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<tr>
<td>AASB</td>
<td>Indonesian Auditing and Assurance Standards Board</td>
</tr>
<tr>
<td>ACCA</td>
<td>Association of Chartered Certified Accountants</td>
</tr>
<tr>
<td>BAPEPAM-LK</td>
<td>Indonesian Capital Markets and Financial Institution Supervisory Agency</td>
</tr>
<tr>
<td>BI</td>
<td>Central Bank of the Republic of Indonesia</td>
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<tr>
<td>BKPM</td>
<td>Indonesian Investment Coordinating Board</td>
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<td>BPK</td>
<td>The Audit Board of the Republic of Indonesia</td>
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<td>BPKP</td>
<td>Indonesian National Government Internal Auditor</td>
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<tr>
<td>BPS</td>
<td>Statistics Indonesia</td>
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<tr>
<td>CA</td>
<td>Chartered Accountant</td>
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<tr>
<td>CGMA</td>
<td>Chartered Global Management Accountant</td>
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<tr>
<td>CML</td>
<td>Capital Market Law</td>
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<tr>
<td>CPA</td>
<td>Certified Public Accountant</td>
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<tr>
<td>CPD</td>
<td>Continuous Professional Development</td>
</tr>
<tr>
<td>DKSADK</td>
<td>Indonesian Consultative Board of Financial Accounting Standards</td>
</tr>
<tr>
<td>DPN</td>
<td>IAI National Council</td>
</tr>
<tr>
<td>DSAK</td>
<td>Indonesian Financial Accounting Standards Board</td>
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<tr>
<td>DSAS</td>
<td>Indonesian Sharia Accounting Standards Board</td>
</tr>
<tr>
<td>DSN MUI</td>
<td>National Sharia Board of the Ulema Council</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>EY</td>
<td>Ernst &amp; Young</td>
</tr>
<tr>
<td>FAOA</td>
<td>Swiss Federal Audit Oversight Authority</td>
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<tr>
<td>FRA</td>
<td>Financial Reporting Act</td>
</tr>
<tr>
<td>FSAP</td>
<td>World Bank Financial Sector Assessment Program</td>
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<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
</tr>
<tr>
<td>GCG</td>
<td>Good Corporate Governance</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>IAASB</td>
<td>International Auditing and Assurance Standards Board</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>IAI</td>
<td>Institute of Indonesia Chartered Accountants</td>
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<td>IAMi</td>
<td>Indonesian Institute of Management Accountants</td>
</tr>
<tr>
<td>IAPI</td>
<td>Indonesian Institute of Certified Public Accountants</td>
</tr>
<tr>
<td>IASB</td>
<td>International Accounting Standards Board</td>
</tr>
<tr>
<td>IES</td>
<td>International Education Standards</td>
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<tr>
<td>ICAEW</td>
<td>Institute of Chartered Accountants in England and Wales</td>
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<tr>
<td>IDR</td>
<td>Indonesian Rupiah</td>
</tr>
<tr>
<td>IDX</td>
<td>Indonesia Stock Exchange</td>
</tr>
<tr>
<td>IAESB</td>
<td>International Accounting Education Standards Board</td>
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<td>IESBA</td>
<td>International Ethics Standards Board for Accountants</td>
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<td>IFAC</td>
<td>International Federation of Accountants</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<td>IKAI</td>
<td>Indonesian Institute of Audit Committees</td>
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<td>IPO</td>
<td>Initial Public Share Offering</td>
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<td>ISA</td>
<td>International Standards on Auditing</td>
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<tr>
<td>ISAE</td>
<td>International Standards on Assurance Engagements</td>
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<tr>
<td>ISAK</td>
<td>Indonesian Interpretation of Financial Accounting Standards</td>
</tr>
<tr>
<td>ISQC</td>
<td>International Standard of Quality Control</td>
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<tr>
<td>KADIN</td>
<td>Indonesian Chamber of Commerce and Industry</td>
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<tr>
<td>KAISP</td>
<td>Profession Standards Assistance and Implementation Committee</td>
</tr>
<tr>
<td>KAP</td>
<td>Public Accountant Firms</td>
</tr>
<tr>
<td>KJA</td>
<td>Accounting Services Firm</td>
</tr>
<tr>
<td>KPAP</td>
<td>Indonesian Committee on Public Accounting Profession</td>
</tr>
<tr>
<td>LKTP</td>
<td>Annual Financial Statement</td>
</tr>
<tr>
<td>LLC</td>
<td>Limited Liability Companies</td>
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<tr>
<td>MSME</td>
<td>Micro, Small, and Medium Sized Enterprises</td>
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<tr>
<td>MUI</td>
<td>Indonesian Council of Ulemas</td>
</tr>
<tr>
<td>NFI</td>
<td>Non-Financial Institution</td>
</tr>
<tr>
<td>OAI</td>
<td>Indonesian Audit Firm Organization</td>
</tr>
<tr>
<td>OCI</td>
<td>Other Comprehensive Income</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
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<td>---------</td>
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<tr>
<td>OJK</td>
<td>Indonesia Financial Services Authority</td>
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<tr>
<td>OTC</td>
<td>Over the Counter</td>
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<tr>
<td>PAO</td>
<td>Professional Accountancy Organization</td>
</tr>
<tr>
<td>PCAOB</td>
<td>US Public Company Accounting Oversight Board</td>
</tr>
<tr>
<td>PIE</td>
<td>Public Interest Entities</td>
</tr>
<tr>
<td>POJK</td>
<td>OJK Regulation</td>
</tr>
<tr>
<td>PPAK</td>
<td>Professional Accounting Program</td>
</tr>
<tr>
<td>PPE</td>
<td>Property, Plant and Equipment</td>
</tr>
<tr>
<td>PPPK</td>
<td>Finance Profession Supervisory Center</td>
</tr>
<tr>
<td>PROLEGNAS</td>
<td>National Legislative Program</td>
</tr>
<tr>
<td>PSAK</td>
<td>Statement of Indonesia Financial Accounting Standards</td>
</tr>
<tr>
<td>PSE</td>
<td>Private Sector Entities</td>
</tr>
<tr>
<td>PMK</td>
<td>The Minister of Finance Regulation</td>
</tr>
<tr>
<td>PT KPEI</td>
<td>Indonesian Clearing and Guarantee Corporation</td>
</tr>
<tr>
<td>PT KSEI</td>
<td>Indonesian Central Securities Depository</td>
</tr>
<tr>
<td>ROSC A&amp;A</td>
<td>Report on the Observance of Standards and Codes, Accounting &amp; Auditing</td>
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<tr>
<td>RPJMN</td>
<td>Indonesian National Medium-Term Development Plan</td>
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<td>SA</td>
<td>Standard on Auditing</td>
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<tr>
<td>SAK</td>
<td>Indonesian Financial Accounting Standards</td>
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<tr>
<td>SAK EMKM</td>
<td>Indonesian Financial Accounting Standards for Micro, Small, and Medium-sized Enterprises</td>
</tr>
<tr>
<td>SAK ETAP</td>
<td>Indonesian Financial Accounting Standards for Non-Public Interest Entities</td>
</tr>
<tr>
<td>SAS</td>
<td>Indonesian Sharia Accounting Standards</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium-Sized Enterprises</td>
</tr>
<tr>
<td>SMO</td>
<td>IFAC Statement of Membership Obligations</td>
</tr>
<tr>
<td>SMP</td>
<td>Small and Medium-Sized Audit Practices</td>
</tr>
<tr>
<td>SOE</td>
<td>State-Owned Enterprise</td>
</tr>
<tr>
<td>SPAP</td>
<td>Indonesian Public Accountant Professional Standards</td>
</tr>
<tr>
<td>SPM</td>
<td>Quality Control Standard</td>
</tr>
<tr>
<td>TISAK</td>
<td>The Indonesian Accounting Standards Board Implementation Team</td>
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<td>-------------------------------------------------------------</td>
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<tr>
<td>USD</td>
<td>US Dollars</td>
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PREFACE

Reports on the Observance of Standards and Codes Accounting and Auditing (‘ROSC A&A’) assess financial reporting and auditing standards, institutions and practices in participating countries. These reports form part of a joint initiative implemented by the World Bank and the International Monetary Fund to review the quality of implementation of internationally recognized standards and principles in 12 key areas (‘the ROSC program’) with a view to promoting financial and economic stability.

This report provides an assessment of financial reporting and auditing requirements and practices within the corporate sector in Indonesia and sets forth areas for consideration for improving the institutional environment for A&A. The ROSC A&A used international benchmarks of good practice governing financial reporting and auditing in the assessment, including International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA). This report updates an earlier assessment which was published in 2011 and was undertaken following a formal request from the Government of Indonesia.
ACKNOWLEDGMENTS

The Report on the Observance of Standards and Codes, Accounting and Auditing (ROSC A&A) was conducted at the request of the Government of Indonesia, from August 2017 to May 2018. All findings reflect this period of the review and some stated future events may have occurred by publication date. The World Bank team was led by Christina Irma Donna (Senior Financial Management Specialist) and Christopher Robert Fabling (Senior Financial Management Specialist), and included Andrei Busuioc (Senior Financial Management Specialist), Alfred Jean-Marie Borgonovo (Senior Financial Management Specialist), Michael J. Wells (IFRS Consultant) and Sylvia Siregar (Local Consultant).

The review was conducted through a participatory process involving the World Bank Country Office Jakarta and various in-country stakeholders, including Otoritas Jasa Keuangan, Ministry of Finance, Ministry of Trade, the Institute of Indonesia Chartered Accountants (IAI), the Indonesian Institute of Certified Public Accountants (IAPI), Ministry of Research and Higher Education, the Indonesia Stock Exchange, auditing firms, academia, and other business communities. The ROSC A&A team particularly would like to thank the ROSC National Working committee team members led by OJK Deputy Commissioner, Ms. Etty Retno Wulandari, for the strong leadership of this initiative within Government.

The team also gratefully acknowledges Rodrigo A. Chaves (Country Director for Indonesia and Timor Leste), Rolande Pryce (Operations and Portfolio Manager for Indonesia and Timor Leste), Yongmei Zhou (Practice Leader for Governance), Fily Sissoko, Arturo Hererra and Alma Kanani (Practice Managers, Governance East Asia and the Pacific), Sanjay Vani (Lead Financial Management Specialist), for their guidance and support.

The report also benefited from the comments of World Bank peer reviewers: Samia Msadek (Strategy and Operations Director, South Asia Regional Office), Jarett Decker (Head of Centre for Financial Report Reform), Chunlin Zang (Lead Private Sector Specialist), and Alexander Berg (Senior Financial Sector Specialist).
EXECUTIVE SUMMARY

INTRODUCTION

Indonesia is the world’s fourth most populous nation, the world’s 10th largest economy in terms of purchasing power parity, and a member of the G-20. It is a diverse archipelago nation of more than 300 ethnic groups and is the largest economy in Southeast Asia. The country’s GDP per capita has steadily risen, from $857 in the year 2000 to $3,847 in 2017. Out of a population of around 260 million, more than 25.9 million Indonesians still live below the poverty line. Based on March 2017 data, approximately 20.78% of the entire population remain vulnerable of falling into poverty, as their income hovers marginally above the national poverty line.\(^1\)

The Government is continuing to strengthen the investment climate, with the ease of doing business ranking improving from 106 in 2016 to 72 in 2018. Indonesia’s revenue-to-GDP and tax-to-GDP ratios are very low and declining. It is estimated that Indonesia is collecting less than 50 percent of its potential taxation revenue. A recent taxation amnesty program sought to improve tax compliance, boost tax revenue and encourage the repatriation of assets held offshore but achieved only limited success.

Developing the financial sector and capital markets to provide stability and access to finance are key Government priorities. These steps are necessary to reignite private sector growth and job creation. The capital markets do not yet provide a competitive alternative to banks. The result is, the financial sector and the capital market are not able to fully fund Indonesia’s development needs (particularly infrastructural investments) to the extent necessary to boost inclusive economic growth.

State-owned enterprises (SOEs) play a significant role in the Indonesian economy. Strengthened corporate governance arrangements and transparency are key elements to help facilitate both increased private investment in SOEs and mobilization of private capital for public investments to be managed by the SOEs.

Micro, small and medium sized enterprises (MSMEs) are important for Indonesia’s economy as they represent 57 percent of GDP value-added and provide 97 percent of all employment. However, less than 30 percent of MSMEs are in the formal sector and they face significant

\(^1\) As emerging middle-income country, Indonesia has made enormous gains in poverty reduction, cutting the poverty rate by more than half since 1999, to 9.8% in 2018
challenges in accessing finance, mainly due to the stringent operational, reporting, and collateral requirements of commercial banks. In recent years a number of initiatives have been promoted by the Government to enhance access to finance for MSMEs.

**OBJECTIVE OF THE REPORT**

This Report on Observance of Standards and Codes in Accounting and Auditing (ROSC A&A) seeks to assist with the further development of the financial reporting institutional framework in Indonesia. It aims to improve understanding of the importance of a high-quality system for corporate financial reporting and auditing. It highlights the direct linkages to improved corporate governance and accountability through increased transparency and disclosure.

The report updates progress since the previous 2011 ROSC A&A. It summarizes key findings, identifies gaps, and makes recommendations for consideration by the authorities to improve alignment with international standards and good practice.

**ECONOMIC DEVELOPMENT AND CORPORATE FINANCIAL REPORTING**

In rapidly developing economies like Indonesia, financial markets are one of the important economic drivers, and the role of the financial reporting infrastructure in supporting the development and sustainability of this sector becomes more important. The credibility of financial statements is an important contributor to the efficient operation of financial and capital markets in allocating capital for productive economic purposes. It also plays a key role in promoting confidence in the financial and capital markets.

High quality financial reporting contributes to promoting private sector growth by allowing investors to evaluate corporate prospects and make informed investment decisions thus contributing to foreign direct and portfolio investment and helping to mobilize domestic savings. Financial reporting is also a building block of a market-based monitoring of companies, which allows shareholders and the public at large to assess management performance, thus influencing its behavior. High quality financial reporting may also contribute to improving the assessment and collection of taxes on corporate profits.

In this respect, the importance of the adoption and implementation of international standards cannot be overstated as it directly impacts the quality of corporate financial reporting and auditing. International Financial Reporting Standards (IFRS and IFRS for SMEs), International Standards on Auditing (ISA) and the supporting International Standard on Quality Control (ISQC
1), and IESBA’s Code of Ethics have all been widely adopted around the world. Effective monitoring and enforcement of accounting and auditing standards is important to assure their reliable application. Given the reliance investors and capital markets place on the assurance provided by auditors, oversight of auditors by independent and competent regulators has increasingly become an urgent priority for developed as well developing countries.

The common theme that emerges from this ROSC as well as from the previous ROSC reports is that, given Indonesia’s commitment to successful implementation of international standards, there is a need for greater focus by the policymakers in creating the conditions and institutions to enable achievement of this objective.

**OVERALL FINDINGS**

The Indonesian authorities are committed to full convergence with IFRS. The version of the Indonesian Financial Accounting Standards (SAK) effective on January 1, 2018 are substantially converged with the IFRS effective on January 1, 2017. However, currently early adoption of new and revised IFRS is not allowed. Companies who have dual stock exchange listing on a foreign exchange are required to prepare two separate sets of financial statements based on IFRS and PSAK.

The quality of financial information presented in the financial statements needs improvement. While boilerplate disclosures may create the appearance of technical compliance, majority of sample of financial statements reviewed do not fully comply with the financial reporting standards principles. This is particularly evident in disclosures about key risks and management judgements used in the preparation of financial statements.

The low quality of financial reporting by MSMEs is constraining their ability access to finance and their potential for business growth. Banks often place very limited reliance on the financial statements or the audit opinions due to concerns about their reliability. They therefore do extra due diligence when providing loans to these types of businesses. Implementation of simplified financial reporting along with improving monitoring of compliance with their financial reporting requirements would assist MSMEs access to finance.

A new Financial Reporting Act, which would help address many of the shortcomings identified in this report, has been under the Government’s consideration for more than three years. The draft Act has proposed establishment of a Financial Reporting Authority that would strengthen monitoring and oversight of the financial reporting and auditing framework. However, the draft needs to be comprehensively discussed before it can be submitted to the National Legislative Program (Prolegnas).
The current financial reporting, statutory audit and the related corporate governance requirements are fragmented and inconsistent across different types of entities. The draft Financial Reporting Act, in conjunction with the development of a differential financial reporting framework, offers an opportunity to address the current fragmentation and inconsistencies in these requirements. Bringing more coordination and consistency would also offer significant benefits in terms of both certainty for investors and more effective use of scarce capacity and resources of regulators.

Auditing standards in Indonesia lag behind the international standards particularly for the most important aspect of enhanced requirements for audits of listed companies. Such incongruence with the international standards may affect the perception of the quality of the external audit process in Indonesia. Similarly, different outdated versions of the International Code of Ethics are currently adopted by the Indonesian Professional Accountancy Organizations (PAOs). There is thus a possibility of different ethical standards being applied by different practitioners within the Indonesia accounting profession.

Indonesia has relatively well developed PAOs that:

- Operate in the public interest;
- Develop capable and competent accountancy professionals;
- Promote strong professional and ethical standards;
- Enhance the quality of financial reporting and auditing through education and training, quality review, investigation, and discipline of professionals; and
- Act as a resource to government, regulators, and other stakeholders on accountancy related issues.

There are, however, some key areas where further improvements are needed. The standards setting boards for financial reporting and auditing are currently funded by the Institute of Indonesia Chartered Accountants (IAI) and the Indonesian Institute of Certified Public Accountants (IAPI) respectively. The members of these boards are primarily active members of the accounting and auditing profession who work on a voluntary non-remunerated basis. Members of Indonesian AASB also include representatives from relevant regulators and academia, however, this is not sufficient to make the board independent from the profession. It is important that the standard setting is seen to be independent of the profession. The delays in the adoption of latest auditing standards appear to be partially driven by resistance from within the auditing profession. This serves to emphasize the importance of ensuring standard setting is independent of the profession. The ongoing sustainability of the voluntary membership of the
standard setting bodies also needs careful consideration. The proposed Financial Reporting Authority could serve as an independent standards-setting body and monitor compliance of the implementation of the standards by the companies and auditors.

Audit oversight and quality assurance activities of the regulatory bodies need capacity improvement as well as better coordination among them. The current oversight and quality assurance processes need further development to ensure that systemic compliance issues are identified, reported and addressed in a timely manner. In a recent case, a foreign public audit oversight body detected a major issue of non-compliance by an Indonesian audit firm several years later. This illustrates the need for more timely and effective oversight by the Indonesian audit oversight authority.

Pathways to become professional accountants and practicing auditors have been simplified and opened-up. However, the PAOs do not currently provide any exemptions for each of their members for their respective programs. There is also limited recognition of foreign sound accounting qualifications which causes unnecessary barriers for entry into profession of professionals who have qualified outside Indonesia. Reforms in these areas are very important as economic growth will significantly increase the demand for well qualified accountants.

FINDINGS AND RECOMMENDATIONS

Legislative and Regulatory Framework

While progress has been made in developing the statutory framework for corporate financial reporting in Indonesia in recent years through convergence with international standards, important gaps remain. These primarily relate to the absence of a Financial Reporting Act supported by a differential financial reporting framework that would establish the requirements and exemptions that apply to different types and sizes of entities, a lag in the full adoption of latest international standards for financial reporting and auditing, and the lack of harmonized institutional responsibilities for monitoring and enforcement.

The current financial reporting and statutory audit requirements are fragmented; they are included in several laws and regulations across different entity types with no overarching legislation. As these have developed incrementally overtime and are administered by different agencies, inconsistencies have occurred leading to different interpretations. For example, the

Financial reporting and statutory audit requirements are fragmented. There is no comprehensive differential financial reporting framework.
Capital Market Law (article 69) states GAAP is required for the financial statements of listed companies and it includes SAK and the regulator accounting provision to ensure fulfilment of adequate needs of the capital market such as compliance with the full disclosure principle in order to protect the public interest; however, there is a precedent that such ruling could contradict the SAK for a defined period and in practice most entities’ audit reports refer to SAK and only a few to GAAP as financial reporting framework. Further, generally entities of significant size are not required to publicly disclose their audited financial statements except for banks, insurance companies, mutual fund companies, companies issuing bonds and listed companies. Also, inconsistencies exist between the companies’ criteria on audit and financial statement filing requirements, as defined in Limited Liability Company Law compared to the Government Regulation on Company Annual Financial Information and the Minister of Industry and Trade Decree on Provisions of Companies Annual Report Submission. It is important that there is legislative backing for all financial reporting and statutory audit requirements. A key recommendation in the previous ROSC A&A was that the legislative framework be modernized and included in the draft of a Financial Reporting Act (FRA).

It is recommended that the draft FRA is reviewed, strengthened with input from stakeholders and finalized. This should be accompanied by the development and implementation of a differential financial reporting regulatory framework setting out the financial reporting, statutory audit, and other related corporate governance requirements that apply to different types and sizes of entities: PIEs, non-PIEs and micro and small and medium sized enterprises (MSMEs). Legislative backing for simplified reporting requirements would help SMEs with potential for business growth to access finance.

It is further recommended that the proposal in the draft FRA that a Financial Reporting Authority be established is implemented. This would offer significant potential benefits. As outlined in the draft FRA, the Authority could: i) regulate and supervise the setting of financial reporting standards (this is currently done by Institute of Indonesia Chartered Accountants (Ikatan Akuntan Indonesia – IAI)), thereby addressing the perception of a lack of independence from the profession; ii) review a selection of submitted financial statements for compliance with financial reporting standards -no focused compliance review mechanism currently exists, (an important area given the potential non-compliance issues identified by the ROSC A&A task team’s review of a sample of financial statements); and iii) monitor compliance with the financial statement submission requirements.
There is no centralized database for monitoring submission of financial statements, submission rates are low, and there is limited access, particularly for non-PIE financial statement information. The introduction of a centralized database and financial reports information center is proposed in the draft Act.

**Institutional Arrangements**

Responsibility for setting financial reporting and auditing standards currently rests with bodies directly funded by the PAOs. Their work programs are largely delivered by practicing members of the profession on a voluntary non-remunerated basis. This gives rise to the perception that the standard setters are not sufficiently independent of the profession. It also raises question about the on-going sustainability of relying on volunteers to deliver the standard setters’ substantial work programs.

There are several different agencies currently conducting audit oversight and quality assurance activities, such as PPPK, OJK, IAPI, BPK. Although the roles and responsibilities of all agencies involved are defined, there is some overlap and duplication, despite efforts made by the agencies to coordinate their activities. Further, as PPPK is a department within the Ministry of Finance, it is bound by civil service recruitment and remuneration policies. As a result, PPPK’s ability to recruit and retain staff with the necessary specialized audit expertise and substantial practical experience is constrained. This gives rise to capacity constraints that adversely impact the audit quality inspection activities it conducts. The evidence of such constraints is the limited availability of public information on the findings of audit inspections, the absence of a robust quality assurance methodology, and the limited number of staff members with extensive practical audit and quality assurance experience.

It is suggested that further consideration be given to whether the mandate of the proposed Financial Reporting Authority should also include responsibility for the audit standard setting, oversight, and quality assurance. This would demonstrate independence of standard setting to the market, emphasize the importance placed on robust monitoring and enforcement activities, and ensure that key stakeholders, through its governance arrangements, have the incentive to hold the Authority accountable for its performance. Consolidation of standard setting and monitoring, compliance, and enforcement activities under the Financial Reporting Authority would potentially make more effective use of scarce capacity and resources.
The key considerations include how to ensure the Authority: i) can operate independently of the profession, ii) is adequately funded, and iii) is free to set its own recruitment and remuneration policies. These factors are all critical to enabling comprehensive, well-coordinated standard setting and public oversight arrangements. These considerations will have implications for the form of the institution, its governance arrangements, and its funding mechanism. The Authority’s initial focus will need to be on development of institutional capacity to properly execute its mandate. Bearing this in mind, it may be that the Authority should be an autonomous organization outside the core public sector, governed by an independent board appointed by the Minister of Finance with its funding source primarily in the form of levies on industry and the profession.

**Alignment with International Standards**

Financial reporting standards setters work with the Indonesia Financial Services Authority (Otoritas Jasa Keuangan – OJK) to ensure that financial reporting standards prevail for the preparation of general purpose financial statements. The draft Financial Reporting Act should include clarification that general purpose financial statements must be prepared in full compliance with financial reporting standards. The draft Act should state that financial reporting standards take precedence over any regulatory financial reporting requirements. If financial information, prepared in accordance with regulatory reporting requirements, needs to be included in the general purpose financial statements, this should be in separate supplementary disclosures.

The authorities are committed to full convergence with International Financial Reporting Standards (IFRS). However, currently early adoption of full IFRS, as issued by the IASB, is only allowed for those publicly listed companies who have a dual stock exchange listing on a foreign exchange where IFRS compliance is required. To facilitate more rapid progress towards full IFRS convergence, all publicly listed companies should be given the option of early adoption if they consider they can comply with full IFRS requirements and/or believe this would assist them with business development or investment opportunities.
The authorities are currently considering updating the financial reporting standards that apply to entities without public accountability\(^2\). Financial Accounting Standard for Non-Public Interest Entities (\textit{Standar Akuntansi Keuangan Entitas Tanpa Akuntabilitas Publik - SAK ETAP}) was initially based on the exposure draft of IFRS for SMEs. It is suggested that SAK-ETAP be aligned with the latest version of IFRS for SMEs as this will assist in ensuring comparability of financial statement information\(^3\). It will also minimize the time and resources required to keep the standard up to date.

Priority should be given to bringing the auditing standards up to date with the latest version of International Standards on Auditing (ISA). This will ensure that the auditing requirements and audit quality standards are consistent with international benchmarks. If this is not done there is a risk that audits will be performed applying less demanding auditing standards and consequently the quality of the external audit process in Indonesia may be affected. The most important amendments are to the ISA 700 “Forming an Opinion and Reporting on Financial Statements” and a new standard 701 “Communicating key audit matters in the independent auditor’s report,” which are not adopted in Indonesia and are particularly relevant as they cover the new audit reporting requirements for publicly listed companies.

Priority should also be given to full adoption of the latest version of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics. Currently different versions of the Code of Ethics have been adopted by IAI and the Indonesian Institute of Certified Public Accountants (\textit{Institut Akuntan Publik Indonesia - IAPI}). This means that the Indonesian accounting and auditing professions may not be applying up-to-date international ethical requirements and raises the potential for different ethical standards to be applied by different practitioners within the Indonesian profession.

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\(^2\) Entities without public accountability (ETAP) are entities that: (i) Do not have significant public accountability; and (ii) Issued general purpose financial statement for external user. Examples of external users are: owners who are not directly involved in business operations, creditors, and credit rating agents.

\(^3\) IASB is periodically reviewing IFRS for SMEs and latest review was done in 2015.
The Profession

There are restrictions on the ability of foreign-trained accountants and auditors to practice in Indonesia. Members of foreign PAOs are not provided with any exemptions towards completion of their Indonesian accounting and auditing qualifications unless IAI or IAPI has a formal Mutual Recognition Agreement in place with the foreign organization. This will be partially addressed for ASEAN countries once the ASEAN Mutual Recognition Agreement is fully implemented, although this only covers accounting services.

Given the rapid economic growth in Indonesia that requires a sustained supply of well qualified accountants and auditors, authorities should consider exploring various options to attract and permit well qualified Indonesian and third country nationals to provide their professional services in Indonesia. It would also help to ensure that Indonesia does not miss the opportunity to attract well qualified accountants and auditors into the local profession.

IAI and IAPI do not currently offer any exemptions to each other’s members for their respective programs. This means that qualified individuals who wish to have dual membership need to complete examinations that test the same or similar competencies. It is suggested that IAI and IAPI form a working group to map their programs and determine and implement appropriate exemptions.

There is currently no requirement for auditors to have professional indemnity insurance. This means that there is a risk that potential claims against auditors may not be adequately covered. It is suggested that IAPI and the regulators form a working group to study this and determine whether auditors should be required to have professional indemnity insurance.

Accounting Education

Universities and PAOs in many mature economies have moved towards a ‘learning outcomes approach’ and have implemented competency-based accounting education programs. The IAESB has developed guidance material to support the implementation of a learning outcomes approach. In Indonesia, the Government has established a taskforce to improve accounting education at universities. It will focus on the skills and competencies required by teachers and how to enhance these, including through practical experience in accounting programs and the establishment of internships, mentoring, and exchange programs. The taskforce may significantly
contribute to modernizing accounting education in Indonesia and it will be important to ensure its work is adequately funded.

Accounting education and training at the local and regional levels should be more aligned with the teaching competencies available and the needs of employers. It may be that in these areas the current emphasis should be on accounting technician programs delivered by vocational institutions. This would provide a pathway for those who wish to continue into the professional stream and achieve their CA or CPA designation.

**Audit Oversight and Quality Assurance**

Audit oversight and quality assurance are important elements of the enforcement mechanism to ensure full compliance with the standards by both preparers and auditors of financial statements.

The quality of public reporting on audit oversight and quality assurance activities needs significant improvement. Such reporting should provide an analysis of systemic audit quality issues and an overview of the key findings from audit quality inspections, and disclose good practices identified. The increased level of transparency this type of reporting provides not only improves overall confidence in the audit profession but also creates an enabling environment for audit quality improvement to be measured and assessed over time.

The audit oversight body needs to improve its methodology for quality assurance to be more comprehensive and should include the following key elements: i) a risk-based approach to selecting audit firms and individual audit engagements for review, ii) a methodology for assessing an audit firm’s quality control mechanisms, iii) a methodology for the detailed review of individual audit engagements, and iv) a clearly documented approach for the review of audit quality assurance tasks delegated to and performed by other institutions. The issue has been partially addressed by the approval of a new quality assurance methodology in April 2018\(^4\).

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\(^4\) A new quality assurance methodology was approved in April 2018 and included the elements (i), (ii), and (iii) stated above.
Observed Financial Reporting Practices

The observed financial reporting practices suggest that gaps exist between the applicable legislative requirements and actual practice. Non-compliance with applicable financial reporting standards and filing requirements were identified, ultimately leading to limited availability of financial information in the market to support economic decision making. This in turn constrains the potential for financing (including private financing for SOEs), business growth, and increasing revenues from taxes. The compliance gap is an indication that further capacity strengthening is needed for institutions responsible for audit oversight and for enforcement of financial reporting practices by financial sector entities and SOEs.

The sample financial statements reviewed for compliance with financial reporting standards suggest a need for improvements in the quality of financial information presented in financial statements. The issues identified have an impact on the quality of financial information presented and disclosures, ultimately leading to less reliable information being available for decision making and accountability of those charged with governance. Increased compliance with financial reporting standards would provide better quality financial information and disclosures on the risks that businesses are facing and the significant judgements and assumptions management has made when preparing the financial statements. This could also help maximize the mobilization of finance from both domestic and foreign investors.

PROGRESS SINCE THE 2011 ROSC A&A REPORT

Good progress has been made in the following areas; however, several recommendations have either only been partially implemented or implementation has not yet begun (where appropriate these are discussed under the key findings and areas for consideration).

- The Public Accountants Act was enacted in May 2011 and implementing regulations have been promulgated. This provided legal backing for IAPI, set the rules for regulating the public accounting profession and established a functioning disciplinary system.


