interview method. The results show that there were two factors that have influenced the differences of interpretation and application of IFRS. Culture, nationalism, and ability to translate their native language to English as main finding that must be solved. This research has the same object to describe IFRS Implementation but some variables used in this study were different.

Brigida M. Octavio (2007) investigated whether IFRS are superior to GAAP in developed countries like U.S. and UK. The variables used are IFRS standards. Test instrument was also by means of interview method. US GAAP and IFRS standards were almost the same quality, but not better than the IFRS to US GAAP. The equation of this study also discusses the IFRS but on previous studies, it was aimed to obtain information on the importance and primacy of IFRS with GAAP.

Marjan Petreski (2006) described the impact of IFRS adoption on the financial statements for the company and its influence on decision making by the management of company. This study used credible and comparable attitude as independent variables. Test instrument used was by the interview method. The results show that, disclosure of financial statements was higher and more credible, financial statement has ability to compare with another international financial report and become more valuable to make decision making by management.

THEORETICAL FRAMEWORK AND HYPOTHESIS

Standards

International Accounting Standards (IASs) were issued by the IASC from 1973 to 2000. The IASB replaced the IASC in 2001. Since then, the IASB has amended some IASs and has proposed to amend others, has replaced some IASs with new IFRS, and has adopted

or proposed certain new IFRSs on topics for which there was no previous IAS. Through committees, both the IASC and the IASB also have issued Interpretations of Standards.

Compliance with Standards

Financial statements may not be described as complying with IFRSs unless they comply with all of the requirements of each applicable standard and each applicable interpretation.

IASB Framework

While not a standard, the IASB Framework for the Preparation and Presentation of Financial Statements serves as a guide to resolving accounting issues that are not addressed directly in a standard. Moreover, in the absence of a standard or an interpretation that specifically applies to a transaction, IAS 8 requires that an entity must use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable.

In making that judgment, IAS 8.11 requires management to consider the definitions, recognition criteria and measurement concepts for assets, liabilities, income, and expenses in the Framework. The IASB adopted the Framework in April 2001. It had originally been adopted by the IASC in 1989. Currently, the IASB is working on a Project to Revise the Framework. IFRS contents are 8 International Accounting Standards (IAS) with 41 Interpretations standard that have published by International Financial Reporting Interpretations Committee (IFRIC) included 16 Interpretation Standing Interpretations Committee (SIC) and 11 SICB. (www.ifrs.com).

In developing convergence of standards, the standard setter has three options: FASB standard, use IFRS and develop a new rule. In Indonesia implementation of IFRS as convergence is the same as to harmonize with PSAK, but many countries have developed their accounting rules to adopt fully IFRS to make transparency of financial re-

porting and get positive signal to capital markets and communicating with international investors (Asbaugh; 2001)

The Role of Auditors

Auditing of financial reporting status is not a new phenomenon (Salehi and Abedini, 2008). The function of formal auditing of financial reporting existed even before the publication of Luca Pacioli's method on the double entry accounting system in 1494. Whenever the advance of civilization brought about the requirement of one person being entrusted to some extent with the property of another, some kind of check upon the fidelity of the former was advised.

The difference between the audit functions of Luca Pacioli's days and that of the present is that the contemporary auditing function is made mandatory by the regulators of financial organizations. However, the auditing function can only be perceived as adding value when the public trusts the process, which lends credibility to published financial statements (Rezaee, 2004).

In such a condition the audit quality is the main goal for the audited financial statements. Here the question is whether the audit quality has direct relation to audit independence. As stated earlier according to several researchers there is a positive relation between audit independence and audit quality and audit competence.

Auditor Readiness

Someone should prepare everything necessary in the implementation of their tasks to achieve a job. Physical, psychological and cognitive readiness must be prepared. This also applies to an auditor. Readiness in psychology dictionary is defined as a point of maturity to accept or practice a particular behavior (Gulo Dali: 1983).

Ann, Hylton (2008) gives meaning to the readiness of a person that readiness was a competence and expertise in improving the experience so that someone who has the competence and expertise means that that person has a sufficient readiness to do some-

thing. There are some factors that were affected readiness such as competencies, skills, work experience, educational background and training.

Audit Competence

Recognizing that the quality of auditors' performance is dependent, in great part, on their education and training, the IAESB, an independent standard-setting board within the IFAC, has released a new standard outlining the skills, training, professional values, and attitudes necessary for auditors to perform competently. International Education Standard (IES) 8, applies to all audit professionals, not just the audit engagement partner.

