

Diagnostic Study of Accounting and Auditing Practices (Private Sector)

Republic of Indonesia

This report was prepared by consultants and staff of the Asian Development Bank (ADB). The findings, interpretations, and recommendations are those of the authors and do not necessarily reflect the policies or views of ADB, its Board of Directors, or the governments they represent.

ADB does not guarantee the accuracy of the data included in this publication and accepts no responsibility for any consequences for their use.

21 February 2003

ADB Diagnostic Studies of Accounting and Auditing

The Asian Development Bank (ADB) publishes this series to: (i) provide reference materials on accounting and auditing for government officials, ADB officials, officials from other donor agencies, and other interested parties; (ii) identify potential actions that the participating government and / or the accounting profession can take to rectify weaknesses, in partnership with donor agencies where appropriate, and (iii) provide the participating country with a benchmark against which to measure their progress in improving financial management and governance arrangements.

Orders can be placed with the Publications Information Center, Office of External Relations, ADB, P.O. Box 789, 0980 Manila Philippines. The reports may also be downloaded from www.adb.org.

Summary Reports

Accounting and Auditing Practices in Selected Developing Member Countries (DMCs): A Diagnostic Study of Azerbaijan, Fiji Islands, Marshall Islands, Philippines and Sri Lanka. 2002.

Financial Management and Governance Issues in Selected Developing Member Countries (DMCs): A Study of Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan, and Viet Nam. 2000.

Individual Reports: By ADB Region

All ADB DMCs are listed by region. Economies for which a DSAA has been prepared are bolded and the year of publication is shown in brackets:

East and Central Asia: **Azerbaijan** (2002); **People's Republic of China** (2000); Hong Kong, China; Kazakhstan; Kyrgyz Republic; Republic of Korea; **Mongolia** (2000), Tajikistan; Taipei, China; Turkmenistan; and **Uzbekistan** (2000).

Mekong: **Cambodia** (2000), Lao People's Democratic Republic, Myanmar; Thailand, **Viet Nam** (2000).

Pacific: Cook Islands, Democratic Republic of East Timor, **Fiji Islands** (2002), Kiribati, Republic of the **Marshall Islands** (2002), Federated States of Micronesia, Nauru, **Papua New Guinea** (2000), Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu.

South Asia: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, **Pakistan** (2000), **Sri Lanka** (2002).

Southeast Asia: **Indonesia** (2003), Malaysia, **Philippines** (2002), Singapore.

Preface

This report describes Indonesian accounting and auditing arrangements, identifies deficiencies in those arrangements, and presents recommendations to address those deficiencies. It is part of the Asian Development Bank (ADB) series of country Diagnostic Studies of Accounting and Auditing (DSAAs). In 2000, DSAAs were completed and published for Cambodia, Mongolia, Pakistan, Papua New Guinea, People's Republic of China, Uzbekistan and Viet Nam. In 2001-02, DSAAs were prepared for Azerbaijan, Fiji Islands, Marshall Islands, Philippines and Sri Lanka.

This report was prepared for ADB by Barry Reid (Consultant) with guidance from Neside Tas-Anvaripour (Financial Management Specialist, ADB) under an ADB staff consultancy. Emil Bachtiar (University of Indonesia) provided valuable research guidance and assistance. A preliminary study discussion was conducted in Jakarta on 13 February 2002 at which representatives from government, the private sector and international organizations examined preliminary study recommendations. The discussion guided the future direction of the study. A further workshop, focusing on accounting and auditing standards, was conducted on 14 August 2002 in Jakarta. The workshop participants, representing government, professional bodies and auditing firms, agreed the related recommendations. Where necessary, changes are reflected in this report. Government officials and other parties reviewed other chapters, such as professional infrastructure. Their comments and suggestions have been incorporated in this report.