- The version of the Indonesian Financial Accounting Standards (SAK) effective on January 1, 2018 are substantially converged with the IFRS effective on January 1, 2017. Authorities are committed to achieving full convergence.
• IAI has been restructured and IAPI has been established as a PAO with IFAC associate member status.

• A recommendation for the supervisory unit of the Central Bank to collaborate with Independent audit review board at Bapepam-LK to prepare and maintain an authorized list of eligible auditors for the banking sector. As OJK has assumed responsibility for supervision of the capital markets and financial institutions and consolidated all key regulatory prudential oversight functions under one institution, this recommendation has been implicitly addressed. The list of eligible auditors for banking sector is available on the OJK website.

• Pathways to becoming professional accountants and practicing auditors have been simplified and opened-up.

• The learning outcomes for bachelor’s degree programs and the vocational accountancy programs have been updated.
I. INTRODUCTION

COUNTRY BACKGROUND

1. **Indonesia is the world’s fourth most populous nation, the world’s 10th largest economy in terms of purchasing power parity, and a member of the G-20.** It is a diverse archipelago nation of more than 300 ethnic groups and is the largest economy in Southeast Asia. It has achieved impressive economic growth since emerging from the Asian financial crisis of the late 1990s with GDP per capita steadily rising, from USD 857 in the year 2000 to USD 3,877 in 2017.

2. **Indonesia’s revenue-to-GDP (12.47 percent in 2016) and tax-to-GDP (10.33 percent in 2016) ratios are very low and declining.** During the period from 2004 to 2013, illicit financial flows reached a cumulative total of USD 181 billion. It is estimated that Indonesia is collecting less than 50 percent of its total potential taxation revenue\(^5\). Estimates further suggest that only 12 million Indonesians pay their annual taxes in line with their incomes and assets. Of the Indonesian adult population of 165 million there are only 35 million registered taxpayers. In his keynote speech to the Parliament on the 2018 State Budget Plan, the President of the Republic of Indonesia advised that there would be a budget deficit of 2.19 of GDP which illustrates the fiscal implications of the taxation collection issue. The Government of Indonesia’s tax amnesty program, from July 18, 2016 to March 31, 2017 sought to improve tax compliance, boost tax revenue, and encourage the repatriation of offshore assets into Indonesia\(^6\).

3. **The Government continues to strengthen Indonesia’s investment climate and promote economic growth.** Policy reforms have been announced to cut red-tape, open-up sectors for investors, and reduce the high cost of logistics. These announcements have been welcomed by investors\(^7\).

4. **The Government’s development priorities are set out in RPJMN 2015-2020.** The Government’s vision includes two paths that are related to the corporate financial reporting agenda: i) the realization of a self-reliant nation by improving the quality of life of all Indonesian people within a more advanced and prosperous economy, and ii) making the economy more economically competitive.

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6 Indonesia Tax Amnesty Program result is available in DG Tax website www.pajak.go.id/statistik-amnesti
7 World Bank, Country Partnership Framework (CPF) for The Republic of Indonesia for the period FY16-FY20, November 2015
5. **The RPJMN aims to improve the quality of human life and address disparity and inequality.** The main objectives of the RPJMN are human capital and community development, narrowing the income gap through increased productivity, poverty reduction measures, and increased development without environmental degradation. These objectives are channeled through three development dimensions: (i) human development, (ii) main sector development, and (iii) territorial and equity.

6. **A return to higher economic growth will depend on stable fiscal management.** It will also require successful implementation of the government’s infrastructure development plan and further improvement of the business environment. The ability to reignite private sector investment will depend on improvements in the overall business climate. There are several government initiatives to improve the business environment, and Indonesia is gradually improving its ranking in the ease of doing business, moving from 106th in 2016 to 72nd in 2018. Government priorities include developing the financial sector and capital markets to provide stability and access to finance, which are needed to attract and encourage private sector led growth.

### LINKAGE OF THIS REPORT TO INDONESIA’S REFORM AGENDA

7. **The ROSC A&A directly supports this reform agenda and complements other World Bank assessments — the Infrastructure Sector Assessment Program and Financial Sector Assessment Program (FSAP).** Benchmarking against international standards and good practices provides the basis for the policy recommendations included in Section V “Key Findings and Areas for Consideration”. The recommendations are intended to assist the promotion of: i) private sector led growth through increased regulatory and market efficiency; ii) development of the financial sector.

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8 World Bank, Country Partnership Framework (CPF) for The Republic of Indonesia for the period FY16-FY20, November 2015

9 Doing Business 2018, The World Bank. This reports that the Indonesian Government implemented seven reforms affecting all sets of indicators that are making it easier to do business: reducing start-up fees for limited liability companies, streamlining the processing of new electricity connection applications, reducing tax for property registration, improving access to credit information, protecting minority investors, promoting the online filing of taxes and lowering the capital gains tax rate, and introducing an electronic single billing system for trading across borders. One of the factors within the Doing Business indicators, protecting minority investors, is about “extent of corporate transparency”, which underscores the importance of corporate financial reporting and auditing to a country’s business environment and investment climate.

10 Indonesia 2017 FSAP recommended a passage of the Financial Reporting Act to help with accounting and auditing practices which are generally adequate but raised issues about audit quality assurance particularly for auditors of rural banks.
and capital markets; and iii) improved accountability and transparency, particularly in the SOE sector.

**Box 1. Systematic Country Diagnostic Reform Priorities**

The Indonesia Systematic Country Diagnostic 2015 states that: “Delivering on the Government’s priorities will require continued focus on reforms to support and grow the private sector, greater financial resources generated by improvements in taxation and non-taxation resource mobilization and allocation, and enhanced implementation capacity, inter-governmental coordination and cooperation, as well as tackling governance challenges”.

8. **SOEs play a significant role in the Indonesian economy.** The sector consists of 142 majority or wholly owned SOEs, some of which are large groups of companies. In 2016, total SOE assets amounted to IDR 6,469 trillion, equivalent to slightly more than 50 percent of GDP. Most SOEs are limited liability companies. Twenty are listed on the stock exchange and account for 25 percent of the total capital market capitalization or IDR 1,451 trillion. The remaining SOEs are special purpose entities that either provide a mixture of public services and commercial profit-making activities based on special regulations or solely public service activities that are part of the Government.

9. **MSMEs play an important role in Indonesia’s economy.** In 2013, there were 57.9 million MSMEs, which made up 99% of all companies in Indonesia, provided employment for over 114 million people, and contributed about 60% of GDP. Less than 30% of MSMEs are in the formal sector, which encompasses all jobs with normal hours and regular wages and are recognized as income sources on which income taxes must be paid. Commercial bank lending is primarily to large corporates and SOEs. This means that Indonesian MSMEs are underserved and face significant challenges in accessing financing, mainly due to the stringent operational, reporting, and collateral requirements of commercial banks.

10. **The Government is prioritizing the development of MSMEs, but its approach of using non-targeted subsidized lending, through SOE and regional SOE banks, may not stimulate the enterprises with the highest growth and value-added potential.** Notwithstanding the Government initiative, the recent FSAP stated the share of MSMEs loans to total bank loans stood only at around 20% as of Q3 2016. The World Bank has estimated the MSME financing gap to be around USD 330 billion.
11. **This report focuses on the institutional framework underpinning accounting and auditing practices in Indonesia**. It outlines the current roles and responsibilities of regulated entities, the private sector including MSMEs, and SOEs in relation to corporate financial reporting. It then benchmarks the current framework through comparison with international standards and good practice, as outlined in Figure 1.

12. **Increasing the degree of alignment with international standards and good practices for corporate financial reporting is a key driver of improvement of the overall standard of corporate governance.** Public availability of high quality corporate financial reporting that is reliable, accurate, and comparable will promote increased confidence and trust by investors, lenders, and creditors.

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Figure 1. ROSC 2.0 Assessment Methodology

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11 This assessment and report were prepared in the period August 2017 to March 2018. Some of the stated future actions or planned changes may have been achieved by publication date. The data and information used for the review were gathered using the revised ROSC A&A 2.0 diagnostic questionnaire completed by stakeholders; by reviewing accountancy profession-related documents; and through interviews with many stakeholders from the government, regulatory and accountancy bodies, auditing firms, individual practitioners, banks, MSMEs, and academia.
13. **High quality financial reporting, audits, and disclosure help drive improved transparency and accountability, which are particularly important in creating a ‘level playing field’ for investors.** This helps to foster the environment necessary for both the financial sector and capital market development by adding depth through increased involvement of institutional investors. It also helps to encourage enterprises to operate within the formal economy thereby making it easier to ensure they are paying the appropriate level of taxation and contributing to improved fiscal sustainability.
II. ASSESSMENT

ACCOUNTING & AUDITING STANDARDS

Assessment – Accounting Standards Gap

14. Accounting standards provide the basis on which entities prepare their general purpose financial statements. They include both general and specific requirements that should be followed by preparers of financial statements when establishing their accounting policies, deciding on the specific accounting treatments for different transaction types, and determining the scope and format of the financial statements including the extent of note disclosures that should be incorporated in the financial statements.

15. This section assesses the extent to which the national accounting standards follow international benchmarks IFRS and IFRS for SMEs. The quality of national standards and how they are applied in practice impacts on the reliability and comparability of financial information for users, especially current or potential investors, lenders, and creditors. Application of national standards is reviewed in Section IV “Observed Financial Reporting Practices”. The national standard setting process is reviewed in Section III “Setting Accounting Standards”.

16. The accounting standard setter, the Indonesian Financial Accounting Standards Board (Dewan Standar Akuntansi Keuangan - DSAK) under IAI, has issued three-tiers of accounting standards. This tiered approach provides a comprehensive accounting standards framework that is aligned with good practice.

- **First tier** – Indonesian Financial Accounting Standards (Standar Akuntansi Keuangan - SAK), developed and updated based on the 2017 version of IFRS with a one-year effective date gap, should be applied by PIEs. Indonesia did not adopt IFRS 1 First-time Adoption of International Financial Reporting Standards as the convergence process in Indonesia has been conducted gradually and some provisions of IFRS 1 have already been included in individual SAK.

- **Second tier** – Financial Accounting Standards for Entities without Public Accountability (Standar Akuntansi Keuangan untuk Entitas Tanpa Akuntabilitas Publik – SAK ETAP), should be applied by non-PIEs. Entities without public accountability (ETAP) are entities that: (i) do not have significant public accountability (non-PIEs); and (ii) have issued general purpose financial statements for external users. Examples of external users are: owners who are not directly involved in business operations, creditors, and credit rating agents. Entities with significant public accountability may use SAK ETAP only if allowed by the relevant regulator.
• **Third tier** – Financial Accounting Standards for Micro, Small, and Medium-sized Enterprises *(Standar Akuntansi Keuangan untuk Entitas Mikro, Kecil, dan Menengah - SAK EMKM)* should be applied by entities that meet the criterion of MSMEs, as stipulated in MSME law\(^{12}\), for two consecutive years\(^{13}\).

17. **The Limited Liability Companies (LLC) Law does not specifically define PIEs but rather provides criteria for those companies that should be audited.** *Standar Akuntansi Keuangan* (SAK), the Indonesian IFRS equivalent, applies to all entities that have public accountability (PIEs)\(^{14}\). The implementation of accounting standards that are fully aligned with IFRS is essential for these types of entities as they promote investor confidence and ensure consistency and reliability of the information in the published financial statements. While many countries have successfully adopted IFRS, actual implementation is often an issue as it requires changes to corporate governance practices and a high level of transparency and disclosure.

18. **Existing legislation and regulations do not allow the use of full IFRS, as issued by the International Accounting Standards Board (IASB), as the statutory financial reporting framework in Indonesia.** In December 2008, DSAK made its first public commitment to support the use of IFRS as a single set of global accounting standards. On May 25, 2016, the Trustees of the IFRS Foundation, OJK, and IAI announced their intention to deepen cooperation as Indonesia develops its plans to achieve full convergence with IFRS\(^{15}\). In February 2018, DSAK IAI initiated discussions on developing a new tier of full IFRS and potentially offering an option for certain entities to prepare their financial statements based on full IFRS, as issued by the IASB and endorsed by DSAK IAI.

19. **The current version of SAK became effective on January 1, 2018 and is substantially aligned with IFRS as of January 1, 2017.** However, modifications have been made which are presented as part of each Statement of Indonesia Financial Accounting Standards (PSAK) and/or Interpretation of Indonesia Financial Accounting Standards (ISAK). These modifications mainly allow for different effective dates and/or to cover the transitional provisions for initial application of the respective standards and interpretations. This means that there is currently a one-year effective date gap for new or revised standards issued by the IASB. As modifications included

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\(^{12}\) Law No, 20/2008 on Micro, Small and Medium-sized Entities  
\(^{13}\) SAK EMKM does not require entities to prepare a Statement of Changes in Equity and Statement of Cash Flows.  
\(^{14}\) See Appendix 1 Table 19 on the criteria of companies with significant size that required to publish their audited financial statements according to LLC law  
\(^{15}\) A Joint Statement was issued signed by the three parties.
transitional provisions, this was the main consideration in determining that adoption of IFRS 1 was not applicable in Indonesia.

Table 1. List of IFRS that are not included in the current SAK equivalents

<table>
<thead>
<tr>
<th>IFRS</th>
<th>Topic</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 1</td>
<td>First-time Adoption of International Financial Reporting Standards</td>
<td>IFRS 1 is not adopted in Indonesia as a gradual approach has been taken to achieving full convergence with IFRS</td>
</tr>
<tr>
<td>IFRS 14</td>
<td>Regulatory Deferral Accounts</td>
<td>Not adopted by DSAK IAI as considered not relevant for Indonesia’s context</td>
</tr>
<tr>
<td>IFRS 17</td>
<td>Insurance Contracts</td>
<td>IFRS 17 is in the process of adoption</td>
</tr>
<tr>
<td>IFRIC 16, 2</td>
<td>Members’ Shares in Co-operative Entities and Similar Instruments</td>
<td>Not adopted by DSAK IAI as considered not relevant for Indonesia’s context</td>
</tr>
<tr>
<td>IFRIC 5</td>
<td>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</td>
<td>Not adopted by DSAK IAI as considered not relevant for Indonesia’s context</td>
</tr>
<tr>
<td>IFRIC 6</td>
<td>Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment</td>
<td>Not adopted by DSAK IAI as considered not relevant for Indonesia’s context</td>
</tr>
<tr>
<td>SIC 17, 7</td>
<td>Introduction of the Euro</td>
<td>Not adopted by DSAK IAI as considered not relevant for Indonesia’s context</td>
</tr>
</tbody>
</table>

16 IFRIC: Interpretations developed by the IFRS Interpretations Committee
17 SIC: Interpretations issued by the Standard Interpretations Committee
20. The Indonesian Sharia Accounting Standards Board (Dewan Standar Akuntansi Syariah—DSAS) has developed additional accounting standards for Sharia based transactions. These PSAKs cover the accounting treatment and disclosures for certain distinctive features of Sharia based transactions. Sharia entities apply the requirements of SAK to all other conventional transactions.

**Box 2. Sharia accounting standards in Indonesia**

Indonesia Sharia Accounting Standards (SAS) are provided for Sharia and non-Sharia entities conducting Sharia transactions. Development of SAS follows the conventional SAK model with reference to fatwa (Islamic edict) of the Indonesian Council of Ulema or religious intellectuals’ council (Majelis Ulama Indonesia – MUI). The SAS is issued by DSAS in consultation with MUI to ensure that the standards are in line with Sharia and fatwa provisions issued by the Sharia National Board (Dewan Nasional Syariah) of MUI.

The Sharia financial reporting framework applies to all Sharia transactions reported in Sharia and non-Sharia entities’ financial statements, in both the public and private sector. Conventional entities that are involved in Sharia transactions are not required to prepare a complete set of Sharia financial statements, only to report those transactions based on Sharia accounting standards in the conventional financial statements (financial statements prepared based on SAK).

21. **DSAK is currently in the process of adopting IFRS 17: Insurance Contracts.** This will replace specialized insurance PSAKs that are currently based on IFRS 4. A working group was formed at the end of 2017 and comprises representatives from insurance entities, the actuarial profession, public accountants, the taxation authority, OJK and DSAK. IFRS 17 will be translated into PSAK with an Exposure Draft expected to be signed in January 2019 and implementation of the new PSAK effective 2022\(^{18}\).

22. **IFRS for SMEs has not been adopted in Indonesia.** Since 2009, DSAK has developed SAK ETAP for entities without public accountability. Initially drafted with reference to the IFRS for SMEs Exposure Draft, SAK ETAP was then further simplified after feedback from relevant stakeholders to address the specific financial reporting needs of entities/users. DSAK is currently conducting public consultation to revise SAK ETAP using IFRS for SMEs as a reference. The IASB is periodically

\(^{18}\) IFRS 17 was translated into exposure draft PSAK 74 Insurance Contracts and issued on October 17, 2018.
reviewing the IFRS for SMEs (the latest review was done in 2015). DSAK may wish to consult with IASB for any update in the future.

23. **DSAK also developed accounting standards specifically for use by micro, small, and medium sized entities in 2016.** This third tier of financial accounting standards, SAK EMKM, is intended to provide a simplified and self-contained set of overarching accounting principles. They are designed to be applicable to micro, small, and medium sized entities in Indonesia, as defined in Indonesian Law No. 20/2008.

24. **Assessment – Auditing Standards Gap**

24. **Auditing standards provide a basis for auditors to follow when they conduct their audits and provide their audit opinions.** This requires that auditors audit and express an opinion as to whether the financial statements fairly present, in all material respects, an entity’s financial position, financial performance and cash flows in accordance with Indonesian Financial Accounting Standards.

25. **This section assesses the extent of alignment of Indonesia’s auditing standards with ISA.** The quality of the standards is described in this section, while the way they are applied in practice in Indonesia is reviewed in Section IV “Observed Financial Reporting Practices and Perceptions”. The auditing standard setting process is reviewed in Section III “Setting auditing standards”.

26. **The appropriate implementation of auditing standards, that are aligned with ISA, is essential for the reliability of published financial statements.** While many countries have successfully adopted ISA, implementation is often an issue, as it requires changes in auditor behavior and the use of rigorous risk-based audit methodologies that ensure a deep understanding of an entity’s business and the potential risks it faces.

27. **The complete set of the most up-to-date ISA has not been fully adopted in Indonesia, although gradual progress has been made since 2013.** The adoption of ISA is managed through the development of Indonesian Public Accountant Professional Standards (Standar Profesional Akuntan Publik - SPAP). Under the Public Accountants Law 2011, IAPI has direct responsibility for setting SPAPs.

28. **In 2012, ISAs (2010) were adopted as part of SPAPs, effective for financial statement periods commencing on or after January 1, 2013, for application in audits of financial statements of Issuers**\(^9\). Other companies were required to have their financial statements audited in

\(^9\) Companies with securities trades on IDX
accordance with the new SPAPs effective for financial statement periods commencing on or after January 1, 2014. ISAs are translated into Bahasa Indonesia and, where considered necessary, adapted to the Indonesian context. Professional standards also incorporate the International Standard of Quality Control (ISQC 1) requirements through Indonesian Quality Control Standard No. 1 (Standar Pengendalian Mutu- SPM - 1). Other assurance standards and related services, including the International Standard on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs), and International Standards on Related Services (ISRSs) have also been adopted.

29. **Ethical requirements for professional accountants are based on the IESBA Code of Ethics issued in 2016, while those for auditors are in the process of being updated.** The IAI and the IAPI are responsible for setting ethical requirements for their members (state registered accountants and public accountants, respectively). IAI has adopted the 2016 IESBA Code of Ethics and this applied to all IAI members effective from January 1, 2017. The Indonesian Code of Ethics issued by IAI covers all parts of the IESBA Code with the exception of Part B (Professional Accountants in Public Practice) where reference is made to the Code of Ethics issued by IAPI. IAPI currently applies the 2008 IESBA Code of Ethics for its members. Currently, IAPI has published an exposure draft adopted from the 2016 IESBA Code of Ethics. The most significant changes in the IESBA’s 2016 code relate to professional accountants’ responsibilities when they become aware of non-compliance with laws and regulations committed by clients or employers.

30. **The current version of standards on auditing is based on ISAs as of 2010 and there have been significant updates since.** The gradual adoption of ISAs in Indonesia means that auditing standards that are being applied are less demanding than those in other countries where full ISAs have been adopted. There are many areas where the Indonesian standards are not the same with the current international equivalents. The key areas are summarized in table 2 below. The condition resulting less demanding auditing requirements in certain areas of audit work, such as reporting and inclusion of key audit matters in the audit report for issuers. This may impact the rigor and quality of audits when compared with international benchmarks. IAPI has a plan to

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20 International Standards on Assurance Engagements are adopted through local Standards of Engagement Assurance (except for ISAE 3410 Assurance Engagement on Green House Gas Statement), and International Standard on Related Services are adopted through Related Service Standards.

21 According to its responsibilities established under Minister of Finance Decree No. 25 of 2014 and Decree No. 263 of 2014.

22 IAPI sets ethical requirements for public accountants under the Public Accountants Act of 2011.

23 IAI is in the process of adopting 2018 IESBA Code of Ethics, which includes all parts of the IESBA Code of Ethics (Part A, B, and C), which is expected to be released in 2019.

24 In April 2017, IAPI changed their statute and created a Professional Ethics Committee which will be responsible for ethical standards. Previously this was done by the IAI.
continue the convergence with ISAs and further revisions and updates are planned between 2019-2021.

31. **The significant impact of non-adoption of the latest ISA is that auditors are not required to report on key audit matters when auditing listed entities.** Users of audited financial information, including audit committees of listed PIEs, will not therefore get information on key issues considered during the audit and how these were resolved. This may impact the accountability of preparers, auditors, and those charged with governance of listed companies. Further, delay in adoption of the new reporting model renders Indonesian audit reports incomparable with those from other countries, including other countries in the ASEAN region. IAPI plans to adopt the relevant audit reporting standards in 2020.

32. **Other important developments include the International Auditing and Assurance Standards Board (IAASB) project on non-compliance with laws and regulations.** This amended the provisions of ISA 250 (effective from July 2017) to make it more compatible with the Code of Ethics. These requirements are particularly important for audits of regulated entities (including banks, listed companies, and insurance companies).

| Table 2. List of ISAs not updated in IAPI’s auditing standards equivalents<sup>25</sup> |
|-------------------------------|-----------------|-----------------------------------------------|
| IAPI’s Auditing Standards (Adopted from ISA 2010 Edition) | 2016 Edition revised ISA | Name of ISA / area |
| SA 260 | ISA 260 (Revised) | Communication with those in charge with governance |
| SA 315 | ISA 315 (Revised 2012) | Identifying and assessing risks of material misstatement through understanding the entity and its environment |
| SA 570 | ISA 570 (Revised) | Going concern |
| SA 610 | ISA 610 (Revised 2014) | Using the work of internal auditors |
| SA 700 | ISA 700 (Revised) | Forming an opinion and reporting on financial statements |

<sup>25</sup> Per information from IAPI.
### Table 2. List of ISAs not updated in IAPI’s auditing standards equivalents

<table>
<thead>
<tr>
<th>IAPI’s Auditing Standards (Adopted from ISA 2010 Edition)</th>
<th>2016 Edition revised ISA</th>
<th>Name of ISA / area</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ISA 701 (New)</td>
<td>Communicating key audit matters in the independent auditor’s report</td>
</tr>
<tr>
<td>SA 705</td>
<td>ISA 705 (Revised)</td>
<td>Modifications of opinion in the independent auditor’s report</td>
</tr>
<tr>
<td>SA 706</td>
<td>ISA 706 (Revised)</td>
<td>Emphasis of Matter paragraphs and Other Matters paragraphs in the independent auditor’s report</td>
</tr>
<tr>
<td>SA 720</td>
<td>ISA 720 (Revised)</td>
<td>The auditor’s responsibilities relating to other information in documents containing audited financial statements</td>
</tr>
<tr>
<td>SA 800</td>
<td>ISA 800 (Revised)</td>
<td>Special considerations—audits of financial statements prepared in accordance with special purpose frameworks</td>
</tr>
<tr>
<td>SA 805</td>
<td>ISA 805 (Revised)</td>
<td>Special considerations – audits of single financial statements and specific elements, accounts or items of a financial statement</td>
</tr>
<tr>
<td>SA 810</td>
<td>ISA 810 (Revised)</td>
<td>Engagements to report on summary financial statements</td>
</tr>
</tbody>
</table>

33. **IAPI has also made some modifications to ISA provisions relating to audit reporting.** These were mainly to adopt only certain options provided by ISA in the local standard. Therefore, these modifications do not have a significant impact on the audit process or audit reporting.

26 Examples are adopting only the option of “fairly in all material respects” and not adopting the option of “true and fair view” in audit opinion and that auditors are required to sign the audit report only in the name of the engagement partner and not in the name of the audit firm as required in the ISA.

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**Indonesia – ROSC Accounting & Auditing**
34. **IAPI will need to incorporate the latest IAASB changes into its new standards.** The IAASB is currently engaged in new projects for updating important areas such as group audits, audit of accounting estimates, risk assessments, as well as quality control which will need to be taken account of in due course. The IAPI has established a special technical division that will discuss the incorporation of the latest changes into new standards.
III. INSTITUTIONAL FRAMEWORK FOR CORPORATE FINANCIAL REPORTING

GENERAL FINANCIAL REPORTING REQUIREMENTS

35. The general financial reporting and auditing requirements for the corporate sector are prescribed by various laws and regulations, see table 3 below\(^27\). There are some different interpretations of requirements, for example the Capital Market Law states GAAP is required for financial statements of listed companies and it includes SAK and the regulator accounting provision (please see Listed Companies section) to ensure fulfillment of adequate needs of the capital market such as compliance with the full disclosure principle in order to protect the public interest; however, there is a precedent that such ruling could contradict the SAK for a defined period and in practice some entities’ audit reports refer to SAK and others to GAAP as financial reporting framework. Further, entities of significant size are not required to publicly disclose audited financial statements except for banks, insurance, mutual fund companies, issuing bonds companies and listed companies. Also, inconsistencies exist between the companies’ criteria on audit requirements and filing requirements, as defined in Limited Liability Company Law compared to Government Regulation on Company Annual Financial Information and Minister of Industry and Trade Decree on Provisions of Companies Annual Report Submission.

36. **Under the tax law\(^28\), all companies must maintain their accounting records in accordance with SAK unless the tax regulations determine differently.** Companies are required to self-assess annual corporate income returns and report to the tax office within four months after the end of the fiscal year. The financial statements are required to be attached to the income tax returns (audited financial statements must be attached if the company is audited) together with the reconciliation to calculate the taxable income/loss.

\(^27\) Further details on the different requirements for companies’ financial reporting and audit set in laws and regulations according to business and industry types are provided in Appendix 1.

37. LLC Law requires an annual report to be prepared, not later than 6 months after year end, for the annual general shareholders meeting.\textsuperscript{29} The annual report should contain a minimum of: (a) financial statements, (b) company activity report, (c) social and environment responsibility report, (d) detail of issues during the period that impact the company business, (e) supervisory report by the board of commissioners, (f) names of the board of directors and board of commissioners, and (g) remuneration information for the board of directors and board of commissioners. Companies submit audited financial statements to a ministry or agency only if required by law or regulation\textsuperscript{30}.

\textbf{Table 3. Summary of financial reporting requirements for the corporate sector}

<table>
<thead>
<tr>
<th>Entities</th>
<th>Accounting Standards</th>
<th>Audit Requirement</th>
<th>Public Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited liability companies</td>
<td>SAK</td>
<td>Not required except for PIEs (see below)</td>
<td>Not required except for financial institutions</td>
</tr>
<tr>
<td>PIEs\textsuperscript{31}</td>
<td>SAK</td>
<td>Required</td>
<td>Required for banks, insurance, mutual fund companies, corporate bond issuers, and listed companies\textsuperscript{32}</td>
</tr>
<tr>
<td>Listed companies</td>
<td>SAK/generally accepted accounting principles (GAAP)\textsuperscript{33}</td>
<td>Required</td>
<td>Required</td>
</tr>
<tr>
<td>State Owned Enterprises</td>
<td>SAK</td>
<td>Required</td>
<td>Not required under SOE law but required if the SOEs meet the</td>
</tr>
</tbody>
</table>

\textsuperscript{29} Law No. 40/2007 Article 66 (2)
\textsuperscript{30} Article 66 (4)
\textsuperscript{31} See Table 19 in Appendix 1 for companies classified as significant sized based on Limited Liability Company Law No. 40/2007 article 68 (excluding the company with asset/revenue above IDR 50 billion)
\textsuperscript{32} Limited Liability Company Law No. 40/2007 article 68 (4): Balance sheet and Income Statement of financial statements of companies that managing public fund business (bank, insurance, mutual fund), issuing bonds, and listed companies should be announced in newspaper after General Shareholders Meeting approval.
\textsuperscript{33} Capital Market Law No. 8/1995 article 69 (1)
38. **There is no single database for financial statements of commercial enterprises.** Different ministries and agencies maintain separate databases for financial statements of enterprises under their supervision mandate, including the Ministry of Trade, the Ministry of Cooperative and MSMEs, the Directorate General of Taxes of the Ministry of Finance, PPPK and OJK.  

39. **There is a regulatory requirement for company with assets more than IDR 25 billion to submit the audited financial statements (Laporan Keuangan Tahunan Perusahaan – LKTP) to the Ministry of Trade on an annual basis but there is no obligation to make them publicly available.** Companies currently submitting financial statements to the Ministry of Trade total 34,504. The actual number of companies with assets more than IDR 25 billion is unknown. As comparison, the total number of companies registered by the Directorate-General of Taxes is 2,921,254. To establish a limited liability company, one must register to the Ministry of Justice and Human Rights. The Ministry of Trade is processing the amendment of The Minister of Trade Regulation No. 121/MPP/Kep/2/2002 regarding the Submission of Annual Financial Statements. The amendment of the regulation will cover public access and online submission of annual financial statements. In addition, the amendment will also cover sanctions if a company does not submit

| Micro, Small and Medium-sized Entities | SAK, SAK ETAP or SAK EMKM | Not required except for multi finance companies, and pension funds | Not required except for financial institutions (not including venture capital and employer pension funds) |

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34 The Minister of Finance Decree No.154/PMK.01/2017 concerning Supervision and Oversight for Public Accountants requires each audit firm to submit an annual activity report to PPPK that includes a listing of their audit engagement clients.

35 Based on information from the Ministry of Trade as of end 2017. This number are accumulation from 2003 until 2016.

36 Data as of February 2017 (Source: Directorate-General of Taxes of Ministry of Finance 2016 Annual Report)

37 The Ministry of Justice companies’ database is not easily accessed by the public. Access must be obtained through registered notaries or the State Gazette (by buying State Gazette compilation books issued by the Ministry).
its annual financial statements to the Ministry of Trade. These sanctions are expected to increase the number of companies submitting financial statements.

40. To update the statutory framework on financial reporting, PPPK produced a draft Financial Reporting Act (FRA) in 2014 (previous ROSC A&A recommendation, please see Section V “Summary of progress on ROSC 2011 recommendations”). The draft FRA is not included in the 2014-2019 Prolegnas of the Parliament and is unlikely to be enacted by 2019. The draft FRA provides a regulatory framework for financial reporting in Indonesia that addresses:

- entities that are required to prepare financial statements and submit them to the Financial Reporting Authority;
- scope of financial statements (as defined in the SAK);
- financial statements preparers competency requirements;
- audit requirements;
- accounting standard setters;
- compulsory registration of entities to an authorized agency;
- establishment of Financial Reporting Authority;
- limitation of use of information in financial reports;
- administrative sanctions for violation of administrative provisions of the FRA; and
- criminal sanctions for the manipulation and falsification of financial report information.