Such a standard also prescribes specific competence requirements for audit professionals involved in transnational audits. "A primary way that the accountancy profession protects the public interest is by requiring that all audit professionals have the necessary skills and training to perform their roles effectively," states Henry Saville, IAESB Chair. These requirements include having advanced level knowledge of audit and financial reporting; relevant information technology knowledge; and the professional skills and professional values, ethics and attitudes expected from audit professionals.

Sound knowledge and competence commands a premium. Similarly, there is a demand for competence in auditing and accountancy, including adequate training and experience in all facets of an auditor's work. Further, nowadays the profession has also placed increasing emphasize on auditing and accounting professional education programs for auditors to ensure that they keep abreast of the latest ideas and techniques in auditing and accounting.

For example, Gul et al. (1994, p.25) state the audit should be performed and the report prepared with due professional care by persons who have adequate training, experience and competence in auditing. In addition to it, auditors are expected by third parties to have academic training in accounting, taxation, auditing, and other areas re-

lated to their profession. In addition they should receive further training, both formal and informal, throughout their careers.

Hermanson et al. (1993, p. 19) argued auditors should pass the CPA examination; they should keep abreast of current developments in accounting, auditing, and tax matters. In fact, an increasing number of jurisdictions now require CPAs to engage in continuing education to maintain their right to practice. According to Noor (1996) the success of any profession may depend on three main points as in the following.

- A. Advanced information;
- B. Continuing professional education; and
- C. Minimum levels of professional qualification.

For auditing profession, the three points are covered through auditing education, research in auditing, training of auditors, and admission to the profession after obtaining desired qualifications. However, there are some questions that must be raised. How does the independent auditor achieve the adequate technical training, desired qualification, and proficiency required to get this job?

Such achievement is usually interpreted to mean college university education in accounting and auditing, substantial public accounting experience, ability to use procedures suitable for computer-based system, and participation in continuing education programs. Mautz and Sharaf (1986, p. 140) point out the qualities of a prudent auditor, stating that a prudent practitioner is assumed to have a knowledge of the philosophy and practice of auditing, to have the degree of training, experience and skill common to the average independent auditor. Also they should have the ability to recognize indications of irregularities, and to keep abreast of developments in the preparation and detection of irregularities.

Audit Experience

Audit experience is defined as an auditor's unique knowledge, competencies and capabilities that occur from job practices in au-

ding profession. It enhances the auditor's abilities to process information, make mental comparisons of alternative solutions, and initiate subsequent actions (Chung and Monroe, 2000). It explicitly has an effect on decision making efficiency and effectiveness through a good memory of information necessary and an accurate judgment of audit tasks.

Also, audit experience has an influence on hypotheses generation, especially industry experience. Industry experience potentially encourages auditors to receive job efficiency and effectiveness via developing the knowledge bases of the unique risks and audit approaches for a particular industry (Wright and Wright, 1997). It helps them identify clients' operational errors and search for their misstated accounts.

Likewise, auditors with great experience are likely to improve their judgments with more complete and complex classifications of risk assessments (Stone and Dilla, 1994). Audit experience definitely promotes them to build and develop the consistency and consensus of risk judgments, assessments, and evaluations in auditing practices under other conditions, situations, and circumstances. Thus, auditors with more experience tend to perform best audit practices, achieve superior audit outcomes, and gain outstanding audit success.

Auditor Competency and IFRS Implementation

Being competent is defined as a person who has the knowledge, skills and individual qualities that include attitude, motivation, work values, behaviors that needed to perform their work (Suryana, 2003: 4). Competency can be through formal education that should be link with auditor task accounting graduate or certified public accounting as one of legitimate auditor competency.

For example, a short course for special purposes that give more knowledge can affect auditors to increase performance, training and professional examinations in relevant subject were some activities that in-

creasing auditors' competency to help them more prepared if IFRS in 2012 should be implemented in Indonesia.