For further information, please visit ADB's website at www.adb.org or contact:

Neside Tas-Anvaripour
Financial Management Specialist
Asian Development Bank
6 ADB Avenue
Mandaluyong City, Metro Manila
P.O. Box 789
0980 Manila, Philippines

Tel. (632) 632-6468
Fax: (632) 636-2424
E-mail: ntasanvaripour@adb.org

Currency Equivalents

(as of 31 December 2002)

Currency Unit – Rupiah (Rp)

Rp 1.00 – \$ 0.0001116

\$1.00 – Rp 8,962.20

Acronyms

| | |
|----------|--|
| ACCSF | Asian currency crisis support facility |
| ADB | Asian Development Bank |
| AEI | <i>Asosiasi Emiten Indonesia</i> (Association of Publicly Listed Companies) |
| AFA | ASEAN Federation of Accountants |
| AFTA | ASEAN Free Trade Area |
| AICPA | American Institute of Certified Public Accountants |
| APAP | <i>Asosiasi Profesi Akuntan Publik</i> (Professional Accounting Association) |
| APB | Accounting Principles Board (U.S.) |
| APEC | Asia Pacific Economic Council |
| APEI | <i>Asosiasi Perusahaan Efek Indonesia</i> (Association of Indonesian Securities Companies) |
| ARB | accounting research bulletin (U.S.) |
| ASEAN | Association of South East Asian Nations |
| AusAID | Australian Agency for International Development |
| BAKUN | <i>Badan Akuntansi Keuangan Negara</i> (State Financial Accounting Agency, MOF) |
| BAN | <i>Badan Akreditasi Nasional</i> (National Accreditation Board) |
| BAP | <i>Bersertifikasi Akuntan Publik</i> (IAI Public Accountant Certificate) |
| Bapepam | <i>Badan Pengawas Pasar Modal</i> (Capital Market Supervisory Agency) |
| Bappenas | <i>Badan Perencanaan Pembangunan Nasional</i> (National Development Planning Agency) |
| BI | Bank Indonesia (Central Bank of Indonesia) |
| BKPM | <i>Badan Koordinasi Penanaman Modal</i> (Investment Coordinating Board) |
| BP2AP | <i>Badan Peradilan Profesi Akuntan Publik</i> (Judiciary Body for Public Accountants) |
| BPK | <i>Badan Pemeriksa Keuangan</i> (Supreme Audit Board) |

| | |
|--------|--|
| BPKP | <i>Badan Pengawas Keuangan dan Pembangunan</i> (Audit and Development Supervising Agency) |
| BPN | <i>Badan Kepegamaan Negeri</i> (National Civil Service Board) |
| BPPK | <i>Badan Pendidikan dan Pelatihan Keuangan</i> (MOF Financial Education and Training Board) |
| BUMD | <i>Badan Usaha Milik Daerah</i> (Local Government Enterprise) |
| BUMN | <i>Badan Usaha Milik Negara</i> (State-owned Enterprise, SOE) |
| CAP | country assistance plan (ADB) |
| CAPA | Confederation of Asian and Pacific Accountants |
| CFAA | country financial accountability assessment (World Bank) |
| COS | country operational strategy (ADB) |
| CPA | certified public accountant |
| CPE | continuing professional education |
| CPM | country programming mission |
| DAI | <i>Dewan Akuntansi Indonesia</i> (Indonesian Accounting Board) |
| DGoT | MOF Directorate General for Taxation (<i>Direktorat Jenderal Pajak</i>) |
| DJLK | <i>Direktorat Jenderal Lembaga Keuangan</i> (MOF Directorate General for Financial Institutions) |
| DIKTI | <i>Direktorat Jenderal Pendidikan Tinggi</i> (Directorate General of Higher Education) |
| DKSAK | <i>Dewan Konsultatif Standar Akuntansi Keuangan</i> (Financial Accounting Standards Advisory Council) |
| DKSPAP | <i>Dewan Konsultatif Standar Profesional Akuntan Publik</i> (Public Accountants Professional Standards Advisory Council) |
| DMC | developing member country (ADB) |
| DPAJP | <i>Direktorat Pembinaan Akuntan dan Jasa Penilai</i> (MOF Directorate for Supervision of Accountants and Appraisers) |
| DPN | <i>Departemen Pendidikan Nasional</i> (Ministry of National Education) |
| DPRIN | <i>Departemen Perindustrian dan Perdagangan</i> (Ministry of Trade and Industry) |
| DSAA | Diagnostic Study of Accounting and Auditing |
| DSAK | <i>Dewan Standar Akuntansi Keuangan</i> (Financial Accounting Standards Board) |
| DSPAP | <i>Dewan Standar Profesional Akuntan Publik</i> (Public Accountants Professional Standards Board) |