41. The draft FRA should address financial reporting regulatory requirements which are set by financial regulators and individual ministries that oversee certain sectors. These requirements are fragmented as they have developed incrementally overtime. Implementation of a differential reporting framework for different entity types (PIEs, Non-PIEs and SMEs) in parallel with the FRA would address the fragmentation and the inconsistencies in the requirements and exemptions.

42. The draft FRA should address the issue of limited access to financial statements. The proposed Financial Reporting Authority could have the final decision on what information may become available to the public, while access would be provided to other government agencies in

38 The content of the draft FRA is still being discussed by the MOF and the stakeholders, such as regulators and professional associations, and is therefore still subject to change. In the near future, PPPK is proposing to take the initiative to refine and finalize the draft FRA and conduct benchmarking studies with other countries to gather good practices on the Financial Reporting framework and its authorized body. PPPK is open for inputs from relevant parties to be considered and discussed further to refine the draft FRA towards the process of legislation.
accordance with the relevant laws and regulations. Concerns were raised by bankers and audit firms that potential borrowers were presenting financial statements with ‘fake’ audit opinions. Banks identified such cases through additional due diligence and by directly contacting the respective auditors. There are also cases of tax embezzlement by companies that attached unaudited financial statements to their income tax returns, even though they had been audited. Providing increased access to audited financial statements would help address these concerns.

43. The draft FRA provides for the establishment of a Financial Reporting Authority as a unit under the Ministry of Finance. The proposed Authority could have responsibility for: conducting reviews of financial statements and follow-up of the review findings; providing guidance to and supervision of reporting entities; review of financial accounting standards in terms of assessing their implementation and provide input to the standards board on any issues; serving as a financial reporting data and information center and imposing administrative sanctions for violation of the FRA. According to the draft, financial reporting standards setting would remain with the professional association, which could give rise to a perceived lack of independence from the profession. The draft FRA should cover the setting of auditing standards, and audit oversight and quality assurance.

LISTED COMPANIES

Overview of the securities and exchange market

44. The Indonesia Stock Exchange (PT Bursa Efek Indonesia - IDX) is the only one in the country. It is not a part of a network with other exchanges but is a member of the World Federation of Exchanges. Its listing requirements are differentiated and divided into two boards:

- the main board has higher listing requirements for companies, such as minimum operation of at least 36 months, profitable in the latest year-end, net tangible assets of at least Indonesian Rupiah (IDR) 100 billion, and a minimum of 1,000 shareholders;
- the development board which includes companies that aspire to be included on the main board; these should have a minimum of 12 months in operation, can report losses but should

39 www.idx.co.id
have a forecast that confirms profitability within two years after listing; net tangible assets of at least IDR 5 billion and a minimum of 500 shareholders.

45. In 2014-2016, the total number of initial public share offerings (IPOs) was 50, in 2017 there were 38 new issuers registered. The number of additional share offerings (right issues) in 2014-2016 was 74, and 35 as of end-December 2017. In addition, there were 175 bond offerings in 2014-16, and 76 in 2017.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Volume, billion shares</th>
<th>Average daily volume, billion shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1,446</td>
<td>5.9</td>
</tr>
<tr>
<td>2016</td>
<td>1,925</td>
<td>7.8</td>
</tr>
<tr>
<td>2017</td>
<td>2,845</td>
<td>11.95</td>
</tr>
</tbody>
</table>

46. Most institutional investors in the domestic stock exchange are mutual funds, banks, insurance companies, pension funds, Government, and quasi-governmental institutions. After an IPO of securities, investors can purchase or sell the securities from/to other investors in the secondary market either at IDX or at the over the counter (OTC) market.

<table>
<thead>
<tr>
<th>Number of listed companies</th>
<th>Market Capitalization (Trillion IDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Companies, including:</td>
<td>566</td>
</tr>
</tbody>
</table>

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40 These numbers are for issuers and not for listing approval data.
42 The only difference in requirements for bond issuers is that they are not required to issue interim quarterly financial reports.
43 Source: IDX statistics of December 2017
Table 5. Number of listed companies and market capitalization of IDX, as of 2017

<table>
<thead>
<tr>
<th></th>
<th>Number of listed companies</th>
<th>Market Capitalization (Trillion IDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed companies owned/controlled by the state</td>
<td>17</td>
<td>1,793.83</td>
</tr>
<tr>
<td>Subsidiaries of companies registered overseas but listed locally</td>
<td>98</td>
<td>1,589.70</td>
</tr>
</tbody>
</table>

Note: Out of 17 listed SOEs, 5 companies issue shares, 11 shares and bonds, and 1 shares, bonds, and sukuk (Islamic bonds). However, there are many SOEs that issue only bonds (over 600 bonds) and these are not included in the table above.

Table 6. Number of bonds in issue and market capitalization of IDX, as of 2017

<table>
<thead>
<tr>
<th></th>
<th>Number of listed bonds</th>
<th>Market Capitalization (Trillion IDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total bonds in issue, including:</td>
<td></td>
<td>2,487.09</td>
</tr>
<tr>
<td>Corporate bond</td>
<td>593</td>
<td>387.33</td>
</tr>
<tr>
<td>Government bond</td>
<td>91</td>
<td>2,099.76</td>
</tr>
</tbody>
</table>

Securities market regulation

47. The Securities market regulator is the OJK. It was established by the Financial Services Authority Law 21 (2011). The Capital Market Law (1995) empowers the capital market supervisory agency (which from 2011 became OJK) to conduct inspections or authorize other institutions to...

44 Source: IDX statistics of December 2017; does not include foreign currency bonds which are not significant.

45 Supervision of non-bank financial institutions and capital markets transferred from the Ministry of Finance and Indonesian Capital Markets and Financial Institution Supervisory Agency (Bapepam-LK) to OJK since December 31, 2012. Supervision of the banking sector transferred from the Central Bank to OJK since December 31, 2013.
perform inspections and criminal investigations. OJK is funded through state budget and/or levies imposed on supervised entities. OJK reports on its in monthly, quarterly, and annually reports. The quarterly reports are available on the OJK website, while the annual report is published at print media and electronic media. OJK monitors the submission of annual reports by issuers and publicly listed companies and report their status in the OJK quarterly reports. OJK also reviews reports produced by issuers and public companies to monitor compliance with capital market regulations. OJK conducts technical reviews to ensure compliance with SAK and OJK regulations.

48. OJK has the following responsibilities in respect of financial reporting: (i) regulation – issuing regulations that refer to accounting standards to be followed by listed companies; (ii) supervision – ensuring compliance with financial reporting requirements by listed companies, and overseeing and authorizing public accountants (auditors) who audit listed companies (public accountants have to be registered by OJK to be able to audit listed companies); (iii) investigation – formal and criminal investigations; and (iv) sanctions – including sanctions for non-compliance with financial reporting requirements by listed entities.

Financial reporting requirements for listed companies

49. Listed companies are not required or permitted to apply full IFRS for their general-purpose individual or consolidated financial statements. The Capital Market Law (article 69.1) states GAAP is required for the financial statements of listed companies. Elucidation of the Capital

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46 Article 38 OJK Law and Article 5 Internal OJK Regulation No.1/PDK.01/2015
47 From the quarter III 2017 report (page 62). OJK monitored compliance with capital market regulations of 153 transparency reports on material information or facts, 31 security rating reports, 137 general shareholders’ meeting results, and 40 public offering allotment reports. OJK also recapitulated debts in foreign currency reports from issuers and public companies totaling 423 reports during quarter III of 2017 to review exposure to foreign currency debts. OJK additionally conducted technical reviews of 7 issuers and public companies to ensure compliance with, for example: a) PSAK 22 on Business Combination, POJK No. 31/POJK.04/2015 on Transparency on Material Information or Facts by Issuers or Public Companies, and Regulation No. VIII.G.7 on Presentation and Disclosure of Issuers or Public Companies Financial Statements; b) PSAK No. 23 on Revenue, OJK regulation No. 29/POJK.04/2016 on Issuers and or Public Companies Annual Report, and Regulation No. VIII.G.7 on Presentation and Disclosure of Issuers or Public Companies Financial Statements; and c) Regulation No. IX.E.1 on Affiliated Transactions and Conflict of Interest of Certain Transactions, OJK Regulations No. 33/POJK.04/2014 on board of directors and board of commissioners of Issuer and Public Companies, and No. 55/POJK.04/2015 on Establishment and Working Guidelines of Audit Committee.
48 The requirements include compliance with general qualification and competence requirements as well as specialized training of 16 hours.
Market Law stated GAAP includes: (i) SAK as issued by the DSAK-IAI; and (ii) other common accounting practices in the capital market, which include accounting regulations that can be issued by OJK. Further, the elucidation stated that when SAK referred in the elucidation of Article 69.1 are inadequate for the needs of the capital market, such as compliance with the Full Disclosure Principle, Bapepam-LK (now OJK) may establish rulings on such matters in order to protect the public interest. OJK has issued two regulations: (i) on presentation and disclosure of financial statements by issuers and public companies in 2012; and (ii) accounting guidelines for securities companies in 2011. Both these regulations refer to SAK and do not change or interfere in financial reporting requirements.

50. **Use of the term “GAAP” may, however, impose additional requirements that would overrule PSAK and interfere with their implementation.** The ROSC team was advised of an example where OJK issued a rule that permitted a departure from PSAK for a defined period of time. This enabled a listed SOE to prepare its financial statements without fully complying with PSAK (and the IFRS equivalent) and still receive an unqualified audit opinion. While this is currently an isolated case it has set an unfortunate precedent as the OJK rule allowed a more favorable presentation of the financial position of the entity which enabled it to raise more debt. In addition, inconsistencies in references to the financial reporting framework were noted in audit reports of listed entities. While, most refer to SAK, one refers to GAAP, a practice that could mislead users of financial statements who may not understand the impact of this nuance.

51. **SAK is substantially converged with the 2017 version of IFRS (see section II of this report).** However, modifications have been made which are presented as part of each Statement of Indonesia Financial Accounting Standard (PSAK) and/or Interpretation of Indonesia Financial Accounting Standards (ISAK). These modifications mainly allow for different effective dates and/or to cover the transitional provisions for initial application of the respective standards and interpretations. This, in substance, means that there is a one-year effective date gap for new or

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49 Bapepam-LK rule VIII.G.7 on presentations and disclosures.
50 Bapepam -LK rule VIII.G.17
51 The Presidential Regulation No. 14/2017 regarding the amendment of the Presidential Regulation No. 4/2016 regarding the Acceleration of Electricity Infrastructure Development requires OJK to issue POJK No. 06/2017 as guidelines on the relevant accounting standards that is only applicable to one specific SOE bond issuer for a defined period.
52 see also section III “State-owned Enterprises” of this report
53 Effective as of January 1, 2018
54 Effective as of January 1, 2017
revised standards issued by the IASB. Early adoption of IFRS is currently not allowed except for those entities that are listed on a foreign stock exchange where IFRS is required\(^5\). Often companies with dual listings (in Indonesia and abroad) produce specific note disclosure in the SAK-based financial statements where they describe significant differences between SAK and IFRS applicable to the circumstances of the company’s financial statements.”.

52. **Listed companies are required to include a management report in their annual report.** OJK Regulation 29/POJK (2016) on Annual Reports for Issuers and Public Companies, requires listed companies to submit an annual report which includes management discussion and analysis as well as audited annual financial statements. OJK Circular Letter 30/SEOJK (2016) on the Form and Content of Issuers or Public Companies Annual Reports, details that the management report shall include analysis and discussion of financial statements and other information with an emphasis on material changes occurring within the financial year. Such reports shall also include information on the achievement of targets and performance indicators by the company.

53. **Interim semi-annual and quarterly financial statements are required to be produced by listed companies.** It is at the company’s discretion whether these should be unaudited, audited or whether only a limited review should be conducted. Interim semi-annual financial statements should be made publicly available within one month after the end of period if unaudited, within two months after the end of period if a limited review is performed, or within three months if audited. In addition to the requirements prescribed by OJK, the IDX rules require quarterly reporting for companies with listed stock, while bond issuers are only required to submit semi-annual interim financial statements.

54. **OJK rules for accounting and financial reporting by listed entities generally do not interfere in general purpose financial reporting requirements.** However, some include specific presentation requirements or accounting treatments, or require additional disclosures. For example, only the direct cash flow method is allowed for cash flow statement presentation, while for financial instruments recognition only the transaction date is allowed and not the settlement date.

**Statutory audit and other forms of independent assurance**

55. **Audits of annual financial statements of listed companies are required.** However, audit standards are not up to date with the latest developments in ISA (see section II of the report on

\(^5\) In February 2018, DSAK IAI is in the process of initiating discussion on developing a new tier for full IFRS and potentially offering an option for certain entities to prepare their financial statements based on full IFRS – as issued by the IASB and endorsed by DSAK IAI.
the Auditing Standards Gap). The most significant impact for listed companies is non-ado
cation of the latest updates in auditing reporting standards. This means that the new requirements on key audit matters, designed to provide increased transparency and disclosure on matters considered by the auditors to be significant, are not yet effective.

56. **A 3-year rotation period for individual audit partners is required but there is no requirement for audit firm rotation**\(^\text{56}\). Such a short rotation requirement is more stringent than international practice and, while it may provide a “fresh set pair of eyes” more frequently in the audit process, it could result in having audit partners who are less experienced and less informed about the company under audit. Audit firm rotation has also been introduced in many jurisdictions in recent years. A two-year cooling-off period is required for audit partners and second partners (engagement quality review partners).

57. **Auditors must register with OJK to be able to conduct audits of listed companies.** Registration is allowed for auditors with a license from the Ministry of Finance and who have completed the mandatory specialized continuing professional development (CPD) training requirement. The list of registered auditors is publicly available\(^\text{57}\).

58. **Non-assurance services cannot be performed by auditors if they offer assurance services to the same listed entity during the same period.** Auditors are prohibited from providing accounting, financial, and management advisory services to their listed audit clients. These are general requirements applicable to all auditors in line with article 3 and article 28 of Public Accountant Law No. 5 of 2011.

59. **The annual general meeting of shareholders has ultimate responsibility for auditors’ appointment.** Resignation/termination or change of an auditor should be reported to OJK. The audit committee is responsible for preparing the recommendation on auditor appointment taking into consideration independence, experience, audit fees, past performance, and auditor rotation requirements. The audit appointment can be delegated to the board of commissioners (supervisory board), but the annual shareholders meeting should explain the reason for such delegation and the criteria or restrictions for the appointed auditor. The legislation does not

\(^{56}\) In accordance with POJK regulation No. 13/POJK.03/2017. Previously, Bapepam-LK rule No. VIII.A.2/2011) required a 3-year audit partner rotation and a 6-year audit firm rotation with two years cooling-off period. The provision regarding audit firm rotation has been revoked by issuance of POJK No. 13/POJK.03/2017 as OJK considered that the independence of public accounting firms in Indonesia has improved.

\(^{57}\) [http://www.ojk.go.id/akuntan/index.htm](http://www.ojk.go.id/akuntan/index.htm)
explicitly require the auditor’s presence at annual meetings of shareholders\textsuperscript{58}. In practice, auditors attend general meetings only if invited and there are no legislative provisions that would allow auditors to attend on their own initiative. A change of auditor is considered a material fact that should be reported to OJK and in the media within two working days\textsuperscript{59}.

**Audit committees**

60. **An audit committee must be established under the board of commissioners (supervisory board) of a listed company.** The committee should include at least three members who are independent commissioners and independent parties from outside of the Issuer or Public company. It should be chaired by an independent commissioner. Members of audit committees should be able to understand business, financial reporting, the audit process, and risk management, capital market and other relevant legislation. At least one member should have an educational background and expertise in accounting and finance.\textsuperscript{60}

61. **The key responsibilities of the audit committee include reviewing financial information issued to the public, evaluation of audit services provided by the auditor (including their independence), and the auditor appointment**\textsuperscript{61}. The responsibilities do not specifically include important areas such as monitoring the financial reporting process (even though the information that is published or submitted to the regulator should be reviewed by the audit committee) or internal quality control systems and where applicable internal auditors (although the audit committee responsibilities include reviewing the audits performed by internal auditors and monitoring the follow up of actions on the findings by directors), as is often required in other jurisdictions. The audit committee is required to report on its activities as part of the annual report of a listed company.

**Filing/publication of financial statements**

62. **An annual report should be submitted to OJK and IDX, and made available on the company website, within four months after the end of fiscal year.** The annual report must include a full set of audited financial statements and a management report. Financial statements are required to be submitted within 3 months after the end of the fiscal year. Where annual reports are

\textsuperscript{58} The requirement of OJK regulation POJK 32/POJK.04/2014 (amended with 10/POJK.04/2017) is general and allow other parties to be invited at meetings, including auditor.

\textsuperscript{59} OJK Regulation 31/POJK.04/2015.

\textsuperscript{60} The requirements are prescribed in the OJK regulation 55/POJK.04/2015.

\textsuperscript{61} OJK Regulations 55/POJK.04/2015 and 13/POJK.03/2017
submitted within 3 months after the end of fiscal year, listed companies are exempted from the requirement to submit financial statement separately. Annual reports and financial statements should be available for at least 5 years after publication. In cases where an Indonesian listed company is also listed outside the country, the financial statements should be presented to OJK not later than the date required by the foreign regulator.

63. **Listed companies are required to disclose material facts within two days after an event.** Material facts include, but not limited to, merger and acquisition, divestiture, interim dividend issuance, stock split, change in controlling interest, change of auditor – listed companies must provide a written explanation which at least cover (i) the date, (ii) the type, (iii) the description, and (iv) the impact of such material facts or information. The disclosure of material facts or information must at least be made through (i) company’s official website, and (ii) the Stock Exchange’s official website or one Indonesian daily newspaper with nation-wide circulation.

### Monitoring and Enforcement – Financial Reporting

64. **Two OJK Directorates and three listing divisions at IDX are responsible for reviewing financial statements of listed companies.** A total of 50 staff at OJK and 39 staff at IDX are involved in monitoring activities. Many of the staff have an accounting and finance background.

65. **Reviews of financial statements by OJK and IDX focus on compliance with financial reporting standards, submission requirements and the content of the financial statements.** OJK uses a risk-based approach for selecting financial statements for review and it includes the form and completeness, the timeliness of publication, the type of audit opinion issued and compliance with financial reporting standards (SAK). IDX also reviews the completeness and timeliness of financial statement submission. Any delays may trigger follow-up action by OJK, especially in cases where going concern or other issues that may require an onsite supervision visit are the cause of the delay. Auditors’ management letters are not submitted to OJK; however, these can be required if an investigation is undertaken.

66. **OJK also oversees auditors of listed companies.** A team of eight staff perform this function, which includes an audit inspection program (see also section III “Audit Regulation, Quality

62 OJK Regulation POJK. 31/2015
63 In addition to issuing an audit opinion, auditors normally issue a letter to management highlighting specific internal control issues and their impact on the financial reporting process. Such management letters are directed to the management of the entity and those charged with governance for follow-up and resolution. Supervisors often require these letters to be submitted to them for information and potential follow-up in case of significant issues.
Assurance and Public Oversight” of this report). This work is coordinated with the PPPK within the Ministry of Finance so that audit firms are not inspected at the same time by different oversight organizations. The OJK auditors’ inspection program is in the initial stage of development; it will focus on reviewing compliance with audit quality standards at the firm level.

67. **OJK is also empowered to undertake formal investigations and impose administrative for non-compliance with financial reporting requirements by listed companies.** Administrative sanctions depend on the severity of the case and, based on Article 102 of CML and Article 61 of PP No. 45/1995, it can vary from written warnings, to administrative fines, restriction, suspension or revocation of business licenses, or cancellation of registration. Administrative fines include monetary fines of up to IDR 100 million for individuals and up to IDR 500 million for Non-Individuals (for each violation). Besides administrative sanctions, OJK could also impose written orders, such as the reissue of financial statements. A sanction itself can be imposed not only on the listed company, but also on other parties that may have caused the violation, for example auditors or directors.

68. **Where criminal investigations are required, the OJK refers these cases to the Public Prosecutor.** Table 7 outlines the criminal actions and liabilities prescribed by the legislation:

<table>
<thead>
<tr>
<th>#</th>
<th>Criminal Action</th>
<th>Criminal Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Falsely stating material information or failing to disclose material information so that statements are misleading with respect to conditions at the time (Article 90 CML)</td>
<td>Imprisonment for a maximum of ten years and a maximum fine of fifteen billion IDR (Article 104 CML)</td>
</tr>
<tr>
<td>2</td>
<td>Making, by any means, a statement and giving material information that is false or misleading and that affects the price of securities on a Securities Exchange (Article 93 CML)</td>
<td>Imprisonment for a maximum of ten years and a maximum fine of fifteen billion IDR (Article 104 CML)</td>
</tr>
</tbody>
</table>
Table 7. Criminal actions and liabilities prescribed by the legislation

<table>
<thead>
<tr>
<th>#</th>
<th>Criminal Action</th>
<th>Criminal Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>To deceive or to cause loss to another person; to mislead the Capital Markets and Financial Institution Supervisory Board (Bapepam); to lose, destroy, erase, obscure, hide, or falsify records of a person that is licensed, approved, or registered, including a registered issuer or a public company (Article 107 CML)</td>
<td>Imprisonment for a maximum period of three years and a maximum fine of five billion IDR (Article 104 CML)</td>
</tr>
</tbody>
</table>

69. During the period 2013 to 2016 18 investigations were conducted including three criminal investigations. OJK also imposed several significant administrative fines on listed companies, and sanctioned individual directors and finance directors.

70. OJK and IDX undertake additional supervisory measures in cases where an audit opinion other than unqualified (clean) is issued by the auditors. OJK require the company to address the auditor’s qualification. If compliance with financial reporting standards is an issue, OJK may ask the Issuer to restate financial statements. If an indication of violation to the regulations is highlighted, it will trigger an examination process. Where a disclaimer of opinion (for two consecutive periods) or an adverse opinion (one time) is issued, the exchange may suspend trading in a company’s securities.

71. Interactions between auditors and securities regulator are mainly based on listed companies’ corporate actions. Listed companies and their auditors are obliged to communicate to OJK any information of material significance and breaches of the Capital Market Law within three days of the fact becoming known to them\(^{64}\). OJK also has the power to require replacement of an auditor or additional reports\(^{65}\).

**Corporate Governance**

72. Listed companies are required to comply with the code of corporate governance. Regulation No. 21/POJK.04/2015 outlines the corporate governance code for listed companies, and circular

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\(^{64}\) KEP-614/BL/2011 Rule IX.E.2 concerning material transaction and changes in business activity  
\(^{65}\) Auditors may be required to issue specific reports for IPOs (e.g. comfort letters) or in cases of a material acquisition – a review of forecasts for prospective financial information. (POJK 13/2017 on The Use of Public Accountant and Auditing Firm in Financial Services Activities)
letter 32/SEOJK.04/2015 includes a guideline requiring implementation of the code using the “comply or explain” principle. The code of corporate governance does not allow or encourage any departures from financial reporting or auditing standard requirements. The regulation, together with Circular Letter No.32/SEOJK.04/2015, required public companies to make corporate governance disclosures effective for the 2016 annual reports.

**BANKING SECTOR**

**Overview of the Banking Sector**

73. **The banking sector consists of 115 commercial banks with assets totaling IDR 7,387,144 trillion**. The banking sector includes 40 foreign-owned, 71 domestically privately-owned, and 4 state-owned/controlled commercial banks. There are 41 domestic commercial banks listed on the Indonesian Stock Exchange, including 4 SOE listed banks.

74. **At the end of 2015, commercial banks’ assets stood at 52 percent of GDP.** State-owned and regional development banks combined have a sizeable presence, with holdings of close to 48 percent of the banking sector’s assets, and they dominate certain credit segments (e.g. microloans). Banks mostly lend to large corporates but need to comply with MSME credit targets. Despite progress made, interbank and money markets remain segmented and relatively shallow.

**Banking sector regulation**

75. **Financial reporting for regulatory purposes by commercial banks is prepared in accordance with SAK with additional information for prudential monitoring purposes.** The additional information primarily includes calculation of the provision for loan losses using the prudential methodology, which differs from that used under SAK, and further information on a bank’s risk exposures. For regulatory purposes banks’ consolidated financial reporting does not include insurance company subsidiaries. Commercial banks are required to disclose a reconciliation between the general purpose financial statements and prudential financial reporting.

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66 Indonesia Banking Statistics (SPI), 2017
67 IDX, 2017
68 Indonesia FSAP, June 2017
76. **The annual report of commercial banks needs to include a management report.** This report must contain information concerning management of the bank, including the Sharia business unit where applicable, and should include at least the following: organization structure; main activities; information technology; types of products or services offered (including credit channeling to MSMEs debtors); interest rates of fund mobilization and provision; developments in the economy and target markets; domestic and/or overseas business networks and partners; number, types, and locations of offices; ownership of the board of directors, board of commissioners, and shareholders in the bank’s business group; important changes that have occurred at the bank and bank’s business group; important matters that are predicted to occur in the future; and human resources, covering the number, education levels, training, and development. A new regulation will require social and environmental aspects to be included in the management report from 2020\(^{69}\).

**Financial Reporting Requirements for Commercial Banks**

77. **Commercial Banks are required to comply with Indonesian Financial Accounting Standards (SAK) when preparing their general purpose financial statements.** Circular Letter No. 11/4/DPNP includes implementation guidelines on accounting for banking in Indonesia (*Pedoman Akuntansi Perbankan Indonesia*). This provides specific guidance on IAS 39 (PSAK 55), IAS 32 (PSAK 50) and IFRS 7 (PSAK 60). PSAK 71: Financial Instruments, equivalent to IFRS 9, has already been fully adopted and will become effective on January 1, 2020 (with early adoption allowed).

78. **Consolidated financial statements are required to be prepared for banks having one or more subsidiaries.** In cases where banks are part of a group, OJK’s Bank Transparency Regulation Articles 17 and 28 state that “banks which are part of a group need to include in their quarterly and annual reports\(^{70}\):

- Consolidated financial statements of the parent company and all the entities in the business group in the financial field; or
- Consolidated financial statements of the parent company and all entities in the business group in the financial and non-financial fields.

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\(^{69}\) OJK Regulation No. 51/POJK.03/2017

\(^{70}\) OJK Regulation No.6/POJK.03/2015 as amended by OJK Regulation No.32/POJK.03/2016 regarding Transparency and Publication of Bank’s Report.
79. **All commercial banks are required to have their annual general purpose financial statements audited.** Article 34 of the Banking Act states that a bank’s annual balance sheet and income statement must be audited by a public accountant. Article 6 of the Bank Transparency Regulation further clarifies that a bank’s annual financial statements must be audited by an external auditor registered with OJK.

80. **The appointment/termination of an audit firm must be approved at the annual general meeting of commercial banks.** The audit committee is required to evaluate and recommend the appointment to the board of commissioners. The board of commissioners then proposes the appointment to the annual general meeting based on the audit committee’s recommendation. These requirements are set out in OJK Regulation No. 13/POJK.03/2017 and Circular Letter No. 36/SEOJK.03/2017.

81. **Audit partners and quality assurance (peer review) partners can be involved in the audit of a commercial bank for a maximum of three consecutive years.** After their three-year term there is a two year ‘cooling off’ period. There are no audit rotation requirements for audit firms, but the audit committee is required to complete an annual evaluation of the auditor’s performance.

82. **OJK maintains a register of auditors that are eligible to conduct commercial bank audits.** OJK Regulation No. 13/POJK.03/2017 provides OJK with the authority to cancel an audit firm’s registration. Article 30 provides that OJK can reject or change the appointment of an audit firm by a formal letter to a commercial bank and, if necessary, to order a re-audit of a commercial bank’s financial statements.

83. **Auditors of commercial banks are restricted from providing non-assurance services.** Regulation SEOJK No. 36/SEOJK.03/2017 – Procedure for the Use of Public Accountants and Auditing Firms

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71 The auditor certification program and CPD requirements for auditors of Financial Service Activities is set out in OJK Circular Letter No. 36/SEOJK.03/2017.

72 In accordance to POJK regulation No. 13/POJK.03/2017. Previously, Bapepam-LK rule No. VIII.A.2/2011) required a 3-year audit partner rotation and a 6-year audit firm rotation with two years cooling-off period. The provision regarding audit firm rotation has been revoked by issuance of POJK No. 13/POJK.03/2017 as OJK considered that the independence of public accounting firms in Indonesia has improved.
in Financial Services Activities states that auditors shall maintain their independence and must not provide certain non-audit assurance services during the same period of assurance service.\textsuperscript{73}

### Audit committees

84. **The board of commissioners of a commercial bank is required to establish an audit committee.** This requirement is included in regulations POJK No. 55/POJK.03/2016 and SEOJK No. 13/POJK.03/2017. These regulations both cover the implementation of good corporate governance in commercial banks to support the board of commissioners to monitor the effectiveness of the implementation of its tasks. These regulations state that the role of the audit committee is to perform monitoring and evaluation of audit planning and implementation as well as monitoring the result of follow-up actions to assess the adequacy of internal audit including the adequacy of the financial reporting process.\textsuperscript{74}

85. **The majority of audit committee members must be independent.** Members of the board of directors and members of senior management that serve on the Board are prohibited from being members of the audit committee. The audit committee should include an independent party with expertise in finance and accounting and an independent party with expertise in legal and/or banking experience. The audit committee reports to the Board of Commissioners. The Board of Commissioners is responsible to review and report (semiannually) on their supervision of the implementation of the company’s business plan.

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\textsuperscript{73} Non-assurance services include
- Bookkeeping or other services related to the accounting records of financial statements of the client;
- Design of financial information systems and implementation;
- Internal audit;
- Management consulting;
- Human resources consulting;
- Financial advisor;
- Tax services, unless it has obtained prior approval from the audit committee. The audit committee approval does not include to represent client in or outside tax court and/or act on behalf of client in tax calculation and reporting; or
- Other services that may cause a conflict of interest.

\textsuperscript{74} It further outlines that the audit committee must at least perform an evaluation of consistency between the financial report with prevailing accounting standards and consistency between the audit implementation by public accountant and the prevailing auditing standards.
86. **The independent commissioner needs to pass a fit and proper test conducted by OJK.** There are three main criteria - integrity, financial reputation, and competency (knowledge of the industry). The chair and other members of the audit committee must not have any conflicts of interest with a commercial bank’s board of commissioners, board of directors, or the ultimate shareholders of the company.

**Filing/publication of financial statements**

87. **Commercial banks are required to publish and submit their annual general purpose financial statements to OJK within four months of the end of the fiscal year (by April 30 each year)**. The condensed version of the audited financial statements is required to be published and submitted by March 31 each year. Reports must be published as follows:

- Quarterly condensed financial statements (As of end-March, end-June, end-September, and end-December): national newspaper, bank’s website, OJK website
- Annual financial statements: bank’s website.

**Monitoring and Enforcement – Financial Reporting**

88. **The OJK has had responsibility for the regulation and supervision of commercial banks since December 31, 2013**. OJK sets the prudential regulation standards and regularly conducts oversight supervision activities. Quarterly reports on these activities are prepared and the monthly reports are used as the basis for preparing the banking chapter of OJK’s annual report.