Auditor Expertise and IFRS Implementation

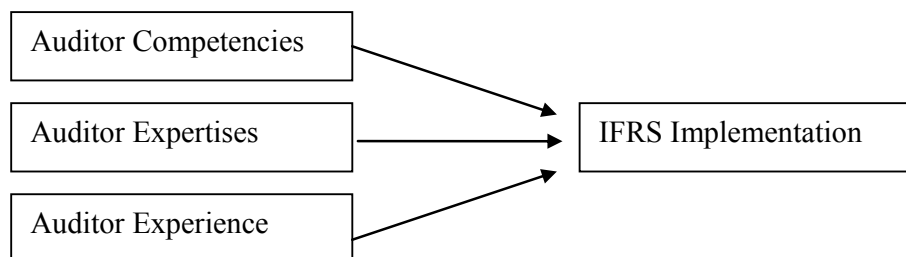
Auditing standards in the SPAP is divided into three standard, General Standards, Field Work Standards, and Reporting Standards (IAI, 2001). The general standard was said that the audit should be conducted by one or more who have sufficient expertise and specialized training as an audit expertise auditor. Someone who has a particular skill or good knowledge in certain subjects that obtained from the education and audit experience. Good knowledge about IFRS implementation that some one held by their education or experience in audit could have trigger to solve the problem when IFRS as international financial standard that auditors must known Mojtahedzadeh, Vida and Aghaei, P. (2005).

Auditor Experience and IFRS Implementation

Kevin Diehl A, 2010 has describes the relationship between the auditor experience on the implementation of IFRS. The auditors who have many experience and also complexity in their job have a tendency to readiness in the implementation of IFRS. Further results of his research have shown that the application of IFRS will increase fees of audit services or in other words it can be said if the auditors having many experienced while they doing audit field the price of audit services more expensive.

Mc. Anally (2010) have studied that the result of his research was shown auditor experience as a unique knowledge, competencies and capabilities that occur from job practices in auditing profession, then it enhances the auditor's abilities to process information and make sufficient adjustment in financial statement base on the evidence in their audit findings, further more this research was shown that IFRS improves the relevance, and thereby, the quality of at least

Figure 1
Research Framework



some reported numbers.

Research Hypothesis

Base on literature studies discussed above and research framework as shown in Figure 1, the testable hypothesis of this study can be formulated as follows:

There is relationship between auditor's competency and IFRS implementation

There is relationship between auditor's expertise and IFRS implementation

There is relationship between auditor's experience and IFRS implementation.

RESEARCH METHOD

Research Design

This study has used quantitative research by multiple linier regressions to find out the relationship between dependent and independent variables. This study has used primary data that collected through the selected respondent and based on the data collection method. This study aims to determine the effect of competence, expertise and experience audit to implement IFRS in 2012.

This study has been done by distributing questionnaires to selected respondents with criteria as follows: auditors that must have working in Public Accountant Office at least offer 2 years. Their Company has been registered and established minimum 5 years since studies period. This study has focused to inform relationship between competence, expertise's and experience's auditor to implement IFRS in Indonesia in 2012.

The respondents were auditors that have worked in some of Public Accountant Offices in Surabaya such as: KAP. Drs. Robby Bumulo, KAP. Drs. J. Tanzil & Rekan,

KAP. Soebandi & Rekan, KAP. Hasnil, M. Yasin & Rekan, KAP. Kanto, Tony, Frans & Darmawan, KAP. Haryono, Adi & Agus, KAP. Santoso & Rekan, KAP. Aryanto, Amir Jusuf, Mawar & Saptoto, KAP. Made Sudarma, Thomas & Dewi, KAP. Drs. Basri Hardjosumarto, MSi. Ak. & Rekan, KAP. Osman Bing Satrio & Rekan. There were 60 selected respondents that can be analysis.

Operational Measurement of Variables

The variables used in this study are as follows: the dependent variable (Y) is IFRS implementation while the independent variables (X1) Auditor's competency (X2) Auditor's Expertise and (X3) Auditor's experience. The implementation of IFRS is developing auditor perception to convergence PSAK to IFRS by questionnaires which measurement by Likert scale.

Audit competence is Competence in which a person has the knowledge, skills and individual qualities that include attitude, motivation, work values, behaviors that needed to perform their work. Competency can be through formal education that should be link with auditor task accounting graduate or certified public accounting as one of legitimate auditor competency.