| | |
|----------|---|
| ED | exposure draft |
| FASAB | Federal Accounting Standards Advisory Board (U.S.) |
| FASB | Financial Accounting Standards Board (U.S.) |
| FATF | Financial Action Task Force on Money Laundering |
| FCGI | Forum for Corporate Governance in Indonesia |
| FDI | foreign direct investment |
| FGRSDP | financial governance reforms: sector development program (ADB) |
| FIFO | first-in first-out (Inventory valuation method) |
| FKSPI | <i>Forum Komunikasi Satuan Pengendauan Intern BUMN/BUMD</i> (Association of State-owned Enterprise Internal Auditors) |
| GAAP | generally accepted accounting principles |
| GAAS | generally accepted auditing standards |
| GAGAS | generally accepted government auditing standards (U.S.) |
| GAO | General Accounting Office (U.S.) |
| GAPPI | <i>Gabungan Perusahaan Penilai Indonesia</i> (Indonesian Association of Appraisal Firms) |
| GASAC | Governmental Accounting Standards Advisory Council (U.S.) |
| GASB | Government Accounting Standards Board (U.S.) |
| GATS | general agreement on trade in services |
| GDP | gross domestic product |
| GFS | government finance statistics (IMF) |
| GNP | gross national product |
| IAASB | International Auditing and Assurance Standards Board (IFAC) |
| IAI | <i>Ikatan Akuntan Indonesia</i> (Indonesian Institute of Accountants) |
| IAI-KAA | <i>IAI Kompartemen Akuntan Akademik</i> (IAI Academic Accountants Compartment) |
| IAI-KAM | <i>IAI Kompartemen Akuntan Manajemen</i> (IAI Management Accountants Compartment) |
| IAI-KAP | <i>IAI Kompartemen Akuntan Publik</i> (IAI Public Accountants Compartment) |
| IAI-KASP | <i>IAI Kompartemen Akuntan Sektor Publik</i> (IAI Public Sector Accountants Compartment) |
| IAPC | International Auditing Practices Committee (IFAC) |
| IAPS | International Auditing Practice Statement (IAASB) |
| IAS | International Accounting Standard (IASB) |

| | |
|---------|---|
| IASB | International Accounting Standards Board |
| IASC | International Accounting Standards Committee |
| IBRA | Indonesian Bank Restructuring Agency (<i>Badan Penyehatan Perbankan Nasional, BPPN</i>) |
| ICSME | industrial competitiveness and small and medium enterprises development program |
| IEG | international education guideline (IFAC) |
| IES | international education standard (IFAC) |
| IFAC | International Federation of Accountants |
| IFEA | Indonesian Financial Executives Association |
| IFRS | international financial reporting standard (IASB) ¹ |
| IIA | Institute of Internal Auditors – Indonesia Chapter |
| IMF | International Monetary Fund |
| INA | Indonesian Netherlands Association |
| INCOSAI | International Conference of Supreme Audit Institutions |
| INTOSAI | International Organization of Supreme Audit Institutions |
| IOSCO | International Organization of Securities Commissions |
| IPSAS | international public sector accounting standard (IFAC) |
| ISA | international standard on auditing (IAASB) |
| ISAK | <i>Interpretasi Standar Akuntansi Keuangan</i> (Financial Accounting Standard Interpretation) |
| ISAR | Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting of the UNCTAD |
| IVS | international valuation standard (IVSC) |
| IVSC | International Valuation Standards Committee |
| JBIC | Japan Bank for International Cooperation |
| JICA | Japan International Cooperation Agency |
| JITF | Jakarta Initiative Task Force |
| KAP | <i>Kantor Akuntan Publik</i> (Public Accounting Firm) |
| KAPA | <i>Kantor Akuntan Publik Asing</i> (Foreign Public Accounting Firm) |
| KKN | <i>Korupsi, Kolusi dan Nepotisme</i> (corruption, collusion and nepotism) |
| KPAI | <i>Komite Prinsip Akuntansi Indonesia</i> (Indonesian Accounting Principles Committee) |