89. **OJK’s Directorate of Banking Supervision completes risk based on-site and off-site supervision of all commercial banks.** The bank supervisor reviews banks’ quarterly and published annual reports using a checklist to ensure compliance with OJK’s Bank Transparency Regulation. This review covers timeliness of reporting and publication as well as content. The supervisor also completes a comparison with the bank’s monthly financial reporting to OJK and Bank Indonesia. Any material discrepancies are investigated through communication with the bank.

90. While there is analysis of the financial reports and financial statements received as part of the monitoring process, there is no specific focus on compliance with financial reporting standards. Nevertheless, as part of the risk-based supervision, the compliance with the financial reporting

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75 POJK.6/2015 and POJK.32/2016
76 The Financial Services Authority (OJK) Act 2011 formalized the transfer of this responsibility from the Bank of Indonesia.
standards is one of the areas covered during the supervision. If there is any potential breach of law or the financial reporting standards, the Directorate of Banking Supervision staff will meet with the external auditor. The nature of the audit opinion is subject to review and should a qualified audit opinion be issued, OJK would immediately require the commercial bank to prepare an action plan to resolve the issue(s) identified.

91. **Sanctions for noncompliance with the requirements of the Bank Transparency Regulation are available.** These are:
   - Late or non-submission of the published annual report: written reminder for the monthly report and monetary fine for the quarterly or annual report.
   - Published report is materially misstated including non-compliance with accounting standards: written warning and, if not rectified within one month, receipt of a fine.

92. **If the issue remains unresolved, administrative sanctions may be applied**. There have been very few cases of breaches of financial reporting requirements. Most of the cases where sanctions have been applied relate to fines for late submission.

93. **A regulation empowers OJK to influence the scope of the external audit.** POJK No. 13/POJK.03/2017 - Article 17 stipulates that there needs to be an agreement between the audit firm and the commercial bank. It goes on to outline detailed requirements for the scope of the audit over and above the requirements of the auditing standards.

94. **Auditors are not required to advise OJK if they intend to issue a qualified audit opinion but must report annually to OJK by April 15.** Article 24 of POJK No. 13/POJK.03.2017 requires auditors to report any significant breach of law, significant inadequacy in internal control,

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77 In accordance with POJK.6/2015 and POJK.32/2016. These sanctions can include:
- Lowering of the bank’s soundness rating;
- Freezing of certain business activities; and/or
- Prohibition of shareholders, Board of Commissioners, Board of Director/Senior Management.

78 These additional audit scope requirements are based on Basel Committee on Banking Supervision Core Principle 27 Effective Banking Supervision. The additional requirements include:
- Sampling at least 70 percent of the face value of each type of financial asset and includes at least 25 percent of the largest debtors;
- Classification of earning assets quality and adequacy of the allowance for earning assets losses;
- Assessment of foreclosed collateral;
- Opinion on the properness of either transactions with parties which have a specific relationship or transactions carried out with specific treatment.
significant inadequacy in financial reporting, or going concern issues. There have been few significant breaches of financial reporting requirements detected, although there have been some sanctions for late submission of financial reports and a few cases where restatement or improved quality of reporting has been required.

95. **There is a protocol for communication between the banking supervisor and the auditor.** It is mandatory that the auditor’s management letter is submitted to OJK. The banking supervisor has the authority to request any additional information from the auditor even after the audit assignment has been completed. Banking supervision staff meet with the internal auditor during each on-site visit.

### Corporate Governance

96. **Commercial banks are required to comply with the code of corporate governance for banks.** Each bank must prepare an annual self-assessment of their compliance with the code, publish it on its website and report and submit it to OJK by the end of April each year. The management report must include: results of the self-assessment against the implementation regulation; share ownership details (of members of the board of directors and the board of commissioners, and any financial relationships and family relationships among the board of directors, board of commissioners, and bank shareholders); frequency of board of commissioners meetings; number of internal fraud cases and how the bank has handled them; number of legal claims and the bank’s settlement efforts; transactions with a conflict of interest; buy back of bank shares and/or bonds; and provision of funds for social activities and political activities (with detail of the nominal value and recipients). The code of corporate governance does not require or encourage any different financial reporting or audit practices.

97. **A breach of the code could result in a commercial bank being classified as a “bank under intensive supervision”.** Banks with this classification are required to submit an action plan and implement any other actions specified by the supervisor (which in serious cases could include replacement of the board of commissioners and/or board of directors). In addition, the shareholders would be required to adjust their shareholding to the maximum shareholding limit determined by the revised soundness rating and/or Good Corporate Governance rating.

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79 Article 12 POJK No.13/POJK.03/2017
80 Good corporate governance implementation by commercial banks is outlined in POJK No. 55/POJK.01/2016
INSURANCE SECTOR

Overview of the Insurance Sector

98. The insurance sector consists of 61 life, 79 non-life, and seven reinsurance companies. Gross premium levels have been steadily rising as shown in the following table.

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Premiums</th>
<th>Premium Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>IDR 247.32 trillion</td>
<td>32.8 percent</td>
</tr>
<tr>
<td>2015</td>
<td>IDR 295.56 trillion</td>
<td>19.5 percent</td>
</tr>
<tr>
<td>2016</td>
<td>IDR 361.78 trillion</td>
<td>22.4 percent</td>
</tr>
<tr>
<td>2017</td>
<td>IDR 407.71 trillion</td>
<td>12.7 percent</td>
</tr>
</tbody>
</table>

99. The insurance sector includes 47 joint-venture, 84 domestically privately-owned, and 4 state-owned/controlled companies. There are 12 domestic insurance companies listed on the Indonesia Stock Exchange, none of which are SOEs. Insurance companies are the (distant) second largest segment of the Indonesian financial system after the banking sector, accounting for about 10 percent of financial sector assets. The majority of insurance companies belong to conglomerates.

Insurance sector regulation

100. For regulatory purposes, OJK have specified how insurance company financial reports are to be prepared. Monthly financial reports must be submitted to OJK, using a standard chart of accounts and a standardized format, 10 days after the end of each month. Quarterly financial reports are also required to be submitted within 30 days after the end of each quarter. A

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82 Insurance Statistics 2017
83 Indonesia FSAP report, June 2017
84 OJK Circular Letter No. 02/SEOJK.05/2013 and No. 03/SEOJK.05/2013.
summary of the unaudited quarterly report is required to be published. OJK requires annual financial report submission by end of April the following year.

101. **Differences between the prudential/regulatory and general purpose financial statements are required to be disclosed in a standardized format.** Such differences usually relate to asset and liability valuation methodology differences.

**Financial Reporting Requirements for Insurance Companies**

102. **Insurance companies are required to comply with SAK when preparing their annual financial statements.** The following accounting standards have specific applicability for the preparation of insurance companies’ financial statements:

- PSAK 28: Accounting for General Insurance Contracts
- PSAK 36: Accounting for Life Insurance Contracts
- PSAK 50: Financial Instrument: Presentation
- PSAK 60: Financial Instruments: Disclosures
- PSAK 62: Insurance Contracts
- PSAK 68: Measurement of Fair Value
- PSAK 71: Financial Instruments

103. **The Indonesian Financial Accounting Standards Board is committed to fully converging with IFRS** (see also Section II “Accounting and Auditing Standards”). PSAK 71: Financial Instruments is equivalent to IFRS 9. It has already been fully adopted and will become effective on January 1, 2020 (earlier adoption is allowed). PSAK 62 already incorporates amendments for IFRS 4 phase 2 and will be further amended to fully adopt IFRS 17 by 2022.

104. **Consolidated financial statements are required to be prepared for an insurance company that has one or more subsidiaries.** OJK requires each financial institution to identify linkages of ownership and/or control with other financial institutions, with full disclosure in accordance with PSAK requirements.⁸⁵

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⁸⁵ OJK Regulation No. 17/POJK.03/2014 – Integrated Risk Management of Financial Conglomerates Article 7
Statutory audit and other forms of independent assurance

105. All insurance companies are required to have their annual financial statements audited. OJK requires insurance companies to appoint an audit firm/audit partner that has sufficient competency and insurance industry experience. A 3-year rotation is required for audit partners, but there is no rotation requirement for audit firms. The audit firm/audit partner should have skills that are proven by certification of competencies in insurance. Specifically, this means completion of a mandatory training course and successful completion of the associated examination.

106. Auditor appointments and terminations are managed by the insurance companies. The appointment of an audit firm must be approved at the annual general meeting. The audit committee is required to evaluate and recommend the appointment to the board of commissioners. The board of commissioners then proposes the appointment to the annual general meeting based on the audit committee’s recommendation. Insurance companies are required to report to OJK any auditor resignations or terminations.

107. OJK maintains a register of auditors that are eligible to conduct insurance company audits. OJK has the authority to cancel an audit firm’s registration, can reject or change the appointment of an audit firm by a formal letter to an insurance company, and if necessary may order a re-audit of an insurance company’s financial statements. Restrictions are imposed on the auditors of insurance companies providing non-audit services.

Audit and Risk Monitoring committees

108. The board of commissioners for an insurance company is required to establish both an audit committee and risk monitoring committee to monitor the effectiveness of internal controls and the implementation of risk management. The audit committee has a duty to assist the board of commissioners to monitor and ensure the effectiveness of the internal control system and the duties executed by internal and external auditors by monitoring and evaluating the audit plan.

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86 OJK Regulation No. 13/2017
87 In accordance with POJK regulation No. 13/POJK.03/2017. Previously, Bapepam-LK rule No. VIII.A.2/2011) required a 3-year audit partner rotation and a 6-year audit firm rotation with two years cooling-off period. The provision regarding audit firm rotation has been revoked by issuance of POJK No. 13/POJK.03/2017 as OJK considered that the independence of public accounting firms in Indonesia has improved.
88 OJK Regulation No. 13/POJK.03/2017
89 OJK Regulation No. 13/POJK.03/2017 Article 30
90 Circular letter No. 36/SEOJK.03/2017
91 OJK Regulation No.73/POJK.05/2016 – Article 51
and its execution in order to assess the adequacy of internal control, including the financial reporting process. The risk monitoring committee must assist the board of commissioners to monitor the risk management implementation arranged by the board of directors and also assess the risk tolerance which could be absorbed by the insurance or reinsurance group.

109. **The audit committee and the risk monitoring committee must be chaired by an independent commissioner.** The chair and other members of the committees must not have any conflicts of interest with the insurance company, board of commissioners, board of directors, or the ultimate shareholders of the company. The audit committee reports to board of commissioners. The board of commissioners reports to OJK on compliance with regulations and on their supervision of the implementation of the company’s business plan.

110. **The independent commissioner needs to pass a fit and proper test conducted by OJK.** There are three main criteria - integrity, financial reputation, and competency (knowledge of the industry). Article 31 of POJK No. 73/POJK.05/2016 states that “independent commissioners should have a good understanding of the regulations, financial standing of the company, and policy holder protection.”

**Filing/publication of financial statements**

111. **Insurance companies are required to submit their annual general purpose financial statements to OJK within four months of the end of the fiscal year (by April 30 each year).** A summary of the financial statements must be published in a national circulation newspaper not later than 31 May each year. The full annual report including financial statements, the audit opinion, management report, and analysis of performance is required to be included on the insurance company’s website. They are also made available on OJK’s website.

**Monitoring and Enforcement – Financial Reporting**

112. **OJK is responsible for the regulation and supervision of insurance companies.** OJK sets the prudential regulation standards and regularly conducts oversight supervision activities. Quarterly reports on these activities are prepared and used as the basis for preparing the insurance chapter in OJK’s annual report.

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92 OJK Regulation No. 27/POJK.03/2016 regarding Fit and Proper Test Financial Institution
93 OJK Regulation No. 55 / POJK 2017
113. **OJK’s Directorate of Insurance and Social Insurance Supervision completes a risk based on-site and off-site supervision of all insurance companies.** Regulatory monitoring is performed via the e-reporting platform and focuses on solvency criteria, target capital, and minimum prescribed capital. Where a breach of solvency requirements is detected, sanctions are imposed. These may include a requirement to implement a restructuring plan, suspension of a segment or the entire operation, statutory supervision, or ultimately revocation of the operating license.

114. **In the last 5 years 14 insurance licenses were revoked.** In 6 out of 14 cases this was due to the insurance company’s inability to fulfill requirement for being in a sound financial condition. Sanctions have also been imposed on boards of directors and boards of commissioners, requiring reassessment of the fit and proper test. Legal proceedings are commenced where fraud is involved.

115. **While analysis of the financial reports and financial statements is part of the monitoring process there is no specific focus on compliance with financial reporting standards.** Nevertheless, as part of the risk-based supervision, the compliance with the financial reporting standards is one of the areas covered during the supervision. The OJK’s Supervision Directorate will meet with the external auditor if there is any potential breach of law or breach of accounting standards. The audit opinion is subject to review and action taken if it is qualified. Supervision Directorate staff meet with the internal auditor during each on-site visit.

116. **OJK is empowered to influence the scope of the external audit, but in practice this power has not been used.** Auditors are required to report to OJK annually by April 15. Article 24 requires auditors to report any significant breach of law, significant inadequacy in internal control, significant inadequacy in financial reporting, or going concern issues. Few significant breaches of financial reporting requirements have been detected although there have been some sanctions for late submission of financial report and a few cases where restatement or improved quality of reporting has been required.

**Corporate Governance**

117. **Insurance companies are required to comply with the code of corporate governance.** All must prepare an annual self-assessment of their compliance with the code and submit it to OJK by April 30 each year. The code of corporate governance does not allow or encourage any different financial reporting or audit practices. A breach of the code could result in sanction from OJK.

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94 OJK Regulation No. 13/POJK.03/2017
Depending on the significance of the breach, sanctions may range from a warning letter to revocation of an insurance company’s business license.

**MICRO, SMALL, AND MEDIUM-SIZED ENTERPRISES**

118. The Law of Micro, Small, and Medium-sized Enterprises defines MSME business as individual businesses or entities owned by individuals, and not subsidiaries or branches of another entity that conducts business and is domiciled in Indonesia.

<table>
<thead>
<tr>
<th>Type</th>
<th>Net worth (excluding land and enterprise buildings)</th>
<th>Annual sales revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Below or equivalent to IDR 50 million(^{96})</td>
<td>Below or equivalent to IDR 300 million</td>
</tr>
<tr>
<td>Small</td>
<td>Above IDR 50 million up to IDR 500 million</td>
<td>Above IDR 300 million up to IDR 2.5 billion</td>
</tr>
<tr>
<td>Medium</td>
<td>Above IDR 500 million up to IDR 10 billion</td>
<td>Above IDR 2.5 billion up to IDR 50 billion</td>
</tr>
</tbody>
</table>

Table 10. The latest information on the number of MSMEs in Indonesia\(^{97}\)

<table>
<thead>
<tr>
<th>Type of enterprises</th>
<th>No. of enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>59,262,772</td>
</tr>
<tr>
<td>Small</td>
<td>681,522</td>
</tr>
</tbody>
</table>

\(^{95}\) Law No. 20/2008 concerning Micro, Small and Medium Enterprises

\(^{96}\) Equivalent to USD: Micro net worth up to USD 3,600 or annual sales revenue up to USD 21,600; Small net worth between USD 3,600 – USD35,600 or annual sales revenue between USD 21,600 – USD 180,000; and Medium net worth between USD35,600 – USD 719,500 or annual sales revenue between USD 180,000 – USD 3.6 million

\(^{97}\) From the Ministry of Cooperatives and SMEs 2016 annual report
Table 10. The latest information on the number of MSMEs in Indonesia\textsuperscript{97}

<table>
<thead>
<tr>
<th>Type of enterprises</th>
<th>No. of enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium</td>
<td>59,263</td>
</tr>
</tbody>
</table>

Financial Reporting Requirements

119. The Limited Liability Company Law (LLC Law)\textsuperscript{98}, requires limited liability entities to prepare an annual report not later than six months after the year end, which includes financial statements. There are other regulations that require non-listed and MSME companies that provide financial services and have public accountability to prepare annual financial statements\textsuperscript{99}.

120. The deadline for submitting annual financial statements may be different depending on requirements of the relevant regulators. For example, entities in the financial service industry should follow OJK regulations, i.e. submitting annual financial statements 4 months after year end for financing companies, 5 months for pension funds; cooperatives with saving and lending activities should follow the regulations of local government or the Ministry of Cooperatives and SMEs. Non-listed financial institutions are required to prepare interim or periodic financial statements based on OJK regulations.

121. The LLC law also requires that financial statements should be prepared based on financial accounting standards. The standards referred to are the financial accounting standards issued by IAI.

122. The content of financial statements may differ depending on the tier of the accounting standards that are applied. DSAK has issued three-tiers of accounting standards, as follow:

\textsuperscript{98} Limited Liability Company Law No. 40 Year 2007
\textsuperscript{99} Ministry of Finance Regulation No. 84/2006 concerning Financing Entities (financing, venture capital and infrastructure financing companies), and OJK Regulation No. 13/2014 concerning Microfinance Institution Business Conduct.
1. First tier – SAK, as converged with IFRS with a one-year effective date gap, should be applied by PIEs.\(^\text{100}\).

2. Second tier – SAK ETAP, should be applied by private entities that publish general purpose financial statements for external users and who do not have significant public accountability (non-PIEs). PIEs, such as microfinance institutions and rural banks may use SAK ETAP only if allowed by the relevant regulator.\(^\text{101}\); and

3. Third tier – SAK EMKM should be applied by entities that meet MSME criteria as stipulated in MSME law for two consecutive years\(^\text{102}\). SAK EMKM do not require entities to prepare a statement of changes in equity, statement of income, statement of retained earnings, or statement of cash flows.

123. **Non-listed entities are not generally required to publish their financial statements.** However, OJK regulations require financial institutions (except employer fund pension funds) to publish financial information. Financing companies should publish comprehensive statements of their financial position and statements of profit and loss in short form in at least one national newspaper, not later than four months after end of year\(^\text{103}\). Microfinance entities are required to publish short financial position statements and financial performance reports in local newspapers or to display them on notice boards at their offices\(^\text{104}\). Evidence of publication should be submitted to OJK not later than 20 days after publication.

\(^{100}\) PSAK 1 paragraph 10 states that “a complete set of financial statements comprises a statement of financial position, a statement of profit and loss and other comprehensive income, a statement of changes in equity, a statement of cash flows, notes to the financial statements, comparative information in respect of the preceding period, and a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in the financial statements, or when it reclassifies items in the financial statements in accordance with paragraphs 40A and 40D”.

\(^{101}\) SAK ETAP paragraph 3.12 states that “a complete set of financial statements comprises a statement of financial position, a statement of profit and loss, a statement of changes in equity, a statement of cash flows and notes to the financial statements”.

\(^{102}\) SAK EMKM paragraph 3.19 states that “financial statements should at least comprise a statement of financial position and a statement of profit and loss and notes to the financial statements”.

\(^{103}\) POJK No. 29/POJK.05/2014 on Financing Companies Business Conduct article 57 (1)

\(^{104}\) POJK No. 13/POJK.05/2014 on Microfinance Business Conduct article 26 (1)
Statutory Audit Requirements

124. **Non-listed entities’ financial statements are generally not required to be audited.** Companies that meet any of the PIE criteria as stipulated in the LLC law are required to be audited\(^{105}\) which is consistent with good practice. The MSME law does not regulate financial reporting and audit requirements. Different rules apply to financial institutions, where only certain types of business are required to have their financial statements audited. Financial statements of insurance companies, multi finance companies, infrastructure financing companies, and pension funds must be audited by an independent auditor. This does not apply to venture capital and microfinance companies, where an audit is not required. As mentioned earlier in the report the statutory audit exemptions should be reviewed as part of the development of a differential reporting framework.

125. **There is a five-year auditor rotation provision for entities.**\(^{106}\) This applies to any company which is not under supervision of OJK. The rotation applies to the engagement review partner and the peer review partner, but not to the audit firm. For listed companies and financial institutions supervised by OJK, the audit rotation period is three years. There is no requirement for auditors to attend the annual general shareholders meeting.

Audit Committee and Risk Monitoring Committees

126. **LLC boards of commissioners may establish committees to assist them, including an audit committee, according to the LLC Law.**\(^{107}\) Non-listed commercial enterprise without any public accountability and MSMEs are not required to have an audit committee.

Monitoring and Enforcement – Financial Reporting

127. **Different laws and regulations, depending on the type and the size of the business, require LLCs to submit their financial statements to the Ministry of Trade, Ministry of Justice and Human Rights, or Ministry of Cooperatives and SMEs.** Commercial enterprises with payment gateway activities are required to submit their financial statements to the Bank of Indonesia. Financial institutions and listed companies are required to submit their financial statements to OJK and \(\ldots\)

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\(^{105}\) LLC Act No. 40/ 2007 article 68 (1) stipulates that limited liability entities required to have financial statements audited if they meet any of the following criteria: (a) managing a public fund; (b) issued obligation to public; (c) listed company; (d) Persero; (e) have assets and/or revenue above IDR 50 billion; or (f) as required by the law and regulations.

\(^{106}\) Government Regulation No. 20/2015 on Public Accountant Practice

\(^{107}\) Elucidation article 121 (1), committees include audit, remuneration, and nomination.
OJK maintains these financial statements in its database. The Ministry of Trade also maintains a database of financial statements submitted to them. Enforcement seems to be low and the Ministry employs four staff to manage the database.

128. **Compliance in submission of audited financial statements must be checked by the bodies responsible for the supervision of LLCs and financial institutions.** For micro finance and infrastructure finance companies, only financial statements are required to be submitted as there is no statutory audit requirement. The Ministry of Trade employs four staff to monitor and ensure submission compliance for 34,054 enterprises out of almost 3 million registered companies (see section III General Financial Reporting Requirements of this report). OJK has an adequate number of staff members to perform this compliance check for the entities under its supervision. Separate units for different types of enterprises (non-listed and MSME financial institutions) have between 13 and 25 staff to perform the check, except for infrastructure finance companies where 2 staff cover 24 companies.

129. **Mandatory company financial report submission requirements are stipulated in relevant rules and regulations.** Fines can be imposed for pension funds and microfinance companies. On the other hand, administrative sanctions for venture capital entities, multi finance and infrastructure financing companies may consist of reprimand letters, business suspension, and license revocation.

**Corporate Governance**

130. **Principles of good corporate governance are stipulated in the LLC Law.** These principles cover transparency, accountability, responsibility, integrity, and fairness. There are no explicit sanctions in the law for non-compliance with the principles.

131. **Financial institutions are required to comply with relevant OJK regulations concerning GCG based on type of business, except infrastructure financing companies and microfinance companies.** OJK can impose administrative sanctions for non-compliance with the GCG code on venture capital and multi finance companies. Sanctions for noncompliance by pension funds would normally only be in the form of a recommendation to follow OJK guidelines.

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108 See Table 18 for the respective rules and regulations on financial reporting requirements.
STATE-OWNED ENTERPRISES

Overview of SOEs

132. **SOEs play a significant role in the Indonesian economy.** An SOE is an entity wholly or mostly owned by the state through direct investment of separated state wealth\(^{109}\). The sector consisted of 142 of which 118 are wholly owned SOEs and 24 are majority owned SOEs, some of which are large groups of companies. In 2016, total SOE assets amounted to IDR 6,473 trillion, equivalent to slightly more than 50 percent of GDP. There are two types of SOE defined in the SOE law: 1) Persero (*Perusahaan Persero*) is an SOE in the form of LLC. Equity, in the form of shares, is wholly or at least 51 percent owned by the Republic of Indonesia. They are primarily profit oriented. All regulations and principles that apply to LLCs apply to Persero; and 2) Perum (*Perusahaan Umum*) is an SOE whose capital is wholly owned by the State and shares are not issued. Perum provide a mixture of public services and commercial profit-making activities.

133. **Most SOEs (104 of the 118 wholly owned SOEs) are Persero.** 20 are listed on the stock exchange and account for 25.56 percent of the total capital market capitalization or IDR 1,654.56 trillion\(^{110}\). Strengthened corporate governance arrangements and transparency are key elements to help facilitate both increased private investment in SOEs themselves and mobilization of private capital for public investments to be managed by the SOEs.

134. **The equity of SOEs representing Government’s permanent investment has been recorded in the Central Government Financial Statements\(^ {111}\) since 2015, under President Joko Widodo’s administration.** This is important as it provides transparency on both capital injections and guarantees on SOE loans provided by Government. SOE equity holdings in 2016 amounted to IDR 2,257 trillion, equivalent to 41 percent of total Government of Indonesia assets.

135. **There is a separation of the state’s ownership functions from its policymaking and regulatory functions.** The Ministry of Finance is the owner of SOE shares but since 2001 has delegated the shareholders’ ownership interest function to the Ministry of State-Owned Enterprises. The Ministry of Finance continues to monitor SOEs’ financial condition and performance. The line

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\(^{109}\) Law No. 19/2003 on SOE - Article 1

\(^{110}\) In 2017, three listed SOEs’ shares were transferred to an SOE holding company in energy and mining, therefore the number of listed SOEs became 17.

\(^{111}\) Central Government Financial Statement is audited by BPK, Indonesia Supreme Audit Institution
ministry is responsible for policymaking, regulatory functions, and setting the tariffs for the SOEs’ public service obligations.

136. **Persero, as limited liability entities, should follow the provisions of the LLC Law.** Listed Persero should follow the SOE and LLC Laws unless overridden by the Capital Market Law.\(^{112}\)

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**Box 3. Financial Statements Disclosure of SOE with PSO mandate and Government Guarantee on SOE Loan**

The Government of Indonesia mandates seven SOEs with Public Service Obligation (PSO). Of the seven mandated with PSO SOEs, only one (Company A) financial statements is reviewed.

(i) **PSO disclosure and calculation in the company A audited financial statements**

The disclosure of transactions related to the Government is available but may not be complete. For example, the following disclosures are from Company A financial statements:

- Company A recognized Government's subsidy as revenue on accrual basis computed based on the provisions of Minister of Finance and the Line Minister.
- Compensation from government on the PSO for 2016 was disclosed and the total amount is based on SAI/BPK audit (Total in 2016 is IDR 58.04 trillion, paid in cash IDR 37.3 trillion - the remaining is recorded as 2016 offset with tax on revaluation IDR 13.5 trillion and receivable IDR 7.2 billion)
- Subsidy calculation requires verification and may be adjusted at the end of each quarter. If there is any gap between monthly subsidy paid to Company A and the verification result, the difference will be paid to Company A and may be carried over to the next fiscal period\(^{113}\). Therefore, payment from Government could be "delayed". The disclosure mentioned that no amounts are classified as past due since the counterparty is the Government of Indonesia, of which the credit risk on receivable on electricity subsidy is considered negligible.

\(^{112}\) SOE law Articles 11 and 34
\(^{113}\) The Minister of Finance Regulation No. 195/PMK.08/2015 article 29
(ii) Determination of the “full cost” recovery amount of PSO

The methodology applied to calculate the cost on PSO is based on the Line Minister and Minister of Finance regulations\textsuperscript{114}. The regulations defined the costs included in subsidy calculation with clear definition of the total cost of electricity provision including the expenditure type that can be included in the calculation. The claim proposed by Company A then should be audited by the SAI (BPK). The subsidy is allocated in the Government’s budget.

(iii) Government Guarantee for wholly owned SOEs

Prior issuing the explicit guarantee, Government would ensure viability of proposed project, decide on the guarantee period, decide whether it is appropriate for the financial obligation to be guaranteed and the transaction structure in the loan agreements, also minimize fiscal risk in the guarantee agreement clauses. The Government also evaluates the project performance during implementation as well as monitor the financial condition of the borrower (in the case of direct lending is Company A). Government regulates maximum limit of guarantee. The maximum limit is calculated based on the state financial condition and value of the projects to be guaranteed. For example, maximum limit for the period of 2014 - 2017 is 2.57\% of GDP. These are managed under the Directorate General of Budget Financing and Risk Management of Ministry of Finance. The Government monitors the outstanding guarantee to ensure it is within the maximum limit.

The Government would sign guarantee agreement for whole loan amount based on the legal agreement but would only make allocation in the budget and (therefore) record portion of the guarantee in their books based on the actual loan disbursed - when loan repaid the amount would be deducted accordingly.

As discussed above, Company A financial statements disclosed Government guarantee on their loan related to program/projects mandated by the Government. The 2016 Government Investments Financial Statements disclosed guarantee liabilities allocated in the Government budget (reserved in Government account) for these fast track projects. 2016 Company A bank loan related to these projects was IDR 46.6 trillion, while guarantee payable recorded in the Government books is IDR 2.1 trillion according to the loan disbursed. The calculation of Government’s guarantee liabilities is regulated in MOF regulation.

\textsuperscript{114} The Minister of Finance Regulation No. 170/PMK.02/2013
For loans related to fast track program, it is stated in the Company A financial statements that these loans are fully guaranteed by the Government of Indonesia in accordance with Government regulation no. 91/2007 (amendment of Government regulation no. 86/2006).

Financial Reporting Requirements for SOEs

137. **The SOE law requires SOEs to produce annual reports.** The Directors should submit the report to the Ministry SOE within 5 months of the end of the fiscal year. The reports are reviewed and signed by both the board of directors and board of commissioners.

138. **Detailed requirements on the content of annual reports are contained in Government regulation for Perum, and the LLC Law for Persero**. Both Persero and Perum annual reports must contain: (i) annual financial statements made in accordance with the SAK; (ii) consolidated financial statements for a group of companies in addition to individual financial statements of each company; (iii) a report on the condition and performance of the company and the results achieved; (iv) the company’s main activities and amendments during the financial year; (v) details of problems arising during the year which affect the company’s activities; (vi) names of members of the board of commissioners/supervisory board and the board of directors; and (vii) salary and other allowances for members of the board of directors, and honorarium and other allowances for members of the board of commissioners/supervisory board. Persero are additionally required to include a corporate social and environment responsibility report and board of commissioner’s supervision report in the annual report under the LLC Law.

139. **Persero financial statements are prepared based on SAK.** As described earlier in section II “Accounting and Auditing Standards”, there are gaps between SAK and IFRS. The Government regulation stipulates that Perum bookkeeping should be prepared in accordance with SAK.

Statutory Audit Requirements for SOEs

140. **SOEs are subject to an independent external financial audit as stipulated in the SOE and LLC laws for Persero, and the SOE Law for Perum.** The Minister of SOEs acts on behalf of the state in general shareholders meeting of Persero, while for Perum the Minister of SOEs acts as owner.

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115 SOE law article 11 and Government Regulation No. 45/2005 article 41 and 43.
116 SOE law article 11 and Government Regulation No. 45/2005 article 41 and 43.
141. **The SOE Law mandates the supreme audit institution to conduct audits of SOEs in accordance with prevailing laws and regulations.** The law does not provide further explanation. In practice, the Audit Board of Indonesia (*Badan Pemeriksa Keuangan* – BPK) carries out performance and investigative audits on SOEs. Performance audits are based on the BPK’s audit plan, which uses a risk-based approach and looks at a specific set of performance indicators. Investigative audits are performed based on need\(^\text{117}\). BPK also reviews selectively audited financial statements and visits auditors to review specific audits and audit methodologies. BPK can also conducts audits on subsidies received by SOEs under public service obligations. In conducting the subsidy audit, BPK does not rely on the financial audits. Allowable costs in subsidy audits are specific for each subsidy and these are recalculated and validated by BPK.