Audit expertise is particular skill or good knowledge in certain subjects that obtained from the education and audit experience is defined as an auditor's unique knowledge, competencies and capabilities that occur from job practices in auditing profession that can enhances the auditor's abilities to process information, make metal comparisons of alternative solutions, and initiate subsequent actions (Chung and Monroe,

2000). Bouwmen and Bradley (2004) also argue that experience is the length of time working in their field. Measurement of independent variables is by using Likert scale in each seven questions as representative of variables item indicators

Regression Models

The analysis was initially performed using multiple linear regression analysis with SPSS Ver. 12 to see the linkage of audit competence, expertise and experience of the implementation IFRS readiness. As for the step of hypothesis testing, it is done as follows. Regression equation is to examine those linkages.

$$Y = a + b_1.X_1 + b_2.X_2 + b_3.X_3 + e$$

Y : Implementation of IFRS

a : Constant

b_1, b_2, b_3 : Regression coefficient

X_1 : Audit competence

X_2 : Audit expertise.

X_3 : Audit experience

e : error

DATA ANALYSIS AND DISCUSSION

Descriptive Analysis

There are 60 full fill questionnaires distributed to the selected respondents from several public accounting offices. It consisted of 28 female auditors and 32 male auditors who are still working at their office. Most of them have studied in accounting degree (76%) and master degree (24%), the majority of respondents were the auditors who have worked 2-5 years at the firms and have audited a minimum of 4 clients, additional skill and knowledge of the respondent currently were obtained from non formal education, short course, training and workshop such as Brevet Tax A, B, C, audit training level I and II, GAAP Course, seminars GAAP, tax seminars, training SFAS 46, training on the convergence of IFRS to GAAP Revision 2009, how the strategic convergence of IFRS in IFRS implementation, audit planning, and completion of audit working papers.

Result and Discussion

Statistical analysis provides information that the research instrument in three variables with seven entirely were valid with significance levels of 0,00 the results of reliability test was also known that the dependent variable and independent variables were reliable too, because α test $> \alpha$ tables or cronbach alpha value > 0.06 . in referring to Durbin Watson value > 2 and, it means classic assumption test did not imbed an autocorrelation in statistical models between the dependent variable and independent variables.

The value of VIF showed < 10 meaning the overall variable contains no multicollinearity, adjusted R Square value of 0.747 explains that the independent variables could explain the correlation effect on the dependent variable was 74.7% while 25.3% explained by other factors which are not investigated in the research model. F test result can be restated that competence, expertise and experience have influenced on IFRS Implementation.

T test result for competence (X_1) was known that the variable of competence of auditors has a significant influence on the readiness of auditors in implementing IFRS. The results also informed that the Auditors need to improve their knowledge by attending a seminar or training on the implementation of IFRS. It can be said that most of respondents agreed that the auditor needs to improve his knowledge by attending a seminar or training in IFRS to measure the readiness of auditors in implementing IFRS in the year 2012.

However, the results of this study also provide information that the management firm does not need to bring experts from other countries as an advisor to the auditor in order to provide IFRS knowledge for auditors. This is because the auditor in Indonesia through his confidence to implement IFRS using his knowledge, experience, training, and expertise in the auditing firms that have implemented IFRS.

Further finding informs us that the variable of competence is proved by the respon-

dents stating that most of them agrees that training needs to be done to improve the ability of auditors in applying IFRS knowledge. Training is intended to find out which part of the IFRS-based audit process by the auditor that was still weak and need to be developed. In addition, the respondents also agreed if the auditor needs to have knowledge about the control environment of the firm that will implement IFRS, because the implementation of IFRS in the year 2012, an auditor must be able to disclose the company's financial statements through principle of transparency and professional judgment. .

A T test result for variable of expertise (X2) indicates that expertise has no significant impact on the readiness of the auditor for the implementation of IFRS. However, based on deep interview it was found that the auditor was not sure if the expertise held by the auditors that their skill is not sufficient to prepare the implementation of IFRS in 2012 in Indonesia. However, the results of this study also informed that the firm already requires the auditor to increase his knowledge by attending a seminar or training on the implementation of IFRS. It also requires the auditors to already adapt their daily audit task to IFRS. They need to enhance their experience through audited multinational companies or foreign companies that have implemented IFRS. They also understand and carry out professional services in accordance with GAAP and relevant SPAP in accordance with IFRS-based standards.

T test result for variable experience (X3) was found that the experience of auditors have a significant impact on the readiness of auditors in the implementation of IFRS. In addition, respondents also agreed if the auditors should have sufficient experience while they have auditing companies, multinational companies and foreign companies. This result can be very clearly proved that a fairly extensive audit experience in various types of companies have adopted IFRS to become auditor's strength to increase their confidence as one of experience outcome to implement IFRS in 2012. The results of this

study also informed that Public accountant office requires the auditors to have the ability and experience to detect the mistake of applying IFRS.

CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATION

The purpose of this study was to find out relationship between competence, expertise and experience of the auditor of readiness to implement IFRS. Competence and experience of auditing has a significant influence on the readiness of auditors in implementing IFRS, auditors need to improve their knowledge through seminars and training that given relevant topic for implementation of IFRS and also enhance the experience of harmonizing the application of Generally Accepted Accounting Financial Standard in Indonesia (PSAK) to IFRS. The implication of this research was the public accountant office management also requires the auditor to have sufficient knowledge about the control environment for implementing IFRS. Expertise has no significant effect to auditor's readiness for IFRS implementation because auditors have not been convinced of the expertise held by the auditor in the implementation of IFRS in Indonesia in 2012. Large part of the respondents were an auditors that have working on their public accountant office about two - five years then they feel less confident and ready to carry out audits on clients that have implemented IFRS, further discussing in this study was inadequate knowledge of the consequences of applying IFRS to be strong reasons for the auditor to continue working diligently to increase their knowledge and expertise if the audit firms that have implemented IFRS.

The authors suggest in the next study to discuss how the internal auditor in public company as a mandatory will prepare their competence and experience on the implementation of IFRS. The dimensions of regulation and extensive disclosure of financial statements become a challenge for internal auditors to answer their readiness. Consideration of cultural factors in developing

countries cost of audit services and broad of audit scope can also be used as variables in the next study. The author has limited to control the answer of respondents in their questionnaires, because some respondents chose not interviewed directly, but return their questionnaires by mail after they answer this research instrument.

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APPENDICES

Validity Test

Variable	Indicators	Correlation	Significant	Result
Implementasi IFRS (Y)	IMPLMNT 1	0.423	0.003	Valid
	IMPLMNT 2	0.843	0	Valid
	IMPLMNT 3	0.749	0	Valid
	IMPLMNT 4	0.742	0	Valid
	IMPLMNT 5	0.734	0	Valid
	IMPLMNT 6	0.832	0	Valid
	IMPLMNT 7	0.524	0	Valid
Competence (X1)	KMPTS 1	0.828	0	Valid
	KMPTS 2	0.742	0	Valid
	KMPTS 3	0.688	0	Valid
	KMPTS 4	0.834	0	Valid
	KMPTS 5	0.733	0	Valid
	KMPTS 6	0.801	0	Valid
	KMPTS 7	0.769	0	Valid
Expertise (X2)	KHLN 1	0.668	0	Valid
	KHLN 2	0.773	0	Valid
	KHLN 3	0.782	0	Valid
	KHLN 4	0.754	0	Valid
	KHLN 5	0.782	0	Valid
	KHLN 6	0.899	0	Valid
	KHLN 7	0.677	0	Valid
Experience (X3)	EXPR 1	0.816	0	Valid
	EXPR 2	0.825	0	Valid
	EXPR 3	0.772	0	Valid
	EXPR 4	0.774	0	Valid
	EXPR 5	0.776	0	Valid
	EXPR 6	0.811	0	Valid
	EXPR 7	0.721	0	Valid

Source: test value 2011.

Reliability Test

Variable	A Value	Cronbach α	Result
Y IFRS Implementaion	0.841	0.6	Reliable
X1 Competence	0.860	0.6	Reliable
X2 Expertises	0.885	0.6	Reliable
X3 Experience	0.880	0.6	Reliable

Source : test value 2011.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.872(a)	.760	.747	.207	2.088

a Predictors: (Constant), EXP, KEAH, KOMP

b Dependent Variable: Y

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.627	3	2.542	59.151	.000(a)
	Residual	2.407	56	.043		
	Total	10.034	59			

a Predictors: (Constant), EXP, KEAH, KOMP

b Dependent Variable: Y

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.182	.370		.493	.624
	Competence	.525	.092	.592	5.736	.000
	Expertise	.160	.109	.129	1.464	.149
	Experience	.256	.121	.232	2.111	.039

a Dependent Variable: Y

Residuals Statistics

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3.564	4.889	4.186	.360	60
Residual	-.528	.541	.000	.202	60
Std. Predicted Value	-1.729	1.955	.000	1.000	60
Std. Residual	-2.547	2.608	.000	.974	60

a Dependent Variable: Y