¹ In 2001, the International Accounting Standards Board (IASB) assumed responsibility from the International Accounting Standards Committee (IASC) for promulgating IASs. In future, IASB-issued standards will be called International Financial Reporting Standards (IFRSs). While the IASB now expects its standards to be called IFRSs, this report uses the term IASs (in the interests of continuity).

| | |
|----------|--|
| KPMK | <i>Komite Penyempurnaan Manajemen Keuangan</i> (Financial Management Reform Committee) |
| KPSPI | <i>Komite Penyusun Standar Penilaian Indonesia</i> (Indonesian Valuation Standards Committee) |
| KSAK | <i>Komite Standar Akuntansi Keuangan</i> (Financial Accounting Standards Committee) |
| LIFO | last-in first-out (Inventory valuation method) |
| MAPPI | <i>Masyarakat Profesi Penilai Indonesia</i> (Indonesian Society of Appraisers) |
| MOF | Ministry of Finance (<i>Departemen Keuangan</i>) |
| MTI | <i>Masyarakat Transparansi Indonesia</i> (Indonesian Society for Transparency) |
| NCCG | National Committee on Good Corporate Governance |
| NGO | non-government organization |
| NMI | New Miyasawa Initiative |
| OECD | Organization for Economic Cooperation and Development |
| OJK | <i>Otorita Jasa Keuangan</i> (Financial Services Authority) |
| PA | public accountant |
| PAI | <i>Prinsip Akuntansi Indonesia</i> (Indonesian Accounting Principles) |
| PSAK | <i>Pernyataan Standar Akuntansi Keuangan</i> (Indonesian Financial Accounting Standard) |
| PSC | Public Sector Committee (IFAC) |
| PSE | private sector enterprise |
| REPELITA | <i>Rencana Pembangunan Lima Tahun</i> (Five-Year Development Plan) |
| RETA | regional technical assistance (ADB) |
| ROSC | report on the observance of standards and codes (IMF / World Bank) |
| SAI | supreme audit institution |
| SEC | Securities and Exchange Commission (U.S.) |
| SFAC | statement of financial accounting concepts (U.S.) |
| SFAS | statement of financial accounting standards (U.S.) |
| SME | small or medium-scale enterprise |
| SOE | state-owned enterprise |
| SPAP | <i>Standar Profesi Akuntan Publik</i> (Professional Standards for Public Accountants including Auditing Standards) |
| SPI | <i>Standar Penilaian Indonesia</i> (Indonesian Valuation Standard) |

x

| | |
|--------|--|
| STAN | <i>Sekolah Tinggi Akuntansi Negara</i> (College for State Accountancy) |
| TA | technical assistance |
| TKPA | <i>Tim Koordinasi Pengembangan Akuntansi</i> (Coordinating Agency for Accountancy Development) |
| UN | United Nations |
| UNA | <i>Ujian Nasional Akuntansi</i> (National Accounting Examinations) |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Program |
| U.S. | United States |
| USAID | United States Agency for International Development |
| USAP | <i>Ujian Sertifikasi Akuntan Publik</i> (Examination for Public Accountant Certification) |
| WTO | World Trade Organization |
| YPIA | <i>Yayasan Pendidikan Internal Auditor</i> (Internal Auditor Education Foundation) |
| YPIAI | <i>Yayasan Pengembangan Ilmu Akuntansi Indonesia</i> (Indonesian Accountancy Development Foundation) |

Notes

- (i) The fiscal year of the Government ends on 31 December. ‘FY’ before a calendar year denotes the year in which the fiscal year ends.
- (ii) In this report, \$ refers to U.S. dollars.