142. **The board of directors is required to submit annual financial statements to an external auditor appointed by the general shareholder meeting/minister, drawing from a list of candidates submitted by the board of commissioners.** The Ministry of SOEs has encouraged SOEs to be audited by qualified Public Accounting Firms. However, there is no regulation requiring SOEs to do so. Listed and large SOEs are primarily audited by the large international network audit firms but some use second-tier audit firms.

**Audit Committee and Risk Monitoring Committee**

143. **The board of commissioners/supervisory board is required to establish an audit committee\(^\text{118}\).** The audit committee chair reports to the board of commissioners/supervisory board. According to the Ministerial Regulation No. PER-01/MBU/2011 concerning good corporate governance in SOEs, a risk monitoring committee may be established, if needed, to support the board of commissioners/supervisory board. One member of the committee should be a member of the board of commissioners/supervisory board. The Minister of SOEs regulations No. PER-10/MBU/2012 and No. PER-12/MBU/2012 further defined that audit committee is one of support committees for SOE boards of commissioners/supervisory board; while risk monitoring

\(^{117}\) The summary of financial and performance audit results is published on the BPK website. Detailed reports can be obtained from the BPK office. Investigative audit findings are forwarded to law enforcement agencies. BPK has a follow-up mechanism that requires auditee to respond to findings within two months and imposes administrative sanctions for failure to reply.

\(^{118}\) SOE Law No. 19/2003 Article 70 (1)
committee, nomination and remuneration committee or business development committee can be established if considered necessary.

144. **The audit committee chair is an independent member of the board of commissioners/supervisory board.** Appointment and dismissal of audit committee members must be reported to the general shareholders’ meeting/shareholders. The risk monitoring committee chair is also an independent member of the board of commissioners/supervisory board. Members of both the audit and risk monitoring committees may be members of the board of commissioners/supervisory board or from outside.\(^{119}\)

145. **The board of commissioners/supervisory board, through its mandatory audit committee, nominates the external auditor.** The general shareholders’ meeting/Minister of SOEs\(^{120}\) appoints the external auditor. In addition to recommending the choice of external auditor to the board of commissioners/supervisory board, the audit committee is responsible for assisting the board of commissioners/supervisory board to ensure effectiveness of the internal control system and external and internal audit functions; evaluate external and internal audit performance; provide recommendations regarding strengthening and implementing management control systems; and to ensure adequate evaluation procedures are in place for the required release of company information.\(^{121}\)

146. **The risk monitoring committee is responsible for evaluating company risk management, evaluating risk measurement models, and measuring the effectiveness of the enterprise risk management.** The board of directors is required to include a risk management profile in SOE’s regular reports.\(^{122}\)

**Monitoring and Enforcement – Financial Reporting**

147. **Submission of financial reports to the Ministry are included in SOEs key performance indicators.** In 2016, SOEs achieved 100 percent submission of reports. There is no requirement

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\(^{119}\) As a good practice, members of the committees should be board members.

\(^{120}\) As stipulated in the SOE law, the Minister of SOE represents as the general shareholders’ meeting for 100 percent owned Persero and acts as shareholder on behalf of State for Persero and Limited liability company in the case the SOEs does not 100 percent owned by the State.

\(^{121}\) Minister of SOE regulation No. PER-10/MBU/2012 on SOE Board of Commissioners /Supervisory Board Supporting Organs Article 13

\(^{122}\) Minister of SOE regulation No. PER-10/MBU/2012 Article 19
for an unqualified audit opinion included in performance indicators, nor is there reference to resolving matters that cause a qualified audit opinion, although the Ministry would ask SOEs to follow up on the latter. Of the 115 audited financial statements in 2016, nine received qualified audit opinions due to departures from the financial accounting standards.

148. **SOEs annual reports are available on their websites.** SOEs are required to disclose important information in the annual report and financial statements in accordance with relevant laws and regulations in a timely, accurate, clear, and objective manner.¹²³

**Corporate Governance**

149. **It is mandatory for SOEs to conduct a good corporate governance (GCG) compliance assessment every two years and review follow up actions on the findings every year after assessment.**¹²⁴ The assessment is done by an independent assessor appointed by the board of commissioners/supervisory board through tender process, or by government agencies competent in the field of corporate governance through direct appointment by the board of directors, i.e. Indonesia’s National Government Internal Auditor (Badan Pengawasan Keuangan dan Pembangunan - BPKP)¹²⁵.

150. **SOEs’ GCG implementation average score is one of the annual key performance indicators set by the Ministry.**¹²⁶ Assessment can be undertaken by a consulting firm or government agency. In principle, the second-year review can be done through self-assessment, but the SOE may be

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¹²³ Minister of SOE regulation on GCG
¹²⁴ Minister of SOE regulation no. PER-01/MBU/2011
¹²⁵ BPKP evaluation methodology of GCG is contained in five books: (i) technical instructions; (ii) indicators and parameters; (iii) methodology and data processing; (iv) exposure; and (v) reporting. Indicators of GCG practice are assessed based on the following aspects: commitment in practicing sustainable GCG (7 percent); shareholders and the general shareholders’ meeting (9 percent); board of commissioners (35 percent); board of directors (35 percent); information disclosure and transparency (9 percent); and other aspects (5 percent). Parameters on the practice of GCG commitment covers soft structure, such as good and consistent practice of GCG Code and Code of Conduct, governance measurement, personal assets disclosures by managers and above, handling of gratuities program, and whistleblowing system
¹²⁶ The 2016 SOEs GCG implementation average score target was 83 (higher than the target in 2015 of 75). The average GCG score achieved in 2016 by SOEs is higher than the target at 86.49. Some listed SOEs include a summary of the GCG assessment report, including the findings, on their website as part of GCG good practice. For example, one company achieved an average score of 97. The executive summary of the GCG assessment is available on its website including detail of corresponding practice on each indicator aspects compared against the parameters and identified area for improvements.
assisted by an independent assessor or government agency, although not the same party that conducted the assessment. SOEs that are listed companies and SOEs in the financial sector supervised by OJK may have to conduct different assessments, depending on regulators’ requirements (including in other jurisdictions where they may be listed). OJK requires banks to conduct GCG self-assessment at least twice a year. \(^{127}\)

151. **Disclosure of GCG manuals and assessment results on SOE websites varies.** Some SOEs include information on GCG practice in their companies (including their ASEAN Corporate Governance Scorecard application) but provide no detail on GCG assessment findings. For a few examples reviewed, Company A provided detailed scoring results and areas for improvement, Company B provided information on their GCG score for each indicator as assessed by BPKP but no detailed review, Company C only provided their average GCG score for the past four years, and Company D provided only information on the company’s GCG practice and manuals on their website.

**THE ACCOUNTANCY PROFESSION**

152. **The profession in Indonesia is clearly segmented between professional accountants and auditors.** The two groups have separate certification requirements, membership bodies, as well as monitoring and enforcement mechanisms. Auditors are referred to as “public accountants” and are regulated under Public Accountant Law No 5/2011. Professional accountants are regulated by Minister of Finance Decree No 216/PMK.01/2017.

153. **The Law on Public Accountants\(^{128}\)** establishes the licensing requirements, rights, and obligations, and other rules governing the provision of the following services: (a) audit services, (b) review services, and (c) other assurance and financial management services. The Law also regulates usage of the title “public accountant”. Licenses are issued for a period of five years and are renewable. Obtaining or renewing a license is subject to meeting certain conditions, including successful completion of the public accountant’s examination, and membership of the relevant professional body. There is no legal requirement for auditors to have professional indemnity insurance, which raises the potential risk of uncovered claims being made against auditors. For foreign public accountants, the license is subject to a mutual recognition agreement being in place between Government of Indonesia and the government of the foreign public accountant’s country of origin.

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\(^{127}\) POJK No. 55/POJK.03/2016 concerning Corporate Governance Conduct for Banks
\(^{128}\) Law No 5/2011
154. **Public accounting services can be offered through three different legal forms**: (a) individual practitioner, (b) civil partnership, and (c) firm. For partnerships and firms, two thirds of all partners are required to be licensed public accountants. Foreign citizens are limited to one fifth of all partners in the partnership or firm, and one tenth of each level of professional employees within the partnership or firm. Partners who are not licensed public accountants are also required to meet good reputation criteria (such as absence of a criminal record) but are not entitled to sign audit and other reports issued to clients.

155. **Law No 5/2011 regulates the establishment of public accountant firm networks (OAI)**. Firm networks are required to be registered with the Ministry of Finance, and firms can only include the name of one network alongside the firm name. Approval from the Ministry of Finance is to be obtained from a firm wishing to join a local or international network of firms.

156. **Law No 5/2011 establishes the “Public Accountant Profession Committee”**. The committee is constituted of 13 members who represent a broad range of institutions and stakeholders, including the Ministry of Finance, the Association of Professional Public Accountants, the Professional Accountancy Organization, the Audit Board of the Republic of Indonesia, the Banking and Capital Market authorities, the Indonesian Financial Accounting Standards Board, the Indonesian Auditing and Assurance Standards Board, the Indonesia Sharia Accounting Standards Board, the Government Accounting Standards Committee, the Ministry of Education, and accounting academics. Members are appointed by the Minister of Finance for a period of three years; appointments can be renewed for one additional three-year period. The committee provides policy advice on matters related to the public accounting profession, and functions as an appeals institution in relation to the investigation and discipline of public accountants.

157. **Law No 5/2011 also establishes the authority of IAPI, which licensed public accountants are required to join**. The law requires IAPI to implement the certification examination of public accountants, issue and enforce SPAP professional standards including a code of ethics and conduct mandatory Continuing Professional Development (CPD) and quality reviews of its members. IAPI members elect its board of executives for a period of four years at a general meeting. The board of executives is responsible for realizing IAPI’s vision and mission.

158. **IAPI has a diversified funding base**. This comprises membership fees (30 percent), training fees (30 percent), and certified public accountants (CPA) examination fees (30 percent). Other sources of funding account for the remaining 10 percent of IAPI’s revenue. The annual membership fee is currently IDR 3,000,000 (around USD 200) per annum for CPAs who hold Public Accountants License (Practicing CPAs); for other categories of members it is IDR 300,000 (around 20 USD).

159. **There are two supporting committees charged with monitoring, investigation, and enforcement mechanisms**. The quality review board conducts quality assurance activities, and
the disciplinary and investigation committee is charged with investigation and disciplinary actions. Disciplinary actions can lead to written admonitions, membership suspension, or revocation of membership depending on the severity of the offence. There have been several suspensions and warnings issued during the past five years.

160. **IAPI was established as an independent organization in 2007, at an extraordinary general members’ meeting of IAI.** From 2007 to 2012 IAPI remained an associate member of IAI until IAI changed its membership category in 2012 and becoming a fully independent organization in 2012. IAPI became an associate member of the International Federation of Accountants (IFAC) in November 2014.

161. **IAPI had 3,863 members as of August 31, 2017.** Table 11 shows the membership categories. Table 12 gives a breakdown of practicing CPAs (holding MOF practice license) by region which shows the very high concentration of practicing CPAs in the more developed regions of the country with other regions being underserved.

### Table 11. IAPI Membership at August 2017

<table>
<thead>
<tr>
<th>Member Category</th>
<th>Number of members (August 2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practicing CPA</td>
<td>1,294</td>
</tr>
<tr>
<td>General members (staff in public accounting firms)</td>
<td>105</td>
</tr>
<tr>
<td>Non-practicing CPA</td>
<td>1,087</td>
</tr>
<tr>
<td>Associate CPA</td>
<td>1,306</td>
</tr>
<tr>
<td>Non-CPA partners (general members)</td>
<td>44</td>
</tr>
<tr>
<td>Honorary CPA</td>
<td>7</td>
</tr>
</tbody>
</table>

### Table 12. Practicing CPAs by region

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Practicing CPAs (August 2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater Jakarta</td>
<td>919</td>
</tr>
<tr>
<td>East Java and Kalimantan</td>
<td>142</td>
</tr>
</tbody>
</table>
### Table 12. Practicing CPAs by region

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Practicing CPAs (August 2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Java</td>
<td>56</td>
</tr>
<tr>
<td>Central Java</td>
<td>46</td>
</tr>
<tr>
<td>Northern Sumatera</td>
<td>34</td>
</tr>
<tr>
<td>Southern Sumatera</td>
<td>25</td>
</tr>
<tr>
<td>Central Sumatera</td>
<td>23</td>
</tr>
<tr>
<td>Bali and Nusa Tenggara</td>
<td>18</td>
</tr>
<tr>
<td>Sulawesi</td>
<td>16</td>
</tr>
<tr>
<td>Yogyakarta</td>
<td>15</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1294</strong></td>
</tr>
</tbody>
</table>

162. **Regulation No 216/PMK.01/2017** was issued by the Ministry of Finance and addresses the operation of the accounting profession. It refers to Law No 34/1954 and specifies that the title accountant (akuntan) can be used only by those in the state register of accountants held at the Ministry of Finance. To be included in the register it is necessary to (a) meet the qualification requirements, (b) have experience in the field of accounting, and (c) be an active member of IAI.

163. Inclusion in the state register of accountants entitles an individual to “perform a job associated [with] accounting and/or financial reporting”. This specifically excludes the provision of assurance services. Registration is subject to meeting certain conditions including achieving

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129 Supersedes Regulation No. 25/PMK.01/2014
130 These services are defined in article 9 as including “bookkeeping, financial statements [preparation], management services, management accounting, management consulting services, tax services, and agreed upon procedural services for financial information and information technology system and services”
131 Assurance services are defined in Law No 5 / 2011 as comprising: (a) audit services related to historical financial information, (b) review services related to historical financial information, and (c) other assurance services.
qualification and practical experience requirements and maintaining membership in a relevant professional body. Foreign accountants may similarly obtain a license, subject to mastering the Indonesian language, having sufficient knowledge of Indonesian taxation and commercial law, and subject to there being a mutual recognition agreement in place between the Government of Indonesia and the government of the country of origin of the applicant.\textsuperscript{132}

164. **Accounting services can be offered through four different legal forms:** (a) individual practitioner, (b) civil partnership, (c) firm, or (d) limited liability company. Whatever legal form is adopted, the chair of the organization is required to be an Indonesian citizen. For partnerships and firms, half of all partners are required to be licensed practicing accountants. No more than one fifth of all partners in a partnership or firm may be foreign citizens. Restrictions on the number of foreign citizens applies only to partners within the firm. In the case of limited liability companies, at least 51 percent of company shares are required to be owned by Indonesian citizens or corporations.

165. **Registered accountants are subject to several requirements.** These include: (a) maintaining active membership in a PAO, (b) maintaining their competence through continuing professional development, and (c) complying with the code of ethics and other standards issued by the PAO. These include quality assurance standards. IAI has a disciplinary board and an appeals committee in place to manage the investigation and disciplinary processes associated with monitoring member compliance.

166. **IAI is the recognized association of professional accountants in Indonesia.** IAI has a broad geographic presence with 34 branches throughout the Indonesia. It employs a staff of around 80, and over 50 percent of its funding is derived from training and education fees. Annual membership fees are approximately USD 25 per annum, which is comparatively low when compared to membership fees of other PAOs in the region.

167. **IAI was established in 1957 and is a full member of IFAC.** It is also a co-founding member of the ASEAN Federation of Accountants. Membership in IAI was voluntary until Regulation No25/PMK.01/2014 was issued. The accounting standard setter, DSAK, is an independent board that operates under the umbrella and is funded by the IAI. DSAK issues financial reporting standards and relevant guidance. This arrangement is not reflective of best practices and is addressed in more detail in section III “Setting Accounting Standards”.

168. **The IAI has the following membership categories:** (a) Student members - active students who are enlisted in a recognized bachelor’s degree in accounting, (b) Associate members - members

\textsuperscript{132} In accordance with article 3 of Regulation No 216/PMK.01/2017
who are listed as registered accountants but have not yet completed the chartered accountant qualification, or holder of bachelor/master/doctoral degree in accounting, or holder of IAI-recognized certification, (c) Primary members - members who are listed as registered accountants and have completed the chartered accountant qualification (CA holders). IAI’s membership breakdown as of September 30, 2017 was as follows:

Table 13. IAI’s membership breakdown as of September 30, 2017

<table>
<thead>
<tr>
<th>Member Category</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student members</td>
<td>1,100</td>
<td>2,890</td>
<td>3,990</td>
</tr>
<tr>
<td>Associate members</td>
<td>2,290</td>
<td>2,720</td>
<td>5,010</td>
</tr>
<tr>
<td>Primary members</td>
<td>11,680</td>
<td>7,870</td>
<td>19,550</td>
</tr>
<tr>
<td>TOTAL</td>
<td>15,070</td>
<td>13,480</td>
<td>28,550</td>
</tr>
</tbody>
</table>

**PROFESSIONAL EDUCATION AND TRAINING**

169. The Indonesian education system must address the needs of a large, growing, diverse, and widely dispersed population. Senior secondary education builds on the nine years of basic education (six years of primary school and three years of junior secondary school). Students entering senior secondary school can attend either an academically oriented school or a vocational school. After completing senior secondary education students can progress to a range of different types of tertiary institutions.

170. There are six different types of tertiary institutions in Indonesia: (a) universities, (b) institutes, (c) colleges, (d) polytechnics, (e) academies, and (f) community academies. The first three categories provide mostly academic education, whereas the last three provide mostly vocational education. The Indonesian qualifications framework (see Appendix 2) was developed in
collaboration with Australia and Germany. It establishes undergraduate degrees at level 6, whereas professional qualifications are at level 7\(^{133}\).

171. **Vocational education and training have been rapidly expanding in Indonesia, partly due to the government’s strategy for economic development.** The challenge is to match the skills of students to current and future demand. There appears to be a more positive perception developing with a growing number of applicants exceeding the number of places in vocational education and training institutions in recent years\(^{134}\). The Ministry of Research, Technology and Higher Education (Kementerian Riset Teknologi, dan Pendidikan Tinggi) has initiated a policy of revitalization of vocational education to improve the quality of studies and graduation rates.

### Box 4. Accounting education for the public sector

The Polytechnic of State Finance, which operates under the authority of the Ministry of Finance, is a vocational institution that was founded over 40 years ago. It offers accounting courses for the public sector. Admission is based on a combination of English-language proficiency and fitness tests\(^{135}\). The number of applications received far exceeds the number of students admitted every year. Over 2,500 applications were received for the most recent intake and less than 200 students were admitted (62 percent male / 38 percent female). Level 1 to level 4 diplomas are offered in the areas of accounting and taxation. Graduates are guaranteed employment with the Ministry of Finance (90 percent), the national internal auditor BPKP, or the BPK. Polytechnic lecturers are employed by the government in accounting and taxation roles, and the Polytechnic also provides internal training for employees of the Ministry of Finance, who are required to complete 20 hours of CPD annually. Lecturers are registered with the Ministry of Education, and the Polytechnic is required to conduct research and provide community services. The Polytechnic has initiated

\(^{133}\) A level 6 graduate will have mastered in-depth theoretical concepts and is capable of formulating related problem-solving procedures or to take strategic decisions based on information and data analysis. A level 7 graduate is capable of solving problems within his or her area of expertise and of being accountable for actions in his or her area of expertise.


\(^{135}\) Fitness tests are required because they are bound to become public servants.
discussions with a range of internationally recognized PAOs and training providers with the objective to develop knowledge-sharing and collaboration activities.

172. **Enrollment rates in tertiary education have grown considerably over the last 10 years, with a current total estimate of over 6 million students enrolled in around 4,600 institutions**\(^{136}\). This represents a 50 percent increase in the number of students enrolled compared with 2008 (4.2 million). The substantial increase in number of students becomes a challenge for the capacity of the tertiary education system to absorb this massive increase without an erosion of quality.

173. **The top private institutions appear to have standards comparable with the better public institutions, “on the whole the contribution of the private sector to growth has been at the expense of quality”**\(^{137}\). On the global ranking tertiary education institutions, one Indonesian institution, the Universitas Indonesia, included in the top 100 Asian universities. The Government of Indonesia has been monitoring the quality of education at tertiary institutions through a system of accreditation of study programs. Accreditation is valid for five years, and programs are ranked A, B, or C (the pass level).

174. **Accounting is generally taught as a standalone degree in Indonesia but is also included at an introductory level in other degrees such as business or economics.** Over 700 universities offer a bachelor’s degree in accounting, with an estimated 35,000 students graduating from accounting programs every year. The reputation of accounting degrees is strong, but the quality of education varies considerably between the leading public and private universities and the other institutions.

175. **Quality assurance monitoring by the Government considers solely academic qualifications, without regard nor reward for the professional experience of lecturers or the employment outcomes of degree programs for students.** This approach is not conducive to implementing competency-based education programs. Only a very small number of institutions offer in-depth knowledge of international accounting and auditing standards. Public universities are subject to rigid rules governing the fees charged to students. Tertiary institutions have an adequate level of autonomy in the recruitment of students, which is not exclusively based on national government entrance examinations but can be supplemented by tests and criteria developed by each institution.

\(^{136}\) Based on OECD Publication (2015)
176. National learning outcomes standards have been developed and distributed to all universities. These include accounting and are defined as “minimum” requirements which need to be complied with. Universities are required to successfully implement the learning outcomes standard to achieve a level A or a level B rating; they must also include some additional competencies. The challenge of meeting education standards seems high in some provinces.

177. Factors including the business environment, aspirations, and a lack of teachers with professional experience may help explain this high failure rate in professional examinations in some provinces. Unlike students and professors in large cities who live in a mature business environment and are exposed to large corporate entities and their practices, in rural areas most businesses are very small. The professional examinations have been developed with a focus on competencies, but few teachers in some areas have any professional background that they can draw on in teaching these. The culture of corporate accountability and financial reporting is not highly developed and concepts such as corporate governance and international accounting standards can seem irrelevant to some, hence the pursuit of international standards-based accounting qualifications does not elicit a significant interest.

178. A taskforce has been established by the Government to improve the quality of accounting education at universities. This is seen by the Government as a priority in the context of ASEAN integration, and the objective of achieving mobility of professionals among member countries. The taskforce will be pursuing new legislation to achieve the required changes. The aim is to assist the Universities in remote Provinces to implement the Learning Outcomes approach. A “training of trainers” approach will be followed to ensure capacity-building for the benefit of accounting teachers in the remote Provinces. The overall goal of the taskforce is to increase the number and quality of professional accountants in Indonesia.

179. The IAI has been working with the Ministry of Research, Technology and Higher Education to develop and implement a standard curriculum. The Ministry is developing a new approach to accrediting professional accounting programs. A taskforce, which includes representatives of IAI, was established with the aim of fostering the development of competency-based programs which develop professional skills, rather than the purely academic style of teaching which currently still prevails.

180. The process for obtaining a professional accounting qualification has changed in the last few years. Until 2014, to become a member of the profession the requirement was to complete a bachelor’s degree in accounting, then an IAI approved professional accounting program (Pendidikan Profesi Akuntansi - PPAk) from an accredited university, and then register with the Ministry of Finance. According to Minister of Finance Decree No. 25/PMK.01/2014, in order to be registered accountant, one should pass the PPAk or CA examination, having 3-year practical experience in accounting field, and be a member of IAI. Minister of Education Decree No.
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153/2014 stipulates that IAI’s CA examination is used as the final test of competence for the PPAk. Starting from 2017, with the issuance of Minister of Finance Decree No. 216/PMK.01/2017, that superseded Minister of Finance Decree No. 25/PMK.01/2014, all registered accountants are required to re-register and become members of IAI. No CPD requirements were enforced, and a significant number of the active licenses at the time (over 50,000) were held by individuals no longer involved with accounting practice. Decree No 25/2014 required all accountants to re-register and become members of IAI. Accountants who did not re-register within a 3-year period forfeited their registration with the Ministry of Finance.

181. **The certification process for CPAs (auditors) has been updated by IAPI to bring it into compliance with IFAC’s International Education Standards.** Completion of a recognized bachelor’s degree, master’s degree, or doctorate in accounting is the first step. Successful completion of examinations in five different subjects through multiple-choice questions is required to become an “Associate CPA”. Then, professional level examinations, consisting of five 3-hour examinations based on multiple-choice questions and case studies, must be completed to achieve the “CPA - Not Practicing” status.

182. **Three years of relevant professional experience are required to be completed**\(^{138}\) **before becoming eligible to take the final comprehensive examination.** The final examination includes both a written case study and an oral examination. If successfully completed, candidates achieve “full” CPA Status. The audit license is issued by the Ministry of Finance which has access to the work records of individual CPA candidates and can thus conduct a final check for compliance with practical experience requirements. An audit-assurance practice certificate issued by IAPI will also be required.

183. **The IAPI does not offer preparation courses for examinations but makes past examinations available to students on its website.** Several independent training providers offer preparation courses. A table summarizing the qualification process is included in Appendix 2. IAPI has established an agreement with the Institute of Chartered Accountants in England and Wales (ICAEW) for mutual recognition, though only at the associate CPA level so far. The overarching requirement, embedded in legislation, that recognition of foreign qualifications can only be achieved through “mutual recognition agreements” at the Government level may restrain the development of the local audit profession and its ability to meet market needs by recognizing foreign-trained auditors at an advanced level.

\(^{138}\) Including 1,000 hours of auditing, half of which must be completed at a senior level.
The certification process for chartered accountants was also updated by IAI given the changes introduced through Decree No 25/2014. The professional chartered accountant examination comprises 7 separate examinations, which candidates must complete over a maximum period of 3 years. Examination sessions are held every three months. A recognized degree in accounting (or equivalent qualifications which include a level 4 diploma or level 6 accounting technician certificate) is a pre-requisite to pursuing a chartered accountant’s qualification. The PPAk professional accounting program offered by universities is still available and is used as a “bridging” program by graduates whose studies were not in the accounting field, as well as preparation for the chartered accountant examinations by some candidates. A three-year relevant work experience requirement is enforced and relies on a declaration by the candidate’s supervisor. An accredited employer program has been implemented and is relied upon both to assess the practical experience requirement and ongoing CPD obligations. The work experience requirement is reduced to 2 years for candidates who complete the PPAk program, which develops students’ soft skills and practical competencies.

There is growing international recognition of the Indonesian chartered accountant program. The Association of Chartered Certified Accountants (ACCA) has granted the maximum of 9 exemptions to chartered accountants who have completed the professional program. There is a mutual pathway agreement with CPA Australia. Agreement has been reached with Chartered Institute of Management Accountants (CIMA) on the Chartered Global Management Accountant (CGMA) designation which is substantially equivalent to a mutual recognition agreement. IAI and ICAEW have launched Accounting, Finance and Business Program (AFBP), an international dual certification program as recognition of IAI Certificate of Accounting, Finance and Business foundation level. IAI is also in the process of mutual recognition for professional level. IAI has joined Chartered Accountants Worldwide, a group of globally-recognized Chartered Accountancy bodies that are committed to enhancing the value of the brand and the profession. Unfortunately, there is no established pathway between the Indonesian chartered accountant and CPA designations following the separation of IAI and IAP into two institutions.

IAI has developed its own specialist designations, which can be completed in addition to the chartered accountant program. They include public sector courses, and specializations in Sharia Accounting, Government Accounting, and Indonesian Financial Reporting Standards. An entry level qualification into the CA Program, CAFB, which adopted the ICAEW foundation level, has also been introduced.

This used to be a requirement for offering Public Accounting Services from 2004 to 2014.
187. **CPD requirements for chartered accountant members of IAI are aligned with IFAC requirements.** CPD activities are reported on-line by members, and several free CPD options are provided to members by the IAI, some of which are jointly held with ICAEW, ACCA, CIMA, and CPA Australia. In particular, IAI is working in collaboration with PPPK to hold free trainings in cities around the country for Practicing Accountants registered in the Ministry of Finance. The practicing accountants are required to maintain 40 hours of CPD, which consists of 4 hours in regulation, 4 hours in accounting standards, and 4 hours in profession standards.

188. **CPD requirements for CPA members of IAPI have also been aligned with IFAC requirements.** An annual CPD requirement of 40 hours is enforced. 30 of the 40 hours are required to be undertaken with IAPI, but members can select the topics to some extent. Out of the 30 hours, the Ministry of Finance requires a mandatory 4 hours on any of the following areas of practice that auditors are involved in: (a) monitoring and supervision of public accountants, (b) accounting and auditing rules, (c) capital market accounting and rules and regulations of the Indonesian Stock Exchange, (d) banking rules and regulations. This could total 16 hours of mandated training for auditors involved in many areas of practice. The 10 hours of CPD which can be completed outside of IAPI need to be approved and a maximum of 4 credit hours are granted for any individual training.

189. **There are several foreign PAOs with a presence in Indonesia.** These include ACCA, CPA Australia, CIMA, and ICAEW. According to ICAEW Indonesia data, there are over 3,500 registered university students, 8 affiliates, and 50 members of ICAEW in Indonesia. ACCA established a presence in Indonesia in 2013 and has two local education partners. It has also established a collaboration program with 25 universities and accredited 9 whose graduating students receive some exemptions in the ACCA program. Graduates from accounting degrees at the Universitas Indonesia and one private university receive the maximum number of nine exemptions. Graduates from the other seven universities receive between five and eight exemptions. Four of these universities are in large cities other than Jakarta. Accreditation discussions are in progress with several other universities. There is a total of over 1,000 students, 22 affiliates, and 35 ACCA members in Indonesia, employed in a diversified range of industries. Language and affordability issues remain an impediment. Even though ACCA have granted the maximum number of transfer credits to holders of the local chartered accountant designation, the ACCA designation does not provide any exemptions in the local chartered accountant and CPA programs.

**SETTING ACCOUNTING STANDARDS**

190. **Accounting standards are set by DSAK and DSAS of IAI.** The IAI National Council (Dewan Pengurus National – DPN)) has mandated the Indonesian Financial Accounting Standards Board
(Dewan Standar Akuntansi Keuangan – DSAK) and the Sharia Accounting Standards Board (Dewan Standar Akuntansi Syariah– DSAS) to establish SAK for general purpose financial reporting and for shari’a-based transactions and/or entities.

191. **OJK has the statutory right to prescribe accounting rules and/or guidelines for entities under their oversight where this is necessary to serve and protect the public interest.**¹⁴⁰ This statutory right has only been exercised in very rare circumstances and it is accepted that SAK should be universally applied in the preparation of general purpose financial statements by all public interest entities.

192. **From the sample of financial statements reviewed by the ROSC team, one bond issuer SOE prepared its financial statements based on Indonesia GAAP which is allowed under the Capital Market Law.** The SOE is implementing POJK 6/2017 which issued by OJK as accounting provision in March 2017. POJK 6/2017 stipulated that listed companies engaged in electricity power supply could record certain power purchase contract as sale and purchase transactions rather than as lease transactions in its financial statement. The implementation of POJK 6 superseded the implementation of ISAK 8 regarding Determining Whether an Arrangement Contains a Leases (IFRIC 4) that would require recognition of assets and liabilities and impact financial position of the entity. POJK 6/2017 issued as the technical implementation of the Presidential Regulation No.14/2017 regarding the Acceleration of Electricity Infrastructure Development and to facilitate the listed SOE in implementing its mandate. This regulation only applicable to one specific SOE bond issuer which conducts transactions on electricity supply and its counterparts for a certain period. Based on this regulation, the SOE prepare its financial statements and obtain unqualified audit opinion. These audited financial statements include disclosure regarding reconciliation between ISAK 8 and POJK 6, were then used in the global bond offering and raised USD 1.5 billion.