Contents

| | |
|---|----|
| EXECUTIVE SUMMARY..... | 1 |
| I. INTRODUCTION..... | 9 |
| 1. Study Background..... | 9 |
| 2. Objectives..... | 10 |
| 3. Scope and Process..... | 10 |
| 4. The Republic of Indonesia..... | 10 |
| 5. ADB Focus on Indonesia Financial Governance..... | 17 |
| 6. International Guidelines and Surveillance..... | 18 |
| 7. Report Structure..... | 19 |
| II. ACCOUNTING AND AUDITING IN INDONESIA..... | 21 |
| Part One. Accounting..... | 22 |
| 1. Introduction..... | 22 |
| 2. The ‘Indonesian Accounting System’..... | 27 |
| 3. Financial Reporting and Disclosure Requirements..... | 30 |
| 4. The Quality of Financial Reporting and Disclosure..... | 33 |
| Part Two. Auditing..... | 35 |
| 5. Introduction..... | 35 |
| 6. Auditor Appointment and Dismissal..... | 36 |
| 7. Auditor Independence..... | 37 |
| 8. Auditor Reporting Requirements..... | 39 |
| 9. Auditor Sanctions and Liability..... | 40 |
| 10. Accounting and Auditing Firms..... | 41 |
| 11. The 2002 Decree on Public Accountant Services..... | 43 |
| III. PROFESSIONAL INFRASTRUCTURE..... | 47 |
| 1. Introduction..... | 48 |
| 2. Professional Organization and Regulation..... | 54 |
| 3. Ministry of Finance (MOF)..... | 63 |
| 4. Indonesian Institute of Accountants (IAI)..... | 65 |
| 5. Indonesian Accountancy Qualifications..... | 71 |
| 6. Other Professional Organizations..... | 76 |
| 7. The Appraisal (Valuation) Profession..... | 79 |
| 8. Globalization and Liberalization Challenges..... | 81 |
| 9. Professional Quality Control and Assurance..... | 83 |
| 10. The Draft Public Accountant (PA) Law..... | 88 |
| 11. Issue Synopsis: Professional Infrastructure..... | 93 |

| | |
|---|-----|
| IV. ACCOUNTING AND AUDITING STANDARDS | 95 |
| Part One. Accounting Standards..... | 96 |
| 1. Introduction..... | 96 |
| 2. Financial Accounting Standards Board (DSAK)..... | 99 |
| 3. Accounting Standard-Setting Process | 100 |
| 4. Indonesian Financial Accounting Standards (PSAKs) | 101 |
| 5. Conformity with International Accounting Standards (IAS)..... | 103 |
| 6. Legal Status of PSAKs | 108 |
| 7. Taxation Reporting Requirements..... | 108 |
| 8. Public Sector Accounting Standards..... | 108 |
| Part Two. Auditing Standards..... | 109 |
| 9. Introduction..... | 109 |
| 10. Auditing Standard Setting..... | 110 |
| 11. Indonesian Auditing Standards (SPAPs)..... | 111 |
| 12. Comparison with International Standards on Auditing (ISAs)..... | 111 |
| 13. Public Sector Auditing Standards..... | 112 |
| 14. Issue Synopsis: Accounting and Auditing Standards | 112 |
| V. ISSUES AND RECOMMENDATIONS | 115 |
| 1. Support PA Law Implementation | 115 |
| 2. Develop Accountancy Qualifications..... | 116 |
| 3. Provide Training to Lecturers and Professors..... | 116 |
| 4. Decentralize the USAP | 116 |
| 5. Strengthen CPE Training and Monitoring | 117 |
| 6. Strengthen the Valuation Profession | 117 |
| 7. Support the Application of Valuation Standards | 117 |
| 8. Consider Improvements to PSAKs | 117 |
| 9. Support Indonesian Involvement in UNCTAD-ISAR..... | 118 |
| 10. Further Develop Auditing Training and Monitoring | 118 |
| 11. Gradually Adopt International Auditing Pronouncements..... | 118 |
| Chapter Appendix: Suggestions for Improving PSAKs..... | 119 |
| 1. Introduction..... | 119 |
| 2. Suggested Improvements | 121 |
| 3. A Possible Implementation Approach..... | 127 |
| REFERENCES | 133 |

Appendixes

| | |
|--|-----|
| Table of Appendixes | 141 |
| Appendix 1. Useful Internet Sites..... | 142 |
| Appendix 2. Interviewees..... | 148 |