193. **DSAK and DSAS are independent bodies under the overall umbrella of IAI.** The IAI National Council and IAI Consultative Board of Financial Accounting Standards (Dewan Konsultatif Standar Akuntansi Keuangan – DKSAK) oversees the structure and strategies of all bodies within IAI. DPN selects and appoints DSAK and DSAS members in an open and rigorous process including an interview with DKSAK and DPN members, and the chair/vice chair of DSAK.

194. **DSAK and DSAS members require relevant practical experience.** The appointment of all members, including the ex-officio members, demands a high degree of technical accounting expertise and a deep understanding of SAK for general purpose financial reporting. They should also be familiar with the business and economic environment and have a commitment to serving

¹⁴⁰ Capital Market Law Article 69 paragraph 2. This authority is not specifically related to accounting standards but is intended to allow OJK to properly fulfill its regulatory responsibilities for the capital market sector.
the public interest. Members of these bodies have practical experience as auditors, preparers, and academic accountants along with ex-officio members from government agencies and regulatory bodies.

195. **The DPN appoints one member as chairperson and one member as vice chairperson of each body.** This appointment is for an initial term of four years, with a possible extension for a further two-year term. The current membership of DSAK is twelve and DSAS is thirteen, composed as follows:

<table>
<thead>
<tr>
<th></th>
<th>DSAK</th>
<th>DSAS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Bank</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>OJK - Banking Supervisor</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>OJK - Securities Market Regulator</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>OJK - Insurance Supervisor</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Ministry of Finance – DG Tax</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>National Sharia Board of Indonesian Ulema Council</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Other Members</td>
<td>8</td>
<td>5</td>
</tr>
</tbody>
</table>

196. **Standard setting activities are fully funded by IAI.** Since 2010, IAI has received financial contributions from some self-regulatory organizations including the IDX, Indonesian Central Securities Depository – (PT Kustodian Sentral Efek Indonesia – PT KSEI) and the Clearing and Guarantee Corporation (PT Kliring Penjaminan Efek Indonesia – PT KPEI). The contributions are for the development of SAK with the key emphasis on the convergence with IFRS and represents about 16% of the total annual cost associated with standard setting process\(^{141}\). All members of the standard setting bodies are volunteers, most being practicing professional accountants as practitioners, academicians and regulators. The sustainability of this voluntary non-remunerated membership model needs further consideration given the work program demands.

\(^{141}\) Information from IAI Financial Statements as of June 30, 2017
197. **DSAK and DSAS standard setting processes are overseen by DPN and DKSAK.** DSAS consult the National Shari’ah Board of the Ulema Council *(Dewan Syariah Nasional Majelis Ulama Indonesia – DSN MUI)* to ensure consistency in application of Shari’ah principles contained in the Shari’ah accounting standards with the Fatwa issued by DSN MUI. The Indonesian authorities regard the standard setting process and the oversight arrangements as independent. However, the current funding and oversight arrangements risk the perception of a lack of full independence from the accounting profession.

198. **The work programs of the standard setting bodies include a wide range of activities.** The development of the program requires consideration of economic and business circumstances and the needs of all relevant stakeholders. Major projects are determined in consultation with DPN and DKSAK to establish the priorities for the work program. The current DSAK work program is primarily focused on the convergence with IFRS. DSAK’s work program closely follows recent development of the IASB’s work plan.

199. **SAK also provide standards for industries and transactions not addressed in IFRS.** The standard setting bodies recognize the interests of stakeholders are becoming increasingly global. DSAK has increased its commitment to and involvement in achieving a globally accepted high quality financial reporting framework. However, the development of SAK has had to take account of changes in the Indonesian context. The SAK provides standards for specialized industries and transactions that are not specifically addressed in IFRS or that are developed for certain distinctive features of Sharia based transactions.

200. **The highest decision-making body of IAI is its National Congress held once every four years.** The implementation of work programs is reported to the National Congress, with monthly reports to DPN and publication of annual reports in between.

201. **There is an established process for issuing new standards and revisions of SAK (PSAK and/or ISAK), SAK ETAP, and SAK EMKM.** This is normally as follows:

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142 These specific standards include:
PSAK 28: Accounting for general insurance and PSAK 36; Accounting for Life Insurance which will be replaced by IFRS 17 when its Indonesian equivalent becomes effective;
PSAK 38: Business combinations under common control;
PSAK 45: Financial Reporting for not-for-profit entities;
PSAK 70: Accounting for tax amnesty’s assets and liabilities
ISAK 31: Interpretation on scope of PSAK 13: Investment Property
ISAK 32: Definition and hierarchy of SAK

143 Other Sharia based transactions which have similar conventional accounting treatments follow the existing SAK requirements.
• **Discussion paper produced.** This provides a comprehensive overview of the issues along with the possible approaches to addressing them, the preliminary views of DSAK, and an invitation to comment through focus group discussions or working groups. Discussion papers usually refer to IFRS standards that deal with similar issues, local regulations, and an assessment of the impact on industries affected.

• **Exposure draft circulated.** DSAK must be satisfied that all stakeholders have the opportunity to view and comment on the draft. It is posted on the IAI official website and is sent to the relevant bodies and individuals. In accordance with IAI standard setting guidelines there is a consultation period of between 30 and 90 days for all discussion papers and exposure drafts. The consultation is open to the public, with discussions at public hearings.

• **Board deliberation on the public comments.** DSAK may, where necessary, include responses to public comments in the basis for its conclusions of the relevant standard.

• **Issuance of the new or revised standard.** Guidance to facilitate interpretation of the new or revised standard is prepared where necessary. As SAK has been substantially converged with IFRS the interpretations and implementation guidance for the IFRS standard are generally used. In the rare circumstances where such guidance is not available the DSAK may issue a Technical Bulletin which provides non-authoritative guidance designed to assist with implementation.

• **Dissemination of the new or revised standards.** The dissemination process includes public hearings, workshops, seminars, publication on the IAI official website, to email lists, and on social media platforms.

202. The relevant legislation and principle users of financial statements prepared according national GAAP (SAK and SAK ETAP) are identified in the table below.

<table>
<thead>
<tr>
<th>Legislation/Regulation</th>
<th>Users</th>
<th>SAK or SAK ETAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesian Law No. 8/1995 on Capital Market</td>
<td>All companies whose securities trade in the public market</td>
<td>SAK</td>
</tr>
<tr>
<td>Indonesian Law No. 40/2007 on limited liability companies</td>
<td>All limited liability companies</td>
<td>SAK</td>
</tr>
<tr>
<td>Legislation/Regulation</td>
<td>Users</td>
<td>SAK or SAK ETAP</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------------------</td>
<td>------------------------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Indonesian Law No. 16/2001 on Foundations</td>
<td>All foundations</td>
<td>SAK</td>
</tr>
<tr>
<td>Indonesian Law No. 17/2013 on Community Organizations</td>
<td>All community organizations</td>
<td>SAK</td>
</tr>
<tr>
<td>Indonesian Law No. 19/2003 on State-owned Enterprises</td>
<td>All state-owned enterprises</td>
<td>SAK</td>
</tr>
<tr>
<td>Indonesian Law No. 17/2012 on Cooperative Entities</td>
<td>All cooperative entities</td>
<td>SAK</td>
</tr>
<tr>
<td>SEOJK/43/SEOJK.03/2016 concerning Transparency and Publication of Conventional Banks Report</td>
<td>All commercial banks</td>
<td>SAK</td>
</tr>
<tr>
<td>Minister of Finance Regulation No PMK/. 53/PMK.010/2012 concerning Financial Soundness of Insurance and Reinsurance companies</td>
<td>All insurance and reinsurance companies</td>
<td>SAK</td>
</tr>
<tr>
<td>POJK No. 29/POJK.05/2014 concerning Financing Companies</td>
<td>All financing companies</td>
<td>SAK</td>
</tr>
</tbody>
</table>
### Table 15. Financial standards and principle users

<table>
<thead>
<tr>
<th>Legislation/Regulation</th>
<th>Users</th>
<th>SAK or SAK ETAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bapepam-LK Chairman Decree No. PER-05/BL/2012 concerning Preparation of Pension Fund Financial Statements and Investment Assessment Basis</td>
<td>All pension fund institutions</td>
<td>SAK/GAAP&lt;sup&gt;144&lt;/sup&gt;</td>
</tr>
<tr>
<td>Bapepam-LK Chairman Decree No. KEP 460/BL/2008 concerning Securities Company’s Requirement to Submit Periodic Report</td>
<td>All securities companies</td>
<td>SAK</td>
</tr>
<tr>
<td>Ministry of Cooperative and Small and Medium Entities Regulation No. 12/PER/M.KUM/IX/2015</td>
<td>All cooperative entities</td>
<td>SAK ETAP</td>
</tr>
<tr>
<td>Ministry of State-owned Enterprises Regulation SE No. SE-02/MBU/WK/2012</td>
<td>Relates to partnership program and environment development program entities (Program Kemitraan dan Bina Lingkungan - PKBL)</td>
<td>SAK ETAP</td>
</tr>
<tr>
<td>Ministry of Regional Autonomy (Permen Otda) Regulation No. 82/2000</td>
<td>Local water supply utility entities</td>
<td>SAK ETAP</td>
</tr>
</tbody>
</table>

<sup>144</sup> OJK is currently in the process of issuing OJK circular letter regarding pension fund annual financial statements to supersede this regulation. The new circular letter, as a technical implementation guidance of POJK 5/D.05/2018 regarding Period Report of Pension Fund Institutions, stipulates the requirement to implement SAK in preparing the pension fund annual financial Statements.
203. **DSAK regularly updates the SAK and SAK ETAP.** These updates are encompassed in the IFRS convergence process, annual improvements, and new standards issued by the IASB. DSAK is striving to reduce the gap between IFRS effective dates and SAK, which is currently one year.

204. **SAK and SAK ETAP are only available in Bahasa Indonesia.** Effective from January 1, 2018, SAK has been substantially converged with the IFRS in effect as at January 1, 2017 (i.e. a one-year effective gap). IAI is responsible for the adoption of IFRS including translation and due process. It takes between 3 and 6 months for the standards and the official interpretations to be translated.

205. **DSAK is actively involved in the IASB standard setting process.** They respond to any exposure drafts issued. DSAK is also an active member of various international standard-setter groups including World Standard Setters, International Forum of Accounting Standard Setters, Emerging Economies Group, and ASIAN-Oceania Standard Setter Group. DSAK actively participates as a member of all AOSSG working groups and previously served as the co-leader of the AOSSG Working Group for Leases.

**SETTING AUDITING STANDARDS**

206. **In practical terms the audit oversight institution PPPK does not have ultimate responsibility for setting audit standards in Indonesia, although it has a right to appoint one authorized public accountant professional association as the auditing standards setter.** The appointed auditing standards setter is the Indonesian Auditing and Assurance Standards Board (AASB) under IAPI. This body's authority is governed by Public Accountants Law No 5 of 2011 (Public Accountant Law) and Minister of Finance Decree 443/KMK.01/2011. The issued standards have a legal standing as required by the Public Accountant Law.

207. **Membership of AASB is dominated by active practicing CPAs.** It is required that the AASB consists of: (i) minimum seven persons, (ii) of whom more than 40 percent must be CPA with a
license to practice, and (iii) at least one academic with an accounting and auditing background. Currently the Indonesian AASB consists of 11 members (7 CPAs with license to practice, one CPA with non-practice license (from the Ministry of Finance), one academic, one representative of OJK, and one representative of BPK. The members of AASB are appointed by the IAPI board of executives and must have appropriate qualifications and reputation and demonstrate integrity and dedication to the profession. The AASB is assisted by a technical committee whose members work full time on remunerated basis.

208. **Members of AASB work part-time and on non-remunerated basis.** The AASB is self-funded by IAPI. The available budget varies every year depending on the planned program. The work of AASB members is based on assignment from IAPI’s Board of Executive. Certain AASB’s activities are supported by regulators such as providing venue for socialization of new standards.

209. **AASB periodically reports to the PPPK, but defines its work program independently.** The AASB works in terms of four years with a program determined at the beginning and implemented during the term. Progress is reported, through the IAPI board of executives, to members annually and to the Ministry of Finance twice a year (in April and October). These reports mainly contain information on the number of meetings and topics discussed rather than information on the achievement of targets. As the PPPK does not, in practice, influence the work program of AASB it is not ultimately responsible for audit standards setting, as good practice would recommend (even though the Ministry of Finance can withdraw the auditing standard setting function from IAPI and assign it to another professional association)\(^{145}\). The standards setter is also overseen by the Indonesian Committee on Public Accounting Profession (KPAP), which is an independent body whose members are appointed by the Minister of Finance, advising regulators and other relevant stakeholders on the public accounting profession.

210. **AASB follows a due process procedure in setting audit standards.** This consists of:

   1. Identification, prioritization, and approval of issues related to the proposed professional standards.
   2. Compiling, developing, and setting up the exposure draft.
   3. Conducting public exposure for 60 days to gather responses from stakeholders.
   4. Consideration and discussion of comments, feedback, and suggestions received on the exposure draft, followed by draft revisions if necessary.

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\(^{145}\) The Ministry of Finance appointed IAPI as standards setter. If PPPK finds the achievements of IAPI’s AASB unsatisfactory, PPPK may recommend MOF to withdraw the authority from the AASB (IAPI) and pass it to another competent professional association that can fulfill the requirements outlined in the Public Accountant Law.
5. Repeat public exposure, if there are significant changes on the draft, for 30 days.
6. Approval and publication of the final professional standards.

211. **AASB disseminate audit standards locally through various channels.** Dissemination of standards is achieved through various publications, conferences, workshops, continuing professional education programs, and IAPI website.

212. **AASB contributes to the international standards setting process, but not in a systematic manner.** AASB contributes to IAASB roundtable meetings and publications, but it does not prepare feedback on all draft professional standards as they are developed by IAASB.

**AUDIT REGULATION, QUALITY ASSURANCE AND PUBLIC OVERSIGHT**

**Regulatory environment for auditors**

213. **Auditors in Indonesia are referred to as “Public Accountants”**\(^{146}\). They are regulated by the law on Public Accountants No. 5/2011. The Law on Public Accountants establishes the licensing requirements, rights, and obligations, and other rules governing the provision of the following services: (a) audit services, (b) review services, and (c) other assurance and financial management services. The Law also regulates usage of the title “Public Accountant”. Licenses are issued for a period of five years and are renewable. All public accountants must be members of IAPI. In addition to the regulation of assurance services, external accounting and financial reporting (non-assurance) services are also regulated and can be performed by either public accountants or qualified accountants who are members of IAI. For more details on qualification and licensing requirements see section III “The accountancy profession” and “Professional education and training” of this report.

214. **There are nearly 1,300 auditors (public accountants) in Indonesia serving the statutory audit market of over 27,000 entities.** Auditors (public accountants) are either members of audit firms (over 1,100), or practice as sole practitioners (nearly 200). There are 465 audit firms registered (public accountant firms *Kantor Akuntan Publik* – KAP), including 401 local firms, and 64 foreign affiliated firms. An audit firm can be established as a civil partnership or a firm (the limited liability

\(^{146}\) Auditors in Indonesia who have CPA and license from Ministry of Finance (PPPK) to render its service are referred to as public accountants.
legal form is not permitted), and 2/3rds of partners should be auditors. In foreign affiliated audit firms, a maximum of 1/5th of partners can be foreign citizens.

215. **There are no mutual recognition agreements to recognize other countries’ auditor licenses in Indonesia.** Even though the Public Accountant Law includes a procedure for recognition, no mutual recognition agreements are yet in place with other countries. Auditors who have qualified in other countries must undergo the full qualification and licensing process from the beginning if they wish to practice in Indonesia.

216. **There are no professional indemnity insurance requirements for auditors in Indonesia, and there is no practice of capping the liability by auditors of audit firms.** Both individual auditors and firms are liable in full for any assurance services they provide (i.e. their liability is not limited). Practice of having professional indemnity insurance is not yet common in Indonesia and it is not required. Several public accounting firms voluntarily obtain professional indemnity insurance to mitigate the audit risk.

217. **Non-audit services by auditors are subject to the same regulation as audits in line with provisions of the law.** Some of the services are subject to other laws, regulations, and standards related to, for example, taxation or agreed-upon procedures.

**Quality assurance and audit oversight system**

218. **The authority for audit oversight and quality assurance is PPPK.** It is also responsible for oversight of accounting service firms (regulated external accounting services) and the actuary profession. It was established in 2002 under the name of the Directorate for Supervision of Accountants and Appraiser Services – (Direktorat Pembinaan Akuntan dan Jasa Penilai) and then became PPPK in 2015.

219. **In addition to PPPK, quality assurance activities are performed by IAPI and OJK’s capital market department.** IAPI performs quality assurance activities in line with the IFAC statement of membership obligations (SMO 1), while OJK performs quality assurance inspections of auditors that audit listed entities and registered entities (such as for example securities companies, mutual funds, etc.).

220. **Although there is some coordination of quality assurance activities among PPPK, OJK, and IAPI, there is no clear delineation of responsibilities across these institutions.** The result is that

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147 Based on Minister of Finance’s regulation no. 206/PMK.01/2014 concerning Ministry of Finance Organization and Working Procedures.
sometimes the same auditors undergo more than one inspection in a short period of time. When a public oversight authority has ultimate responsibility for audit oversight and quality assurance, the usual good practice is to delegate some tasks to other institutions (for example, quality assurance of auditors performing audits of non-PIEs is often delegated to PAOs). This is not currently the case in Indonesia, with both PPPK’s and IAPI’s quality assurance programs covering all auditors.

221. **PPPK’s funding is directly from the state budget and it therefore operates independently from the profession.** However, this means that PPPK is subject to the same budget spending rules as all other public-sector institutions\(^\text{148}\). PPPK’s budget for quality assurance activities (excluding remuneration) is over IDR 2 billion (~USD 177K). The audit market or audit profession does not contribute to the funding of PPPK’s audit oversight activities, but IAPI quality assurance is funded by the profession through membership fees and charges\(^\text{149}\).

222. **PPPK is fully independent from the profession and can employ experts from the profession for specific assignments.** PPPK invites experts from IAPI to express expert opinions on specific issues and it can also hire specialist expertise for specific assignments in specialized areas.

223. **PPPK is required to report annually on its activities but the report mainly comprises activity descriptions with less focus on outcomes.** For instance, the annual report does not specifically cover systemic issues and findings identified by PPPK’s quality assurance inspections or highlight examples of good practice. The report refers to a specialized “book” where more substantial findings are reported, but this was not able to be located and as a consequence there appears to be no publicly available information analyzing quality assurance findings in a systematic way. This type of reporting is usually done to facilitate and measure improvements in audit quality, as well as identify and report on major and systematic findings from inspections of auditors. The 2017 annual report addresses some of the weaknesses of previous reports\(^\text{150}\).

224. **PPPK aims to perform its oversight role in line with good international practices in quality assurance, but external evidence may potentially suggest that the findings and impact of audit**

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\(^{148}\) For example, all the staff are civil servants and are subject to limitations on the pay scale and skills that can be employed. Although, the remuneration of MOF staff is the highest among civil servants.

\(^{149}\) IAPI charges IDR 0.5 million for compulsory QA inspection, while a voluntary inspection is charged at the rate of IDR 15 million per inspection.

\(^{150}\) In 2018 PPPK issued its annual report for 2017 which addressed some of the weaknesses of previous reports. For instance, it contains information on inspections of public accountants and public accountant firms as well as the follow up activities.
oversight over audit quality needs further improvement. Such evidence, although limited and may not be representative, is based on the US Public Company Accounting Oversight Board (PCAOB) inspection of the quality of audit of a telecommunications company’s 2011 financial statements. As the company was listed on the New York Stock Exchange, it was subject to the PCAOB mandate. There is no public evidence on the case available in Indonesia. Due to this case, the Indonesian partner gave up his right to practice in June 2017.

225. **PPPK is a member of the International Forum of Independent Audit Regulators and the ASEAN Audit Regulators Group and is recognized by the European Commission (EC) and Swiss Federal Audit Oversight Authority (FAOA) as having an audit oversight system compatible with the requirements in the European Union and Switzerland.** The participation in international bodies and recognition of the EC and Swiss FAOA is commendable and is beneficial for integrating the audit market into international markets. PPPK benefits from its participation in these bodies as it gives access to international developments, expertise, and findings in quality assurance at the global level and provides exposure to global challenges.

226. **IAPI’s quality assurance program is effectively a monitored peer-review system, whereby practicing auditors are employed for quality assurance inspections.** The focus of IAPI inspections is smaller audit firms; audit firms that voluntarily request a quality assurance review to assist them to enhance their internal systems and processes are prioritized. The Ministry of Finance formally delegates the QA program to IAPI based on Minister of Finance Decree No. 443/KMK.01/2011. PPPK performs some overview of the results of the QA Program by IAPI and depending on findings in some cases PPPK carries out a further inspection and can impose more significant sanctions. IAPI reports twice a year to PPPK on its quality assurance activities and to IFAC once a year, as part of its compliance with SMO 1. There is no clear definition of responsibilities under this delegation in terms of which auditors and audit firms could or should be inspected by IAPI. Good practice for this type of delegation is that it covers auditors and audits of non-PIEs, while PIE audits and auditors are inspected by the audit oversight institutions themselves and are not delegated.

**Quality assurance review procedures, approach and communication of findings**

227. **PPPK has adopted a risk-based approach to selecting audit firms and engagements for review.** It is based on criterion including: the number of audit clients, types of audit clients (PIEs and regulated industries audits are inspected more often), results of previous inspections, and the need for follow-up on previous findings. PIE auditors are usually inspected on an annual basis;

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151 Source: [https://pcaobus.org/News/Releases/Pages/EY-Indonesia-enforcement-2-9-16.aspx](https://pcaobus.org/News/Releases/Pages/EY-Indonesia-enforcement-2-9-16.aspx)
this applies to the largest 10 audit firms. Other auditors are inspected less frequently, and there is no requirement to inspect an individual auditor/CPA or audit firm within a specific timeframe. This could create a situation where auditors with a less ‘risky’ client base and engagements may not be inspected for a very long time.

228. **PPPK inspections are planned in an annual work plan that is approved by Secretary General of Ministry of Finance decree.** The plan states the number of inspections and coverage of CPAs/auditors and audit firms/KAPs. In 2017, for example, 60 audit firms were inspected (including 10 largest audit firms) with a total review coverage of approximately 90 CPAs/auditors. In addition, unplanned investigations/inspections can be performed at any time should PPPK become aware of any potential issues of noncompliance with professional standards.

229. **Although PPPK has developed some rules on quality assurance inspections, they do not contain a robust methodology which would enable detailed and comprehensive quality assurance inspections.** PPPK’s rules and guidelines for performing inspections largely describe the procedures for conducting audit quality assurance inspections and list various pieces of legislation. However, there seems to be no quality assurance methodology covering the requirements of the various professional and ethical standards and how the inspection team should assess the substance of an audit firm’s internal control framework (based on local ISQC 1 equivalent) or the entire audit process for assessing an audit engagement compliance with auditing standards (based on local ISAs equivalents). Some of the weaknesses were addressed by issuing a new methodology in April 2018. It now contains: (i) a risk-based approach to selecting audit firms and individual audit engagements for review, (ii) a methodology for assessing an audit firm’s quality control mechanisms, and (iii) a methodology for the detailed review of individual audit engagements. PPPK will now need to focus on practical implementation of the methodology, as well as in the medium-term automate it using an existing or tailor made software solution; the methodology would also benefit from further use of good international experience (for example the common audit inspection methodology (CAIM) developed by European inspection group) and use the experience of specialized software that is available in a number of jurisdictions.

230. **PPPK’s methodology for quality assurance inspections aims to identify and report on deficiencies in audit firms’ quality control processes for audit engagements.** Any departures from the professional standards and how they impact the quality of the audit and the financial statements are identified. The results of inspections are communicated to auditors in writing and include recommendations. The CPA/auditor or the audit firm is requested to develop an action plan to implement the recommendations. Progress with implementation of the action plan is usually followed-up by PPPK during next inspection cycle.
231. **PPPK does not engage with audit committees or other bodies charged with governance within audit clients to report on review findings and currently there is no legal basis for such engagement.** However, PPPK does engage with the Indonesian Institute of Audit Committees (*Ikatan Komite Audit Indonesia – IKAI*) to discuss Audit Quality Indicators and deliver key messages related to audit inspection findings. PPPK through IKAI may perform outreach to audit committees to help raise awareness of the valuable information available to them as a result of audit oversight and quality assurance.

232. **There is potential for overlap and duplication of oversight and quality assurance of auditors of listed entities.** In addition to PPPK, OJK also performs certain audit oversight and quality assurance activities which may create duplication in audit regulation. As described in section III “Audit regulation, quality assurance and public oversight”, OJK in its capacity as capital market regulator created a team that performs quality inspection of auditors of listed entities’ financial statements. Although there is some coordination between OJK and PPPK, there have been instances when auditors were inspected by both institutions at the same time. Good practice suggests that audit oversight is concentrated in one institution which should develop strong collaboration with financial sector supervisors ¹⁵².

### Quality assurance inspectors

233. **It is a challenge for PPPK to employ staff with substantial practical audit experience.** PPPK has over one hundred employees; 13 out of 17 Inspectors (76%) have CPA certification, and continuously maintain and improve their competency as a CPA; 10 out of 13 CPA inspectors have experience working within an audit firm (this includes senior level experience in international network audit firms). The challenge for PPPK to employ staff with substantial practical audit experience is due to (i) limitations of the civil service pay scale, and (ii) the fact that initially only candidates under 35 years of age can be employed as civil servants. For specific industry-related issues or experience PPPK can employ or consult external experts as necessary.

234. **PPPK attempts to compensate for the limited ability to recruit experienced staff with training opportunities and in-house experience.** PPPK staff are recruited as part of the Ministry of Finance’s general recruitment. Staff members are encouraged to attend CPD training and to formally qualify as CPA. Specific criteria exist for inspectors focused on their having an accounting and auditing background. The minimum requirements for an inspector include a bachelor’s degree in accounting and 2 years of audit experience.

¹⁵² OJK and PPPK are discussing the possibility of conducting joint inspection in the future.
235. **PPPK ensures inspector independence from the auditors being reviewed.** Inspectors and auditors reviewed are required to sign a conflict of interest statement before each inspection. There is no cooling off period for inspectors, but usually they do not inspect audit firms that they have previously worked for, with a minimum stand down of three years after leaving the audit firm. IAPI inspectors are usually practicing auditors, but there is a process to ensure they are independent from the reviewed audit firm.

**Investigations and sanctions**

236. **PPPK is empowered to impose sanctions in the form of reprimands, fines, or revocation of a license.** Sanctions are detailed in the Public Accountant Law and related regulations. Sanctions can also include mandatory attendance at CPD training. The findings which lead to sanctions are passed to IAPI to be included in future CPD training. Sanctions are typically imposed following quality assurance inspections, but whistleblowing or complaints through media or other public information can also trigger an investigation and sanction where appropriate. Appeals against imposed sanctions are handled by KPAP.

237. **In recent years several sanctions have been imposed by PPPK.** The following sanctions were imposed by PPPK in recent years:

- **2014:** 1 recommendation sanction to auditor firm, 6 warnings to auditors, 1 revoking license of auditor;
- **2015:** 8 warnings to auditors, 1 warning to an audit firm, 2 license suspensions of auditors, 1 license suspension of an accounting firm;
- **2016:** 15 recommendation sanction to auditors, 11 warnings to auditors;
- **2017:** 7 recommendation sanction to auditors, 3 recommendation sanction to audit firms, 28 warnings to auditors, 32 warnings to audit firms, 2 service limitation sanctions, 13 license suspensions, and 1 revoking license.
IV. OBSERVED FINANCIAL REPORTING PRACTICES AND PERCEPTIONS

238. The observed financial reporting practices suggest that gaps exist between the applicable legislative requirements and actual practice. Non-compliance with applicable financial reporting standards and filing requirements were identified, ultimately leading to limited availability of financial information in the market to support economic decision making. The compliance gap is an indication that further capacity strengthening is needed for institutions responsible for audit oversight and for enforcement of financial reporting practices by financial sector entities and SOEs.

239. The ROSC A&A process included reviews of financial statements and regulators reports, and discussions with stakeholders. The objectives of this section are to: (i) corroborate the findings from the assessments of A&A standards (Section II) and the institutional framework for corporate financial reporting (Section III) with reference to financial statements issued and reports from the regulators, where they are available; and (ii) gather perceptions on the demand for and quality of financial information from users of financial statements. The regulator (OJK) does not specifically issue reports on reviews of financial statements, and the reviews that were made available by OJK did not perform a comprehensive analysis of compliance with financial reporting standards. Therefore, this section is largely based on reviews of financial statements, results of perception surveys, and discussions held with users of financial statements and auditors. The absence of detailed reports by PPPK on compliance with applicable auditing standards by auditors and inspection findings also limited the information available on systemic issues in audit quality.

FINANCIAL STATEMENTS REVIEW

240. Limited reviews of financial statements were performed to assess the compliance gap and the quality of financial information available in the market. The ROSC team reviewed a sample of financial statements to assess the extent to which they complied with the national financial reporting standards with which they had been prepared (SAK and SAK ETAP for entities without public accountability). Conclusions should be taken with a degree of caution, given the limited sample size as well as the inherent problems in examining the compliance gap, as the reviewer of financial statements cannot be certain that everything that should have been disclosed has indeed been disclosed. Furthermore, financial statements of entities in similar economic sectors could reasonably be expected to have similar formats and disclosures and therefore it is relatively
easy for those preparing financial statements to make them appear to comply simply by conforming to a typical format without regard to the entity’s underlying financial transactions and position. Similarly, some caution needs to be applied when extrapolating the conclusions from the review of SMEs financial statements. The team had difficulty in obtaining a representative sample due to the limited availability of the financial statements of NFI SMEs.

241. **A total of 53 sets of financial statements prepared in accordance with SAK or SAK ETAP were reviewed.** The sectors and types of entities were selected based on their importance to the national economy:

- 10 banks (four SOEs and six private);
- four insurance companies (two SOEs and two private);
- one private pension fund;
- 14 listed entities in various industries, including energy, mining, production (seven SOEs and seven private);
- one private sector entity; and
- 23 SMEs (of which 11 were based on SAK and 12 prepared in accordance with SAK ETAP).

242. **There were some examples of good practice, but the overall quality of financial reporting needs improvement due to likely non-compliance with the national accounting standards identified in several areas.** None of the audit reports on the SAK-based financial statements reviewed were qualified, which could suggest the attainment of at least the minimum level of compliance with the standards, assuming that audits were adequately performed. The review of sample of financial statements from all sectors and across all ownership structures revealed some instances of questionable financial reporting practices, and some cases of probable non-compliance with the national accounting standards. The issues identified impact on the quality of financial information presented and disclosures, ultimately leading to less reliable information being available for decision making and accountability of those charged with governance.