| | | |
|--------------|---|-----|
| Appendix 3. | Relevant Extracts from the Bank Indonesia Law | 155 |
| Appendix 4. | International Standards and Guidelines on Professional Arrangements | 158 |
| Appendix 5. | Proposed International Education Standards | 166 |
| Appendix 6. | Synopsis of the 2001 Academic Paper | 168 |
| Appendix 7. | Indonesian Financial Accounting Standards (PSAKs) .. | 177 |
| Appendix 8. | International Accounting Standards (IAS) | 184 |
| Appendix 9. | IAS Interpretations (SICs)..... | 188 |
| Appendix 10. | Indonesian Auditing Standards (SPAPs)..... | 190 |
| Appendix 11. | International Standards on Auditing | 194 |
| Appendix 12. | PSAK Changes Required for Full IAS Compliance | 196 |
| Appendix 13. | Accountant Title Law (No. 34) 1954..... | 200 |
| Appendix 14. | Relevant Extracts from the Capital Market Law 1995. | 204 |
| Appendix 15. | Bapepam Rules for Registration of Public Accountants | 207 |
| Appendix 16. | Bapepam Requirement for Auditors to Report Violations..... | 209 |
| Appendix 17. | Bapepam Annual Report Requirements (Extracts)..... | 210 |
| Appendix 18. | Bapepam Immediate Disclosure of Information..... | 213 |
| Appendix 19. | Bapepam Periodic Financial Statements (Extracts) | 214 |
| Appendix 20. | Bapepam Comfort Letters (Extracts) | 216 |
| Appendix 21. | Bapepam Management Representation Letters..... | 219 |
| Appendix 22. | 2002 Ministerial Decree Regarding PA Services..... | 221 |

Executive Summary

Background

Straddling the equator in Southeast Asia, Indonesia is the world's largest archipelago, with more than 13,700 islands covering 1.8 million square kilometers. Indonesia's population of 211 million people makes it the world's fourth largest nation (after the People's Republic of China, India and the United States). With 173 million Muslims (88% of the population), it is also the world's largest Islamic country. Following around 300 years of Dutch rule, Indonesia obtained legal independence from the Netherlands in 1949.

Government is a major player in the market-based economy—it owns around 180 state-owned enterprises (SOEs). Despite an abundance of natural resources and growth rates of 7%–8% in the early 1990s, Indonesia has faced severe economic problems. These problems have been exacerbated by structural issues including the lack of reliable legal recourse in contract disputes, corruption, banking-system weaknesses and an unstable political environment. The 1997-98 Asian financial crisis hit hard—inflation and interest rates escalated, gross domestic product (GDP) declined by 13.7% in 1998, real wages and employment fell, and poverty rose—moreover, in comparison to other affected countries, it has been slow to recover.

Significant challenges faced by government include: (i) eliminating widespread poverty and regional disparities; (ii) protecting and restoring the environment; (iii) strengthening democracy and human rights; (iv) improving public access to health, education, clean water, and sanitation; (v) promoting good governance and the equal role of women in development (vi) developing infrastructure; (vii) promoting economic growth, particularly by developing small- and medium-sized enterprises; and (viii) addressing corruption.

Financial Governance: Challenges and Responses

In the early 1990s, a number of problems with accounting, auditing and financial disclosure were identified—no specified financial records were required to be maintained or filed by companies and there was no requirement for financial statements to be independently audited. Company law required only that “adequate financial records” be kept. Several financial scandals were linked to misleading or fraudulent financial reporting. There were no requirements for public registration or disclosure of ownership and financial records, except in the case of listed companies.

During periods of economic growth, this lack of disclosure and regulation was not considered a problem. In fact, the lack of transparency financial reporting suited those who engaged in profitable related-party transactions with SOEs, those wishing to manipulate financial results to obtain finance or avoid taxation and those who sought to access state revenues outside the budget authorization process.

However, Indonesia has experienced a number of severe economic crises and has needed to attract both foreign investment and foreign assistance. In order to do so the government has had to respond, at least in part, to the demands of investors and aid agencies for accounting and other capital market reforms.

The first major capital reforms occurred around 1988-89 and focused on capital market deregulation. The reforms included: (i) eliminating restrictions on share price movements; (ii) allowing foreign investors to purchase shares in publicly-listed companies; (iii) establishing a new over-the-counter market; (iv) simplifying procedures for issuing and listing securities; and (v) equalizing the tax treatment of interest and dividends.

Continued pressure from external agencies and a series of financial reporting scandals paved the way for further financial reporting reform. In 1994, the government entered into a project to improve the quality of financial reporting in both the public and private sectors. This project sought to: (i) modernize the government's accounting system; (ii) improve accounting education and training; and (iii) initiate actions for meeting the financial information requirements of capital markets. One project output was a set of accounting standards based on international accounting standards (IAS).