243. **The audited financial statements of listed companies had inconsistent application and reference to the applicable financial reporting framework.** Based on PSAK 1, SAK comprises of accounting standard issued by DSAK and DSAS and accounting provision issued by capital market regulator, of which all companies should apply to that. The Capital Market Law states that financial reports of listed companies that are submitted to BAPEPAM/OJK must be prepared in accordance with generally accepted accounting principles, which consist of Financial Accounting Standards issued by the Indonesian Institute of Accountants (DSAK and DSAS) and accounting provision issued by capital market regulator. Most financial statements reviewed referred to SAK, and only two stated a reference to GAAP (one of which is a listed company). Such a practice and
reference to different financial reporting frameworks could potentially mean some users being misled.

**Non-financial institutions**

Based on the review findings, the quality of NFI financial reporting needs improvement in some important areas. Some financial statements reviewed were significantly cluttered and in one case the 2015 financial statements were reissued to address significant shortcomings. The recurring areas of potential non-compliance are summarized below:

- **Financial statement presentation: disclosure of too much information that is not relevant for decision making**. Most financial statements reviewed appeared to be cluttered, making it difficult for users to analyze for economic decisions making purposes. This indicates that preparers often have not considered whether the disclosure of immaterial information results in material information being obscured.

- **Disclosure of most significant judgments made in applying accounting policies: not distinguishing between significant judgments and assumptions**. This negatively impacts the ability of users to review financial statements in the context of such judgments. Some entities did not clearly distinguish between their disclosures about significant judgments and those about key measurement assumptions. One entity omitted to provide any meaningful disclosure about the judgments it had made in its accounting policy note. Most of the other entities reviewed either omitted to some significant judgments, or the information disclosed was inadequate ‘boiler-plate’ information, or both.

- **Disclosure of key measurement assumptions: often generic and not quantified**. Often generic information is provided rather than quantified explanations of the assumptions made.

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153 see PSAK 1 (based on IAS 1). Additional information is disclosed due to regulatory requirements provided by Bapepam-LK rule VII.G.7.

154 For instance, one NFI’s financial statements were particularly cluttered and contained numerous obvious typing errors (for example, misspellings and text omissions); this could be due to the quality of English translation, that left the A&A ROSC team with the impression that the financial information presented therein may also not be reliable. Based on Indonesia regulations, listed companies are required to submit audited financial statements in Indonesian, therefore, in the case of any dispute between Indonesian compared to translation version, the Indonesian version shall prevail.

155 see PSAK 1 (based on IAS 1)

156 see PSAK 1 (based on IAS 1)
and information about the sensitivity of estimates to changes in assumptions, the range of reasonably possible outcomes, and changes made to past assumptions during the year.

- **Depreciation/amortization judgments: not reflecting the way depreciated assets are consumed.**\(^{157}\) Entities reviewed often used boiler plate depreciation policies for property, plant and equipment, investment property and intangible assets that are inconsistent with the depreciation principle of reflecting the consumption of the item’s service potential.

- **Fair value measurement practices: incomplete disclosures of the levels of the fair value measurement hierarchy which likely impact values reported in financial statements.**\(^{158}\) No entities disclosed their entity-specific policy for rationally and consistently making the judgments necessary to differentiate between the three levels of fair value measurement.\(^ {159}\) On the basis of their disclosures, most entities likely provide incomplete disclosures (particularly when classifying level 3 fair value measurements at level 2). Some entities likely have deficient fair value measurement practices, for example, using assumptions that are unlikely to result in fair value measurement.

- **Legal proceedings\(^ {160}\) and uncertain tax positions: weak disclosures.** Reviewed financial statements often contained insufficient disclosures about the classification judgments made and, when relevant, the judgments made in recognizing and measuring the associated liabilities or assets.

- **Incomplete disclosures of impairment of non-financial assets may impact the way the financial position is presented.**\(^ {161}\) The reviewers noted inconsistencies with the underlying economics and other inadequate disclosures.

- **Incomplete disclosure of unquoted equity instruments: carried at historical cost which may mislead users of financial statements.** Some unquoted equity instruments may not be measured reliably, thus may be accounted for at historical cost. Most NFIs reported equity instruments at historical cost without disclosing the exemption of PSAK 55 (i.e. that identical instruments are not actively traded, or fair value cannot be measured reliably), which may mislead financial statements users (i.e. the perception will be that the stated fair value is the

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\(^{157}\) For example, see PSAK 16 (based on IAS 16 *Property, Plant and Equipment*)

\(^{158}\) see PSAK 68 (based on IFRS 13 *Fair Value Measurement*)

\(^{159}\) see PSAK 68 (based on IFRS 13)

\(^{160}\) see PSAK 57 (based on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) read with PSAK 1 (based on IAS 1) and PSAK 25 (based on IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*)

\(^{161}\) see PSAK 48 (based on IAS 36 *Impairment of Assets*)
actual fair value, which in fact is different but cannot be measured and hence carried at historical cost). This could negatively impact judgments in economic decision making (understatement or overstatement of unquoted equity instruments).162

- **Change of accounting policy: insufficient disclosure.**163 The majority of the entities reviewed in 2016 or 2015 changed their accounting policy for land use rights classified as property, plant, and equipment from the cost model to the revaluation model. All provided insufficient disclosure to indicate to the reader that the huge income presented in other comprehensive income (OCI) in the year the new policy was first applied represents an accumulation of income over many years.

**Banks**

245. **Aspects of issues with compliance were noted in all banks reviewed.** Issues with disclosures and application of SAK appear likely in some key areas relevant for the banking industry. Information about a bank’s credit risk, liquidity risk, and fair value measurement are particularly relevant to users of banks’ financial statements. The compliance issues arose in different ways as described below. Although some additional disclosures may be available in risk management section of annual reports as required by OJK’s Bank Transparency Regulation (POJK.6/2015), these are not resolving issues of compliance with financial reporting standards.

246. Financial reporting compliance issues for banks arising from the review included:

- About half of the banks reviewed identified going concern as a critical judgment but at the same time disclosed that "management is not aware of any material uncertainties that may cast significant doubt to the ability to continue as a going concern."

- **Incomplete credit risk disclosures that may impact users' understanding of the real risk exposure.**164 Maximum exposures to credit risk disclosures and concentration of credit risk disclosures appear to be incomplete for many banks, particularly regarding off-balance sheet items either being omitted or presented separately from recognized exposures and insufficient disclosures about the extent and the quality of collateral. More comprehensive

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162 see PSAK 55 (based on IAS 39 Financial Instruments: Classification and Measurement)
163 see PSAK 25 (based on IAS 8)
164 see PSAK 60 (based on IFRS 7 Financial Instruments: Disclosure)
information may be available in the risk management section of the company annual report which is not subject to audit.

- **Liquidity risk disclosure are often inadequate and could mislead users’ understanding of a bank’s real position.**\(^{165}\) Disclosures about how liquidity risk is managed and the nature and extent of the exposure to liquidity risk appeared to be inadequate for many banks. In particular: (i) off-balance sheet commitments (for example, in respect of guarantees and outstanding letters of credit) were omitted or presented in a disjointed manner that frustrated the assessment of liquidity risk; and, in some cases, (ii) significant liabilities appear not to have been allocated to the earliest period in which the bank can be required to pay. More comprehensive information may be available in the risk management section of the company annual report which is not subject to audit.

- **Market risk disclosures were often incomplete with insufficient information for financial analysis and decision making.**\(^{166}\) Disclosures about market risk appear to be incomplete for some banks irrespective of whether the bank uses value-at-risk sensitivity analysis to reflect the interdependencies between risk variables on the basis on which they manage financial risks. More comprehensive information may be available in the risk management section of the company annual report which is not subject to audit.

- **Collateral and foreclosed assets disclosures were limited, which could impact users’ understanding of risks and mitigation, as well as impact financial assets impairment testing and therefore their fair values.**\(^{167}\) Accounting policies for nearly all banks for foreclosed assets appear to be opaque and differed significantly between the banks reviewed. Clearer and more detailed disclosures about the nature and quantification of collateral values in the context of financial asset impairment testing and the impairment testing of foreclosed non-financial assets would enhance understandability of their efficacy in risk mitigation. More comprehensive information may be available in the risk management section of the company annual report which is not subject to audit.

**SMEs**

247. The quality of SMEs’ financial statements needs substantial improvement. The review of 23 SMEs financial statements focused on the application of the statutory framework for non-PIEs/SMEs financial reporting and the extent of compliance with the first-tier requirements (SAK)

\(^{165}\) see PSAK 60 (based on IFRS 7)
\(^{166}\) see PSAK 60 (based on IFRS 7)
\(^{167}\) see the overarching disclosure requirement of PSAK 1 (based on IAS 1)
and second-tier (SAK ETAP) accounting standards. No reviews were performed for financial statements prepared based on the third tier (SAK EMKM) accounting standards.

248. **Out of 23 sets of SMEs’ financial statements reviewed, all were audited.** Most of the 11 SAK based financial statements audits reviewed received unqualified (clean) opinions; some of them contained an emphasis of matter paragraph or other matters paragraph. Half of the 12 SAK ETAP based financial statements audits reviewed received qualified audit opinions. Three SMEs received modified audit opinion, because they have not applied SAK ETAP related to employee benefit and income taxes. Three other SMEs also received modified audit opinion as they have not applied SAK ETAP related to employee benefit. This may suggest that the quality of smaller entities financial reporting is weaker, which was also generally confirmed by stakeholders’ perceptions.

249. **The review of SMEs’ financial statements prepared in accordance with SAK identified some common issues.** The sample of SME financial statements reviewed included entities from several sectors - manufacturing, trading, construction, financial services, multi finance, consulting services, and agriculture. The review process focused on presentation and disclosures in the financial statements. The observed financial reporting deficiencies are summarized below:

- Incomplete disclosure of employee benefits and inadequate recognition and measurement may lead to inaccurate presentation of entity’s financial position. Of the seven financial statements that provided some disclosures and included an employee benefit provision, not all complied with PSAK 24 disclosure requirements. Only four companies provided disclosures of sensitivity analysis for each significant actuarial assumption as required by PSAK 24. The revised PSAK 24 has been effective since 1 January 2015 and requires that actuarial gains and losses should be recognized in other comprehensive income.

- Incomplete disclosure of related-party transactions as required by PSAK 7 may cause user of financial statements to inaccurately assess owner’s impact over financial position and

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168 All SMEs’ financial statements, except two, provided disclosures on employee benefits. The two exceptions still received unqualified audit opinions, perhaps presumably because employee benefits were considered immaterial. One SME included an accounting policy for employee benefits but did not provide any provision for employee benefits because they did not have any permanent employees. Another SME that also included an accounting policy for employee benefits, explained that it has not followed the requirement of PSAK 24 to provide an employee benefit provision and this departure was reflected in the qualified audit opinion. Another SME explained that their accounting treatment for actuarial gains and losses followed the corridor approach, which was eliminated as an option in PSAK 24 (revised 2013).
performance of the entity. Three financial statements reviewed provide the amount of outstanding balances, but not the amount of the transactions. Six companies did not provide any disclosure of short-term employee benefits; post-employment benefits; other long-term benefits; termination benefits; and share-based payments as required by PSAK 7.

- Incomplete disclosure of financial instruments limits the comprehensiveness of information. Some companies that had financial instruments disclosures did not provide adequate disclosures as required by PSAK 60\textsuperscript{169}, which should cover credit risk, liquidity risk, and market risk.

- Non-financial assets impairments are disclosed limitedly, which may lead to improper judgments over the entity’s financial position. Five companies of those reviewed did not disclose the accounting policy for impairment of non-financial assets. There were three other companies that had adequate disclosure as they had an accounting policy for impairment, including a statement that there was no indication of impairment for non-financial assets for the current year.

- Some entities did not disclose known or reasonably estimable information relevant to assessing the possible impact that the application of the new PSAK will have on the entity’s financial statements in the period of initial application as required by PSAK 25.

250. \textbf{The review of SMEs’ financial statements prepared in accordance with SAK ETAP identified the following issues:}

- Some SMEs’ financial statements reviewed did not recognize employee benefit, which may lead to overstatement of assets and liabilities in their financial statements. Six financial statements received a qualified opinion as they did not apply SAK ETAP related to employee benefits.

- Most SMEs provide limited disclosures on related parties or related party transactions. None of the sampled companies disclosed key management personnel compensation in total, as required by SAK ETAP.

- Errors of prior periods were not sufficiently disclosed as required by SAK ETAP. Six companies that had prior period errors did not provide any disclosure of the nature of prior period errors. One company did mention, in its statement of equity, that the correction related to a tax amnesty.

\textsuperscript{169} For example, three financial statements did not disclose the carrying amounts of each of the financial assets and financial liabilities categories and one did not have any risk disclosure.
• PPE were properly presented and disclosed. Minor non-compliance occurred in price estimation of one SME which use management’s estimated price instead of historical cost.

• Few instances of revenue recognition is not properly disclosed. Two companies disclosed that one of its main activities was construction services. However, neither of them included the method that they used to determine the completion level of ongoing construction contracts.

• Income tax requirements are not fully complied with, which may lead to over- or understatement of income tax charges and liabilities. Three companies did not fully comply with the requirements on income taxes as mandated in SAK ETAP. Three financial statements received a qualified opinion as they did not apply SAK ETAP related to income tax.

• Statements of cash flows were mostly presented in line with SAK ETAP. One company presented a retained earnings correction as an investing activities outflow, and two other companies presented a retained earnings correction as a financing activities inflow/outflow. No adequate explanation on the nature of the correction was provided.

• Limited disclosure of judgment and estimates may lead to incomplete information needed for users of financial statements.

• Taxation rules often prevailed in financial reporting practices. Auditors reported that often the taxation rules are used for accounting purposes and that it is difficult to convince their clients to adjust their financial statements for proper application of financial reporting standards.

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170 SAK ETAP requires statement of cash flows to be presented in three sections: operating activities, investing activities, and financing activities. SAK ETAP only allows entities to prepare statement of cash flows using the indirect method. SAK ETAP explains that indirect method means the net cash flows from operating activities is determined by adjusting the profit or loss from the changes in inventories and trade receivables and payables during the period; non-cash items such as depreciation, allowance, and profits and unrealized foreign currency losses; and all other items relating to investing or financing cash flows.

171 SAK ETAP requires that an entity should disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations, that management has made in the process of applying the entity’s accounting policies and that have the most significant effect on the amounts recognized in the financial statements. An entity shall also disclose information the assumptions it has made about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year. In respect of those assets and liabilities, the notes shall include details of: (a) their nature, and (b) their carrying amount as at the end of the reporting period.
PERCEPTIONS

251. The team conducted group discussions with stakeholders, which generally confirmed relatively good perceptions of the quality of financial reporting, with some reservations for SMEs. The stakeholders included bankers, financial analysts, and non-bank financial companies. Questionnaires were used to better understand their perceptions concerning the financial reporting environment and the quality of financial statements. The stakeholders’ level of satisfaction with the quality of financial statements has largely stayed the same for the last three years. A few stakeholders suggested there had been an improvement in quality while others mentioned that it worsened (notably in relation to SMEs).

252. Stakeholders perceive that the quality of financial statements of listed companies is high and they are useful for investment and lending decision making purposes. However, stakeholders expressed reservations about the quality of SMEs’ reporting. SMEs are considered to produce relatively lower quality financial statements. Stakeholders consider that SMEs need special assistance to produce good and reliable financial reporting and that their reporting should be simpler yet still be able to describe real business activity. Among other issues in respect of the characteristics of financial statements prepared for SMEs stakeholders the following were highlighted: (i) lack of comparable information from one company to another; (ii) financial statements of SMEs cannot be considered as reliable and free from material bias or error; and (iii) financial statements of SMEs are not readily available. Bankers generally regards the quality of information of financial statements as reasonably good.

253. Stakeholder perceptions varied concerning auditors’ adherence to established auditing standards and whether auditors follow high standards of ethics and professional conduct. Stakeholders agreed that the audited financial statements of listed and large non-listed entities are of high quality and gave users a clear representation of the economic reality of the underlying transactions. Bankers were generally of the opinion that auditors performed as expected, except in auditing SMEs\(^{172}\) where standards of ethics and professional conduct were not as rigorous. Most stakeholders believed there was scope for improvement in respect of the audited financial statements of SMEs.

\(^{172}\) One bank found several audit firms collaborated with their auditee to produce favorable audit reports.
COMPLIANCE WITH AUDITING STANDARDS

254. The ROSC team reviewed a sample of financial statements to assess the extent to which they complied, in practice, with applicable auditing standards (mainly SA 700 Forming an Opinion and Reporting on Financial Statements). The auditor’s reports reviewed were those performed for the financial statements used to review reporting practices (see section IV). The same limitations apply in analyzing a relatively small sample of audit reports, and the team mainly focused on reviewing compliance with SA 700. It is worth noting that given the “standard” format of audit reports, it is reasonably easy for preparers of audit reports to make them appear good simply by conforming to the format, regardless of the entity’s underlying financial transactions and position.

255. The team sought views on the practical application of audit standards through group discussions with auditors, including large international audit firm networks and small and medium-sized audit practitioners. The discussions focused on the practical application of auditing standards, audit quality, and general challenges facing the audit profession.

256. The quality of auditing standards implementation is uneven for a variety of reasons including smaller audit practices’ limited resources, and some out of date audit methodologies. Some statutory auditors and audit firms have limited capacity to develop and maintain an audit methodology, and this can create difficulties in achieving full compliance with auditing standards. Fully documented audit methodologies are not the primary driver of audit quality, as other important elements such as skills, experience, and attitudes/behaviors are all key elements of achieving good audit quality. Nevertheless, methodologies are important to help ensure that local equivalents of ISA and ISQC 1 are properly complied with. From the focus group discussions, it emerged that audit firms that are current members of international networks use their networks’ ISA-compliant audit methodologies. Mid-tier audit firms also have access to methodologies and templates from their networks, while smaller, less connected, firms use manual and spreadsheet methodologies that have been self-developed or with guidance from IAPI. PPPK developed an spreadsheet based tool that smaller audit practices can access and use for smaller audit clients.

257. Based on the review of audit reports, it can be concluded that standards relevant to audit reporting are generally being complied with. However, the team identified some issues, described below, including with the quality of financial statements, which suggest that there are issues with compliance with auditing standards by auditors:

- Inconsistent reference to appropriate financial reporting framework in audit reports (i.e. in some reports the reference is to SAK while in others to Indonesian GAAP);
• Presentation of financial statements - cluttering resulting from numerous disclosures of immaterial information;
• Judgments in accounting policies - often these contain inadequate “boiler-plate” information;
• Key management assumptions are often disclosed without quantification;
• Depreciation and amortization judgments and judgments on fair value measurement are not appropriately challenged by auditors;
• Disclosures of employee benefits, financial instruments, revenue recognition – in cases of SMEs financial statements reviews.

Further detail on issues identified in financial statements is in section IV above.

258. **Many commercial banks have their own shortlist of auditors they consider acceptable to support their credit decision making.** This indicates audit quality concerns. In addition, some banks reported cases of fake audit opinions presented to them with financial statements by potential borrowers. Several auditors reported that some banks are not fully transparent in their requirements for auditors to be considered acceptable for their shortlists. IAPI is attempting to resolve the shortlisting by banks by identifying the reasons for the lack of trust and any particular issues with those auditors that have a reputational problem.

259. **Smaller audit clients and those charged with governance can often have issues with understanding the value of an audit.** SME audits are usually commissioned for the specific purpose of obtaining credit or other financing. Those charged with governance sometimes see an audit as a compliance exercise. This has an impact on how auditors perform their work and how they collaborate with those charged with governance. Often auditors need to explain to senior management the importance of maintaining their independence and the benefits an audit provides.

260. **Some cases of auditor involvement in the preparation of financial statements were reported to occur, raising questions about auditor independence and professional skepticism.** Although this is not a common practice, such cases can happen with smaller audit clients who have limited capacity to properly prepare financial statements that comply with the applicable financial reporting framework. Some auditors mentioned that when auditors change, it is not always easy to collaborate with previous auditors, especially if the previous auditor was part of large international network. This potentially indicates issues of compliance with the code of ethics.
V. KEY FINDINGS AND AREAS FOR CONSIDERATION

KEY FINDINGS AND RECOMMENDATIONS

261. The table below summarizes the key findings and recommendations, responsible agencies, their relative priority, and time frame (short-term: less than a year, medium-term: 1-3 years and long-term: 3-5 years). They are categorized into the following areas:

- Legislative and Regulatory Framework
- Institutional Arrangements
- Alignment with International Standards
- The Profession
- Accounting Education
- Audit Oversight and Quality Assurance

<table>
<thead>
<tr>
<th>FINDINGS</th>
<th>RECOMMENDATIONS</th>
<th>RESPONSIBLE AGENCY</th>
<th>TIMELINE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LEGISLATIVE AND REGULATORY FRAMEWORK</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of clarity and/or inconsistency on the legal basis for financial reporting and statutory audit requirements.</td>
<td><strong>Overarching Legislation [High Priority]:</strong> Review, refine and finalize the draft FRA. Its mandate should include:</td>
<td>PPPK and relevant stakeholders including</td>
<td>Long-term</td>
</tr>
</tbody>
</table>

Table 16. ROSC AA 2018 Recommendations
| Financial reporting and statutory audit requirements are fragmented | Differential Financial Reporting Regulatory Framework [High Priority]: Develop and implement a differential reporting regulatory framework to:  
(i) consolidate financial reporting and statutory audit requirements.  
(ii) provide definitions and thresholds for entities along with the relevant reporting standards and audit requirements and exemptions that apply.  
(iii) ensure consistency of corporate governance related requirements across different entity types and sizes. | regulators and PAOs | PPPK, OJK and relevant regulators | Medium-term |

Table 16. ROSC AA 2018 Recommendations

(i) Regulation and supervision of setting of financial reporting standards

(ii) Review of submitted financial statements for compliance with financial reporting standards

(iii) Monitoring compliance with financial statement submission requirements and facilitation of public access to this financial information
## INSTITUTIONAL ARRANGEMENTS

<table>
<thead>
<tr>
<th>Issue</th>
<th>Action</th>
<th>Responsible Parties</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard setting, monitoring, and enforcement (including audit oversight and quality assurance activities) are distributed across several agencies and are not well coordinated.</td>
<td><strong>Financial Reporting Authority [High Priority]:</strong> Take forward the establishment of a Financial Reporting Authority with a broadened mandate, to potentially include responsibility for financial reporting and auditing standard setting and for monitoring and enforcement of compliance with those standards.</td>
<td>PPPK and relevant stakeholders</td>
<td>Long-term</td>
</tr>
<tr>
<td>Low compliance with filing obligations and segregated within several ministries and regulators</td>
<td><strong>Introduction of Centralized Database and Financial Reports Information Center [Medium Priority]:</strong> Introduce a centralized database and financial reports information center within the Financial Reporting Authority to monitor submission of financial statements and improve public access to financial statement information. The initial focus of the database should be PIEs.</td>
<td>PPPK and relevant stakeholders</td>
<td>Long-term</td>
</tr>
<tr>
<td>Perception that financial reporting standard setting is not independent of the profession</td>
<td><strong>Independence of financial reporting standard setting from the accounting profession [Medium Priority]:</strong> Consider the funding and oversight arrangements for setting accounting standards to ensure there is full independence from the accountancy profession, ideally within the Financial Reporting Authority’s mandate</td>
<td>PPPK and relevant stakeholders</td>
<td>Long-term</td>
</tr>
<tr>
<td>Perception that auditing standard setting is not independent of the profession</td>
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</table>
| **Independence of the auditing standard setting process from the auditing profession [Medium Priority]:**
| Review the funding and oversight arrangements for setting auditing standards to ensure there is full independence from the audit profession. |
| PPPK and relevant stakeholders | Long-term |

<table>
<thead>
<tr>
<th>Members if DSAK, DSAS, and Indonesian AASB are often practicing members of the profession on unpaid voluntary basis. It is becoming increasingly difficult to find members with the appropriate specialized skills and expertise for these demanding roles.</th>
</tr>
</thead>
</table>
| **Sustainability of voluntary membership of financial reporting and auditing standards setters [High Priority]:**
| Review the ongoing sustainability of relying on voluntary non-remunerated members. |
| PPPK, IAI and IAPI | Medium-term |

<table>
<thead>
<tr>
<th>Lack of clarity over roles and responsibilities with the potential for overlap and duplication between regulators responsible for audit oversight and quality assurance.</th>
</tr>
</thead>
</table>
| **Responsibility for audit oversight and quality assurance [Medium Priority]:**
| Consider whether the proposed Financial Reporting Authority should assume ultimate responsibility for audit oversight and quality assurance. |
| PPPK, OJK, IAPI | Long-term |

<table>
<thead>
<tr>
<th>Very limited senior level audit experience and expertise in PPPK. As subject to the same remuneration and recruitment policy restrictions as all other</th>
</tr>
</thead>
</table>
| **Funding for audit oversight and quality assurance [Medium Priority]:**
<p>| Consider the funding mechanism for audit oversight and quality assurance. |
| PPPK and relevant stakeholders | Medium-term |</p>
<table>
<thead>
<tr>
<th>Problem</th>
<th>Proposed Solution</th>
<th>OJK and IAI</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficulty in attracting and retaining such staff</td>
<td>Ensure financial reporting standards prevail for the preparation of general-purpose financial statements.</td>
<td>OJK and IAI</td>
<td>Short-term</td>
</tr>
<tr>
<td>OJK’s regulatory requirements took precedence over financial reporting standards.</td>
<td>Give listed companies the option of early adoption of IFRS.</td>
<td>OJK and IAI</td>
<td>Medium-term</td>
</tr>
<tr>
<td>Early adoption of IFRS is not allowed except for those entities that are listed on foreign stock exchanges where IFRS is required.</td>
<td>Consider full adoption of IFRS for SMEs for medium-sized entities and large non-PIEs.</td>
<td>IAI and OJK</td>
<td>Short-term</td>
</tr>
<tr>
<td>The financial reporting standards for entities without public accountability were developed using the exposure draft of IFRS for SMEs as a reference.</td>
<td>Address the substantial gap between SPAPs and ISAs. The goal should be the full and more timely adoption and implementation of ISA.</td>
<td>IAPI</td>
<td>Medium-term</td>
</tr>
<tr>
<td>IAI and IAPI members are required to comply with different outdated version of the Code of Ethics.</td>
<td>Adoption of the latest IESBA Code of Ethics [High Priority]: Both PAOs to adopt the latest version of the IESBA Code of Ethics.</td>
<td>IAPI</td>
<td>Short-term</td>
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<tr>
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<tr>
<td>Only general competency requirements for auditors of PIEs are set by regulators.</td>
<td>Competency requirements for auditors of PIEs [Low Priority] Consideration by regulators on providing additional guidance on the minimum auditor competency requirements for PIEs in specialized industries.</td>
<td>OJK</td>
<td>Short-term</td>
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<tr>
<td></td>
<td></td>
<td>IAI, IAPI and PPPK</td>
<td>Long-term</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IAI and IAPI</td>
<td>Medium-term</td>
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</tbody>
</table>

**THE PROFESSION**

<table>
<thead>
<tr>
<th>There are practical restrictions that limit the ability for foreign-training accountants and auditors to practice in Indonesia.</th>
<th>Enhancing access to the profession for foreign-trained accountants and auditors [Medium Priority]: Review restrictions on foreign-trained accountants and auditors.</th>
<th>IAI, IAPI and PPPK</th>
<th>Long-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAI and IAPI have not completed a mapping of their respective programs. This means there are no cross exemptions granted to IAI and IAPI members.</td>
<td>Exemptions for IAI and IAPI respective programs [Medium Priority]: IAI and IAPI complete mapping of their respective programs and provide exemptions for certain courses for each other’s students and members.</td>
<td>IAI and IAPI</td>
<td>Medium-term</td>
</tr>
</tbody>
</table>
There are no professional indemnity requirements for auditors, nor is there a practice of capping the liability of auditors for individual audit engagements.

**Professional indemnity insurance [Medium Priority]:**
IAPI to establish a working group to review whether there should be a mandatory requirement for auditors to have professional indemnity insurance.

<table>
<thead>
<tr>
<th>ACCOUNTING EDUCATION</th>
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</thead>
<tbody>
<tr>
<td><strong>A taskforce has been established to improve the quality of university accounting education.</strong> Outdated accounting education programs and practices may continue with consequent reputational risks for universities and the profession.</td>
</tr>
</tbody>
</table>
| **Competency based accounting education [High Priority]:**
Implement a “learning outcomes approach” through training of trainers. Universities and PAOs in mature economies have all moved towards a “learning outcomes approach” and implemented competency-based accounting education programs. The Indonesia taskforce is a key step in this direction, ensuring adequate funding will be important. |
| **Tailored accounting education [Medium Priority]:**
Further tailor accounting education and training to local and regional needs in the Provinces. Accounting educational bodies should consider whether increased promotion of accounting technician programs delivered by vocational institutions would be more appropriate in some regions. The qualifications of accountants in the regions are better aligned to the needs of the local businesses. |
| **Ministry of Research and Technology and Higher Education and PAOs** |
| **Medium-term** |
### AUDIT OVERSIGHT AND QUALITY ASSURANCE

<table>
<thead>
<tr>
<th>Description</th>
<th>PPPK</th>
<th>Priority</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PPPK annual report mainly comprises activity descriptions with limited focus on results of inspections.</strong></td>
<td></td>
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<tr>
<td><strong>Reporting on audit oversight activities [High Priority]:</strong> Improve the quality of public reporting of audit oversight and quality assurance activities. Important elements for inclusion are analysis of systemic audit quality issues, overview of key audit quality inspection findings, and identification of good practices.</td>
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<tr>
<td><strong>PPPK quality assurance inspections rules do not contain a robust methodology which would enable detailed and comprehensive quality assurance inspections.</strong></td>
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<tr>
<td><strong>Audit Quality assurance methodology [High Priority]:</strong> Further develop the audit oversight authority quality assurance methodology. A comprehensive methodology should include: a risk-based approach for selecting audit firms, individual audit engagements, and audit areas; the procedures for assessing audit firms’ quality control mechanisms; the procedures for the review of individual audit engagements; procedures and protocols for reporting on the findings both to the audit firms and the public; and a clearly document approach for the review audit quality activities delegated to and performed by other institutions.</td>
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</tbody>
</table>

### OBSERVED REPORTING PRACTICES

<table>
<thead>
<tr>
<th>Description</th>
<th>PPPK</th>
<th>Priority</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The quality of the financial reporting practices and the quality of SMEs’ financial</strong></td>
<td></td>
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<tr>
<td><strong>Build capacity of preparers, auditors and those collecting and reviewing financial statements [Medium priority]</strong></td>
<td>Regulators, IAPI, IAI</td>
<td>Medium-term</td>
</tr>
<tr>
<td>Characteristic</td>
<td>Improvement</td>
<td>Responsiveness</td>
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<tr>
<td>------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Inconsistent application and reference to applicable financial reporting frameworks.</td>
<td>Improve quality of disclosures in financial statements [Medium Priority]: Improve the quality of disclosures about key risks and managements judgements used in the preparation of financial statements.</td>
<td>Regulators</td>
</tr>
</tbody>
</table>
## ROSC A&A 2018 Summary of Recommendations

<table>
<thead>
<tr>
<th></th>
<th>Legislative and Regulation Framework</th>
<th>Institutional Capacity</th>
<th>Alignment with International Standards</th>
<th>Observed Reporting, Practicing and Perceptions</th>
</tr>
</thead>
</table>
| **Short-term** | • Improve the quality of public reporting of audit oversight and quality assurance activities  
                • Improve the quality of public reporting of audit oversight and quality assurance activities |                          | • Ensure financial reporting setters work with OJK so that financial reporting standards prevail for the preparation of general-purpose financial statements  
                • Full convergence with IFRS for SMEs  
                • Adoption of the latest IESBA Code of Ethics  
                • Competency requirements for auditors of PIEs |                                                |
| **Medium-term**| • Develop and implement a differential reporting regulatory framework  
                • Funding mechanism for audit oversight and quality assurance  
                • Exemptions for IAI and IAPI respective programs  
                • Professional indemnity insurance  
                • Competency based accounting education  
                • Tailored accounting education |                          | • IFRS early adoption  
                • Full convergence with ISA | • Build capacity of preparers, auditors and those collecting and reviewing financial statements  
                • Improve quality of disclosures in financial statements |
| **Long-term**  | • Review, refine and finalize the draft FRA  
                • Establishment of Financial Reporting Authority  
                • Introduce a centralized database and financial reports information centre  
                • Independence of financial reporting and auditing standard setting from the profession  
                • Sustainability of voluntary membership of financial reporting and auditing standard setters  
                • Ultimate responsibility for audit oversight and quality assurance within one body (Financial Reporting Authority)  
                • Enhancing access to the profession for foreign-trained accountants and auditors |                          |                                                |
### SUMMARY OF PROGRESS ON ROSC 2011 RECOMMENDATIONS

#### Table 17. Progress on ROSC 2011 Recommendations

<table>
<thead>
<tr>
<th>2011 Recommendation</th>
<th>Key development since 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STATUTORY FRAMEWORK</strong></td>
<td><strong>Not implemented.</strong> The draft FRA has not been finalized and is not on the Prolegnas of the Parliament. The draft FRA does not provide legal arrangements for observance of simplified financial reporting standards by SMEs. The main content of the draft FRA is the regulatory framework for financial reporting in Indonesia, as follows: entities that are required to prepare financial statements; scope of financial statements; financial statements preparers; audit requirements; accounting standard setters; compulsory registration of entities to an authorized agency; establishment of Financial Reporting Authority; limitation of use of information in financial reports; administrative sanctions for violation of administrative provisions of the FRA; and criminal provisions for financial report information manipulation and falsification. An FRC has not been established. The draft FRA provides for its establishment of Financial Reporting Authority as a unit under the Ministry of Finance. The proposed Authority would have responsibility for conducting reviews of financial statements and follow up on the review findings, providing guidance to and supervise reporting entities, review financial accounting standards in terms of assessing their implementation and provide input to the standards board, serve as</td>
</tr>
<tr>
<td>Update the statutory framework of accounting and auditing: Financial Reporting Act</td>
<td>Financial Reporting Act will provide for the establishment of a Financial Reporting Council (FRC) responsible for issuing accounting standards and related pronouncements. There should be legal arrangements for ensuring the observance of IFRS by public interest entities and simplified financial reporting standards by SMEs. The FRC also will be responsible for monitoring and enforcing the applicable accounting standards through financial statements review and audit quality assurance review.</td>
</tr>
</tbody>
</table>
Table 17. Progress on ROSC 2011 Recommendations


**Update the statutory framework of accounting and auditing: Public Accountants’ Act**

### 2011 Recommendation

Public Accountants’ Act should provide legal backing to the professional accounting bodies in the country; set the rules for regulating the accountancy profession, including those relating to a professional qualification examination and practical training requirements for licensing of professional accountants and practicing auditors; requirements on compliance with the code of professional ethics; arrangements for continuing professional development; and establishment and functioning of disciplinary mechanisms for investigating and disciplining members of the professional body for misconduct and breach of professional ethics standards. The role of Indonesian Institute of Public Accountants (IAPI) with regard to the development of the public accounting profession should be provided in the law. ISA, ISQC and related pronouncements issued by IAASB of IFAC should be followed.

### Key development since 2011

**Implemented.** The Public Accountant’s Act was enacted by the Parliament on May 3, 2011 and provides legal backing to IAPI, sets rules for regulating the public accounting profession including the examination and training requirements, compliance with the code of professional ethics requirements, CPD requirements, and establishment and functioning of disciplinary of mechanism.

Following the act, the Government of Indonesia issued some implementation regulations.

**Accounting and auditing standards: full IFRS convergence**
### Table 17. Progress on ROSC 2011 Recommendations

<table>
<thead>
<tr>
<th>2011 Recommendation</th>
<th>Key development since 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Government of Indonesia needs to take steps to achieve full IFRS convergence.</strong></td>
<td><strong>Partially implemented.</strong> The 2018 Indonesian Financial Accounting Standards (SAK) is developed based on 2017 IFRS(^{173}) except for the following standards: IFRS 1 - First-time Adoption of IFRS (requirements included in individual standards) and IFRS 14 - Regulatory Deferral Accounts. IFRS 9 has been converged. Convergence of IAS 41 and IFRIC 15 are waiting for the issuance of IASB’s new standards. On May 25, 2016, the Trustees of the IFRS Foundation, OJK, and IAI announced their intention to deepen cooperation as Indonesia develops its plans to achieve full convergence with IFRS. The plans were set out in a joint statement agreed by the three parties, mainly focusing on commitment to support the development and implementation of SAK as issued by DSAK in Indonesia.</td>
</tr>
</tbody>
</table>

### Accounting and auditing standards: ISA and ISQC as local mandatory standards

<table>
<thead>
<tr>
<th>2011 Recommendation</th>
<th>Key development since 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Translate and issue all clarified ISA and ISQC published by IFAC as local mandatory standards.</strong></td>
<td><strong>Partially implemented.</strong> Adoption of the 2010 version of ISA has been effective since January 1, 2013 for the audit of listed companies. Starting January 1, 2014, it applies to all companies. ISQC1 has been adopted into Quality Control Standard 1 (SPM 1) and implemented since January 1, 2013. Modifications have been made in adopting the audit opinion section (ISA 700 series), with the requirement for the audit report to be</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^{173}\) IAI is committed to continuously maintaining the one-year effectiveness gap between SAK and IFRS.
Table 17. Progress on ROSC 2011 Recommendations

<table>
<thead>
<tr>
<th>2011 Recommendation</th>
<th>Present</th>
<th>Key development since 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue practical application guidance on accounting and auditing standards.</td>
<td>Partially implemented. IAI conducted various information sessions on the standards and signed memoranda of understanding with the relevant regulators, industries, and supporting professions to discuss standards implementation issues. IAI also supports and works together with regulators on publication of relevant guidance for financial reporting purposes. To support these initiatives and activities, IAI continuously encourages and facilitates its staff to build their capacity through in house and external training. IAPI has been working with PPPK in disseminating the auditing standards to universities. The Professional Standards Assistance and Implementation Committee of IAPI (KAISP) has published seven Q&amp;A series concerning issues in accounting and auditing.</td>
<td>IAI and IAPI to prepare implementation guidance on applicable accounting and auditing standards. IAPI to prepare and disseminate implementation guidance on the code of ethics for professional accountants. Technical staff and committee members of IAI and IAPI should regularly consult with the relevant international experts and review the implementation guidance by relevant organs of IFAC. Develop arrangements to make available the guidance notes and related learning materials to the members. Capacitate IAI and IAPI technical staff to provide support in guiding and tackling issues from the implementation of new standards.</td>
</tr>
</tbody>
</table>

Table 17. Progress on ROSC 2011 Recommendations

<table>
<thead>
<tr>
<th>2011 Recommendation</th>
<th>Restructure IAI and redefine its role in developing the accountancy profession of Indonesia.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Arrangements should be made for restructuring IAI as a federation of organizations representing various branches of the accountancy profession (until a new law is enacted)</td>
</tr>
<tr>
<td></td>
<td>• IAI should take the lead in taking steps for improving professional capabilities of accountants in the corporate sector. IAI should put in place a legally backed arrangement.</td>
</tr>
<tr>
<td>Key development since 2011</td>
<td>Partially implemented. Rather than turn into a federation of organizations as recommended in the previous ROSC, the IAI membership structure was amended effective June 27, 2012, with a focus on individual members. IAPI and the Indonesian Institute of Management Accountants (IAMI) became separate professional associations. IAI now recognizes a three-tier membership structure: full members (Chartered Accountants), associate/affiliate members, and student members.</td>
</tr>
<tr>
<td></td>
<td>Regulations have been issued to recognize IAI as a PAO in Indonesia. IAI also launched CA Indonesia qualification for professional accounting certification. Indonesia CA holders can apply for registered accountant and practicing accountants with the Ministry of Finance. The Minister of Finance Regulation (<em>Peraturan Menteri Keuangan</em> - PMK) allows accountants to establish an accounting service firm (<em>Kantor Jasa Akuntansi</em> - KJA), whose operations should comply with the professional standards on accounting services issued by IAI. IAI issued standards that are relevant to the accountancy profession in Indonesia including SAK</td>
</tr>
</tbody>
</table>

IAPI adopted the code of ethics issued by IESBA with modification (adding a paragraph on re-audit and not adopting part C). The Ethical Committee of IAPI is updating the code of ethics based on the 2016 IESBA code aiming to finish by July 2018.
Table 17. Progress on ROSC 2011 Recommendations

<table>
<thead>
<tr>
<th>2011 Recommendation</th>
<th>Institutional capacity building of the IAPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening the public accountancy profession through institutional capacity building of the IAPI.</td>
<td></td>
</tr>
<tr>
<td>• IAPI to make arrangements for obtaining IFAC membership.</td>
<td></td>
</tr>
<tr>
<td>• IAPI to build a strong secretariat with adequate technical capabilities.</td>
<td></td>
</tr>
<tr>
<td>• IAPI to make necessary arrangements to comply with IFAC statements of membership obligations.</td>
<td></td>
</tr>
</tbody>
</table>

Twinning arrangement between IAPI and a strong IFAC member body (e.g. CPA Australia, The Institute of Chartered Accountants in Australia, New Zealand Institute of Chartered Accountants and the ICAEW).

<table>
<thead>
<tr>
<th>Key development since 2011</th>
<th>Implemented. IAPI obtained Associate Member status of IFAC on November 7, 2014. IAPI is updating its SMO action plan and will submit it to IFAC in March 2018. PPPK will oversee and support IAPI to obtain full IFAC membership.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public Accountants Act No. 5/2011 and Minister of Finance Decree No. 443/KMK.01/2011 recognized IAPI as an organization of professional public accountants. This authorized IAPI to conduct the certification exam of public accountants, arrange and publish professional standards and ethics, and conduct CPD and quality review for its members. IAPI has hired full time staff to run its secretariat daily operations.</td>
</tr>
<tr>
<td></td>
<td>IAPI signed a memorandum of understanding with ICAEW on August 9, 2012 to establish a framework for the two bodies to develop talent and advance the accountancy profession in Indonesia and South East Asia. ICAEW and IAPI are currently preparing mutual recognition of professional certification foundation/basic level.</td>
</tr>
</tbody>
</table>

Capacity building of SMPs
| 2011 Recommendation | Provide assistance for capacity building of small and medium-sized audit practices (SMPs). The newly structured IAI, in collaboration with IAPI and other interested organizations, to lead an initiative for providing technical assistance to SMPs to develop their capacity on the professional accountant’s core skill set. Building capacity to provide a range of other value-added business advisory to SMEs to be emphasized. |

| Key development since 2011 | **Implemented.** The SAK EMKM was developed in 2016. IAI also supports the ASEAN Federation of Accountants’ thought leadership initiative on SME and SMP issues. Provision of accountancy services other than assurance, commonly provided by SMPs, can now be conducted by professional accountants in KJA. As of September 2017, there are 303 accounting services firms (KJA) registered under the Ministry of Finance. The Managing Partner of these firms must be a chartered accountant holder. IAI with PPPK conducted series of training to enhance the competencies of practicing accountants and KJAs. KJAs also engage in socialization and implementation of SAK EMKM among SMEs, including conducting coaching clinics for SMEs. IAPI has established the Committee of Small & Medium Practices to improve the quality of the small and medium practices and support the improvement and development of MSMEs. PPPK is working with IAPI on public accounting professional development, including of small & medium practices, by providing alternative audit working paper guidelines based on ISA. |

| Monitoring and review arrangements for improving the quality of audit: audit quality assurance review |

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Table 17. Progress on ROSC 2011 Recommendations
**Table 17. Progress on ROSC 2011 Recommendations**

<table>
<thead>
<tr>
<th>2011 Recommendation</th>
<th>Audit quality assurance review.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• A need to set up an “independent audit review board” (until the establishment of FRC)</td>
</tr>
<tr>
<td></td>
<td>• Use technical assistance to build board capacity from experts who have experience of the establishment and operation of a member body of IFIAR.</td>
</tr>
<tr>
<td>Key development since 2011</td>
<td><strong>Not implemented.</strong> An independent audit review board has not been set up, nor are there any arrangements for technical assistance for the board.</td>
</tr>
<tr>
<td></td>
<td>Rather than setting up a new independent audit review board, PPPK, OJK, and IAPI continue within their own mandates to perform reviews. They coordinate on auditors and audit firms to be inspected, share information, and review the results of each other’s activities. PPPK obtained membership of IFIAR during the 13th IFIAR meeting in April 2013.</td>
</tr>
<tr>
<td></td>
<td>IAPI is responsible for quality assurance review of public accountants and public accounting firms. However, the review does not cover public accountant/public accountant firms’ compliance with statutory regulations. IAPI formed a Quality Review Board responsible for quality assurance review of public accountants and public accounting firms in 2017.</td>
</tr>
<tr>
<td>Monitoring and review arrangements for improving the quality of audit: Improve the capacity for the review of financial statements</td>
<td>Improve the capacity of the Capital Market and Financial Institutions Supervisory Agency (Badan Pengawas Pasar Modal dan Lembaga Keuangan - Bapepam-LK) and the Central Bank (<em>Bank Indonesia</em> – BI) for the review of financial statements.</td>
</tr>
<tr>
<td></td>
<td>• Bapepam-LK should engage additional professionally qualified and experienced accountants and train existing staff</td>
</tr>
<tr>
<td></td>
<td>• BI should continue its effort to improve the training syllabus</td>
</tr>
</tbody>
</table>
Implemented. Bapepam-LK has been dissolved and supervision responsibility for capital markets and financial institutions has been moved to OJK. The bank supervisory function was moved from BI to the Banking Supervision sector of OJK in January 2014. The Banking Supervision sector is responsible for conducting regular financial statement compliance reviews for the banking industry and provides regular training to staff.

OJK measures to improve the quality of financial sector supervisors and regulators on accounting standards and accounting issues include: i) In-house employee certification for staff and middle management, including Accounting subject as a core course, ii) recruitment of employees with an accounting background. In collaboration with IASB, since 2015 OJK has regularly invited speakers from IFRS Foundation to provide seminar/training on new accounting standards for OJK employees.

Reviews of financial statements of listed company by OJK is not limited to compliance of submission and financial report format, but also focused on compliance with financial accounting standards (SAK). OJK uses risk-based approach in conducting the financial statements review and checks the following: form and completeness, publication timeliness, audit opinion, and compliance with SAK.

Although banking and insurance sector supervisors do not specifically focus on compliance with SAK in conducting their review, it is one of the main components in the review. In any potential breach of law or SAK, banking supervisor would meet the external auditor. For audit opinion less than unmodified, OJK would immediately request the bank to prepare action plan to resolve the issue(s).

Monitoring and review arrangements for improving the quality of audit: ensure bank auditors have strong quality assurance arrangements

Ensure that bank auditors have strong quality assurance arrangements.
- BI should collaborate with the independent audit review board at Bapepam-LK for preparing and maintaining authorized auditors list for banking sector.
Table 17. Progress on ROSC 2011 Recommendations

<table>
<thead>
<tr>
<th>2011 Recommendation</th>
<th>Key development since 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BI is encouraged to continue its effort to monitor compliance and consistency in the implementation of requirements applied to rural banks’ auditor.</strong></td>
<td>Implemented. A list of authorized auditors for the banking, capital market, and non-bank financial industries is maintained under OJK. An OJK regulation requires rural banks with total assets equal to or more than IDR 10 billion to submit their audited financial statements annually to OJK. The regulation specifies the auditor/audit firm criteria, engagement letter, scope of audit, and the auditor/audit firm obligation to OJK.</td>
</tr>
<tr>
<td>Simplify and upgrade the licensing procedure for professional accountants and practicing auditors. IAPI should streamline membership procedure by simplifying and modernizing professional examination and training arrangements in line with relevant IFAC-issued International Education Standards (IES).</td>
<td>Implemented. Pathways to becoming professional accountants and practicing auditors have been simplified with an opening up of possibilities to take the CA and CPA exam directly after graduation from university through IAI and IAPI, respectively. The Indonesia chartered accountant requirements have been established based on the latest relevant standards as issued by IFAC, including the IES. IAI has launched Affiliated Campus program, which is designed for accounting students and academician to get involved with profession development. While IAI offers certification exams for students and academicians, together with ICAEW, IAI also launch CA Scholarship program for accounting students who meet certain criteria. To apply for Public Accountant Registration, an IAPI member must have a minimum of 1,000 audit hours which includes a minimum of 500 hours as an audit team supervisor or head.</td>
</tr>
</tbody>
</table>
## Table 17. Progress on ROSC 2011 Recommendations

### Professional education and training: strengthening arrangements for practical training of prospective IAPI members

<table>
<thead>
<tr>
<th>2011 Recommendation</th>
<th>Strengthening arrangements for practical training of prospective IAPI members.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• IAPI should require practical training of its prospective members to be provided by the authorized practical training providers.</td>
</tr>
<tr>
<td></td>
<td>• IAPI should maintain a list of authorized audit training providers and update the list on the basis of periodic assessment and make it publicly available.</td>
</tr>
<tr>
<td>Key development since 2011</td>
<td>Not implemented.</td>
</tr>
</tbody>
</table>

### Professional education and training: incorporate IFRS, ISA, and the IFAC Code of Ethics in academic programs

<table>
<thead>
<tr>
<th>2011 Recommendation</th>
<th>Incorporate IFRS, ISA, and the IFAC Code of Ethics in academic programs of universities throughout the country.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Review and update the accounting curricula of universities to incorporate IFRS, ISA and the IFAC Code of Ethics</td>
</tr>
<tr>
<td></td>
<td>• Teaching should focus on the practical implementation aspects of the standards using illustrations and actual case studies in Indonesia</td>
</tr>
<tr>
<td>Key development since 2011</td>
<td>Arrange train-the-trainer programs with participation of university and college teachers</td>
</tr>
</tbody>
</table>

**Partially implemented.** IAI (along with the accounting lecturers compartment) updated the learning outcomes for bachelor’s degree in accountancy program in Indonesia. Supported by the Ministry of Research, Technology, and Higher Education, IAI has also updated the national accountancy vocation program. IAI conducts train-the-trainers activities with the participation of university and college teachers, to disseminate the new syllabus. Teaching is not yet focused on the practical implementation aspects of the standards using illustrations and actual case studies in Indonesia.
**APPENDIX 1: GENERAL FINANCIAL REPORTING AND AUDIT REQUIREMENTS**

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Applicable companies</th>
<th>Key financial reporting requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited Liability Company Law No. 40 Year 2007</td>
<td>General corporations (minimum asset of IDR 50 billion)</td>
<td>LLC Law Article 66 – Annual report of corporations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>LLC Law Article 68 – Requirement for audit of public interest entities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and other entities as defined by other laws and regulations</td>
</tr>
<tr>
<td>Government Regulation No. 64/1999 on Company Annual Financial Information</td>
<td>PIEs, companies with assets of at least IDR 25 billion, or</td>
<td>Annual audited financial statements submission(^{174}) to Minister of</td>
</tr>
<tr>
<td>(amendment of Government Regulation No. 24/1998)</td>
<td>borrowers as required by their banks, foreign companies,</td>
<td>Trade</td>
</tr>
<tr>
<td></td>
<td>SOEs</td>
<td>Public disclosure (PP 24/1998 article 2 (2))</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Financial statements prepared based on SAK</td>
</tr>
<tr>
<td>Minister of Industry and Trade Decree No. 121/MPP/Kep/2/2002 on Provisions</td>
<td>PIEs, companies with assets at least IDR 25 billion, or</td>
<td>Annual audited financial statements submission</td>
</tr>
<tr>
<td>of Companies Annual Report Submission</td>
<td>borrowers as required by their banks, foreign companies,</td>
<td>Sanction for non-compliance as stipulated in Mandatory Company Registration Law No. 3/1982</td>
</tr>
<tr>
<td></td>
<td>SOEs</td>
<td></td>
</tr>
</tbody>
</table>

\(^{174}\) **Annual Financial Report consists of**: balance sheet, income statements, statement of equity changes, statement of cash flow, and notes of financial statements with disclosure of liabilities and receivables including bank loans and detail of equity.
### Table 18. Summary of principal statutory financial reporting requirements for the corporate sector

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Applicable companies</th>
<th>Key financial reporting requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Market Law No. 8/1995</td>
<td>Listed companies</td>
<td>Publication and submission of periodic reports to regulator (article 86)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Publication of material information that may affect the securities price (article 86)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Financial reports submitted to regulators must be prepared in accordance with GAAP (SAK and other general accounting practices used in the Capital Market) (Article 68 (1))</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Regulator may establish accounting rules with respect to the Capital market (Article 69 (2))</td>
</tr>
<tr>
<td>OJK Regulation (POJK) No. 29/2016 on Annual report for Issuers and Public Companies</td>
<td>Listed companies</td>
<td>Annual report of listed companies including management report and audited financial statements</td>
</tr>
<tr>
<td>Bappepam-LK rule VIII.G.7</td>
<td>Listed companies</td>
<td>Presentations and disclosures of Financial Statements</td>
</tr>
<tr>
<td>Bappepam-LK rule No. VIII.G. 17</td>
<td>Securities companies</td>
<td>Accounting guidelines for securities companies</td>
</tr>
<tr>
<td>Listed company Corporate</td>
<td>Listed companies</td>
<td>Mandatory implementation of Corporate Governance Code</td>
</tr>
<tr>
<td>Legislation</td>
<td>Applicable companies</td>
<td>Key financial reporting requirements</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>----------------------</td>
<td>--------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Governance code implementation – OJK Regulation No. 21/POJK.04/2015</td>
<td></td>
<td>Corporate governance disclosure</td>
</tr>
<tr>
<td>OJK Circular Letter No. 32/SEOJK.04/2015 on Corporate Governance Code of Listed Companies</td>
<td>Listed companies</td>
<td>Good corporate governance aspects, principles and recommendations Implementation for listed companies</td>
</tr>
<tr>
<td>Banking Law No. 7/1992 amended by Law No. 10/1998</td>
<td>Banks</td>
<td>Audited financial statements and other regular reporting submission (Article 34)</td>
</tr>
<tr>
<td>OJK Regulation No. 32/POJK.03/2016 on Bank Reporting Transparency and Publication – amendment of OJK Regulation No. 6/POJK.03/2015</td>
<td>Banks</td>
<td>Publication of periodic reports Information on audit firm names, partner in charge and audit opinion in the quarterly report ended in December</td>
</tr>
<tr>
<td>OJK Regulation No. 55/POJK.03/2016 on GCG for Commercial Banks</td>
<td>Banks</td>
<td>Good corporate governance code Annual self-assessment of compliance with the code</td>
</tr>
<tr>
<td>Insurance Law No. 40/2014</td>
<td>Insurance companies</td>
<td>Mandatory reporting to OJK includes financial reporting (article 22)</td>
</tr>
</tbody>
</table>
Table 18. Summary of principal statutory financial reporting requirements for the corporate sector

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Applicable companies</th>
<th>Key financial reporting requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>OJK Regulation No. 55/POJK.05/2017 on Insurance Companies</td>
<td>Insurance companies</td>
<td>Mandatory publication of financial information in national newspapers and electronic media (article 22)</td>
</tr>
<tr>
<td>Periodic Reporting</td>
<td></td>
<td>Publication of audited financial statements not later than one month after the reporting due date for insurance companies, Sharia insurance companies, reinsurance companies and Sharia reinsurance companies (article 22)</td>
</tr>
<tr>
<td>OJK Regulation 29/POJK.05/2016 on Pension Fund Corporate Governance Code</td>
<td>Non-bank financing institutions</td>
<td>Annual report for insurance companies includes financial and management aspects – detailed format provisions are stipulated in OJK circular letter</td>
</tr>
<tr>
<td>Pension Fund Law No. 11/1992</td>
<td>Pension fund entities</td>
<td>Mandatory audit of financial statements (article 14) and submission to the Minister of Finance (article 52)</td>
</tr>
<tr>
<td>OJK Regulation No. 16/POJK.05/2016 on Pension Fund Corporate Governance Code</td>
<td>Pension fund entities</td>
<td>Good corporate governance code</td>
</tr>
<tr>
<td>Microfinance Institutions Law No. 1/2013</td>
<td>Microfinance Institutions</td>
<td>Mandatory submission of financial report to OJK every four months (article 30)</td>
</tr>
</tbody>
</table>
### Table 18. Summary of principal statutory financial reporting requirements for the corporate sector

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Applicable companies</th>
<th>Key financial reporting requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Administrative sanctions for non-compliance of financial report submission</td>
</tr>
<tr>
<td>OJK Circular Letter No. 29/SEOJK.05/2015 on Microfinance Institution Financial Statements</td>
<td>Microfinance Institutions</td>
<td>Detailed format of financial statements Submission guidelines</td>
</tr>
<tr>
<td>Foundations Law No. 16/2001</td>
<td>Foundations</td>
<td>Annual report including financial report(^{175}) (article 49) – prepared not later than 5 months after end of the year Mandatory publication of financial statements summary (prepared based on SAK) in newspapers and audit requirement for foundations that received State/foreign/other aid of IDR 500 million or above, or with assets other than “wakaf”(^{176}) of IDR 20 billion or above (article 52)</td>
</tr>
<tr>
<td>State-owned Enterprises Law No. 19/2003</td>
<td>SOEs (Persero and Perum)</td>
<td>Annual report of SOEs and audit requirement</td>
</tr>
</tbody>
</table>

\(^{175}\) Consists of Statements of Financial Positions, Activity report, Statements of Cash Flow and Notes of Financial Statements

\(^{176}\) Dedication of a property by a person/organization/entity for religious and public prosperity purposes permanently or for certain period (Wakaf Law No. 41/2004)
### Table 18. Summary of principal statutory financial reporting requirements for the corporate sector

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Applicable companies</th>
<th>Key financial reporting requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minister of SOE regulation No. PER-01/MBU/2011</td>
<td>SOE</td>
<td>Mandatory good corporate governance compliance assessment</td>
</tr>
</tbody>
</table>
| Cooperative Entities Law No. 17/2012 | Cooperatives (Primary and Secondary)<sup>177</sup> | Financial report<sup>178</sup> prepared based on SAK (Article 37)  
Audit if required by the Ministry of Cooperatives and SMEs or by Members Meeting (Article 40)  
Management is responsible for financial reporting (Article 58)  
Minister can appoint auditor to conduct review to non-compliance/performing cooperatives (Article 98)  
Administrative sanction for non-compliance of audit requirement (Article 120) |

### Table 19. Summary of financial reporting and audit requirements by types of enterprises

<table>
<thead>
<tr>
<th>LISTED COMPANY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal definition</td>
</tr>
</tbody>
</table>

<sup>177</sup> Primary cooperative is a cooperative established by at least 20 individuals and its members are individuals, Secondary cooperative is a cooperative established by at least three primary cooperatives and its members are cooperatives.  
<sup>178</sup> Balance sheet and “calculation of business proceeds” with explanation
<table>
<thead>
<tr>
<th>Accounting standards</th>
<th>GAAP (SAK and other general accounting practices used in the Capital Market)</th>
</tr>
</thead>
</table>
| Statutory audit requirements | • Annual audit of financial statements by auditor registered with OJK and with competency appropriate to the business complexity of the financial service entity  
• 3-year rotation of audit partners, but there is no requirement to rotate the audit firm. There is a 2-year cooling-off period for the audit partner and the engagement quality review partner. |

### BANK

<table>
<thead>
<tr>
<th>Legal definition</th>
<th>Entities engaged in the mobilizing funds from public in the form of deposits and channeling them to public in the form of credits and/or other form in order to improve the living standards of people.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting standards</td>
<td>SAK</td>
</tr>
</tbody>
</table>
| Statutory audit requirements | • Annual audit of financial statements by auditor registered with OJK and with competency appropriate to the business complexity of the financial service entity  
• 3-year rotation of audit partners, but there is no requirement to rotate the audit firm. There is a 2-year cooling-off period for the audit partner and associated parties (e.g. engagement review partner).  
• Banks must include scope of audit in the work agreement with the auditors. |

### INSURANCE COMPANY

<table>
<thead>
<tr>
<th>Legal definition</th>
<th>Entities doing an insurance business or transacting an insurance business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting standards</td>
<td>SAK</td>
</tr>
</tbody>
</table>
### Table 19. Summary of financial reporting and audit requirements by types of enterprises

<table>
<thead>
<tr>
<th>Type of Enterprise</th>
<th>Legal Definition</th>
<th>Accounting Standards</th>
<th>Statutory Audit Requirements</th>
</tr>
</thead>
</table>
| **PUBLIC INTEREST ENTITY** | A company that meets any of the following criteria:  
  a. A company business that is managing a public fund (among others: banking, insurance, or mutual fund);  
  b. A company with issued obligations to public;  
  c. A listed company;  
  d. Persero (LLC SOE wholly owned by the state or at least 51 percent owned by the state);  
  e. As required by the law and regulations. | SAK | • Annual audit by auditor/audit firm held Ministry of Finance license.  
  • Audited financial statements submission to Ministry of Trade (Based on Government Regulation No. 64/1999 on Company Annual Financial Information the audit report submission is required for companies with assets of IDR 25 billion or above starting in 2000). |
| **MICRO, SMALL AND MEDIUM-SIZED ENTITIES** | A company that meets any of the following criteria:  
  a. Net worth up to IDR 10 billion (excluding land and buildings); or  
  b. Annual sales revenue up to IDR 50 billion. | SAK, SAK ETAP, or SAK EMKM |
### Table 19. Summary of financial reporting and audit requirements by types of enterprises

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>**Statutory audit</td>
<td>• Not required except for financial service institutions.</td>
</tr>
<tr>
<td><strong>requirements</strong></td>
<td>• Financial statements of multi finance companies, infrastructure financing companies, and pension funds must be audited by an independent auditor. This does not apply to venture capital and microfinance companies, audit is not required.</td>
</tr>
<tr>
<td></td>
<td>• For financial institutions supervised by OJK the audit rotation period is three years.</td>
</tr>
</tbody>
</table>

#### STATE-OWNED ENTITIES

<table>
<thead>
<tr>
<th><strong>Legal definition</strong></th>
<th>Companies that are wholly or mostly owned by the State</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounting standards</strong></td>
<td>SAK</td>
</tr>
<tr>
<td></td>
<td>For listed SOEs application of GAAP is allowed by Capital Market Law</td>
</tr>
<tr>
<td>**Statutory audit</td>
<td>• Annual audit of financial statements by audit firm.</td>
</tr>
<tr>
<td><strong>requirements</strong></td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX 2: THE INDONESIAN QUALIFICATION FRAMEWORK

Figure 2. The Indonesian Qualification Framework

Source: The World Bank