Government also introduced new requirements for corporate reporting and disclosure by way of the Companies Code and Capital Markets Law, including: (i) the required use of financial accounting standards (PSAKs) by companies in reporting their annual accounts; (ii) an audit requirement for all publicly listed companies; (iii) personal liability by directors and commissioners for provision of misleading financial information in financial reports; (iv) a specified format for financial reports; and (v) requirements that public accountants notify the regulatory agency (*Bapepam*) of breaches of the law.

Implementation of these reforms has not been smooth. Moreover, despite improvements in accounting standards, audit requirements and financial disclosures, there were still serious gaps in the financial

reporting and disclosure regime. For example, calls for improvements in the qualifications and independence of auditors were not heeded until 1997. In late 2002, the Finance Minister signed a Decree on Public Accountant Services, which introduced a regime of tough sanctions and brought auditing practices into line with emerging international best practice.

Whatever the case, problems with Indonesia's judicial environment mean that effective enforcement of sanctions for non-compliance with regulatory requirements will remain a problem.

Accounting and Auditing in Indonesia

Following independence, Indonesia increasingly turned from Dutch to U.S. accounting practices. In the early 1990s, pressure for accounting improvements grew in the wake of series of financial reporting scandals that seriously undermined investor confidence. It became clear to government policy-makers that the quality of financial reporting had to be improved if the capital market was to be transformed from a casino into a mechanism for mobilizing long-term investment flows.

Among other things, the ensuing controversy resulted in measures to strengthen financial accounting regulations. First, in late 1994, government introduced a new set of IAS-compliant PSAKs. Second, government launched a joint project with the World Bank to further develop accounting regulations and train accounting professionals. Third, in 1995, government introduced several accounting-related provisions in its new Companies Code. Fourth, later in 1995, government introduced further accounting requirements as part of the Capital Markets Law.

The 1997-1998 Asian financial crisis further increased pressure for government to improve the quality of financial reporting. At the same time, political and social unrest was spreading rapidly because of rising prices and growing opposition to President Suharto. Moreover, the blamed poor accounting practices for fueling the crisis.

Corporate disclosure is regulated by several different organizations. In particular, Bank Indonesia, Pertamina (the state petroleum agency), Ministry of Finance, Directorate General of Taxation, and the capital market agency (*Bapepam*). Evidence regarding the quality of Indonesian financial reporting and disclosure varies. On one hand, disclosure is good. Conversely, asset and liability valuations are not robust. In general, there is room to improve investor perceptions.

The exposure of previously undetected frauds and financial misstatements following the 1997 crisis led to auditors being publicly blamed for business collapses. However, auditors contend that they were under intense management pressure to accept rosy results. Furthermore, they contended that had little control over asset valuations, which depended on the judgments of other professionals, particularly valuers (appraisers).

On 30 September 2002, the Finance Minister signed a Decree on Public Accountant Services. Among other things, the new decree reflects international trends and: (i) tightens public accountant licensing requirements and procedures; (ii) mandates audit partner rotation (three years) and auditing firm rotation (five years); (iii) requires periodical quality reviews of local public accountant firms that have signed cooperation agreements with foreign firms; (iv) specifies supervision and inspection arrangements; and (v) specifies sanctions for infringements.

While the Decree aligns Indonesia with emerging international best practices, the challenge is that of effective implementation. Furthermore, the enactment of the Public Accountants (PA) Law would provide a stronger legal basis for accounting and auditing.

Professional Infrastructure

Colonialism didn't leave Indonesia much accounting infrastructure. Despite that, accountancy is today one of the country's strongest professions. Established by the first local accounting graduates in 1957, the Indonesian Institute of Accountants (IAI) faced immediate problems when demand for accountancy services collapsed in the 1960s. Economic liberalization renewed development momentum in the 1970s, but it was not until the mid-1990s that IAI standards and practices approached international norms.

Forty-five years after its foundation, IAI has matured into a nationally respected professional institute. Its 6,000 members—of whom more than 65 percent reside in Jakarta—comprise accountants from public practice, management, government and academia. There are four qualifications; three of these are government regulated. In 1997, IAI introduced the government-recognized public accountant exam (USAP) and public accountant qualification (BAP).

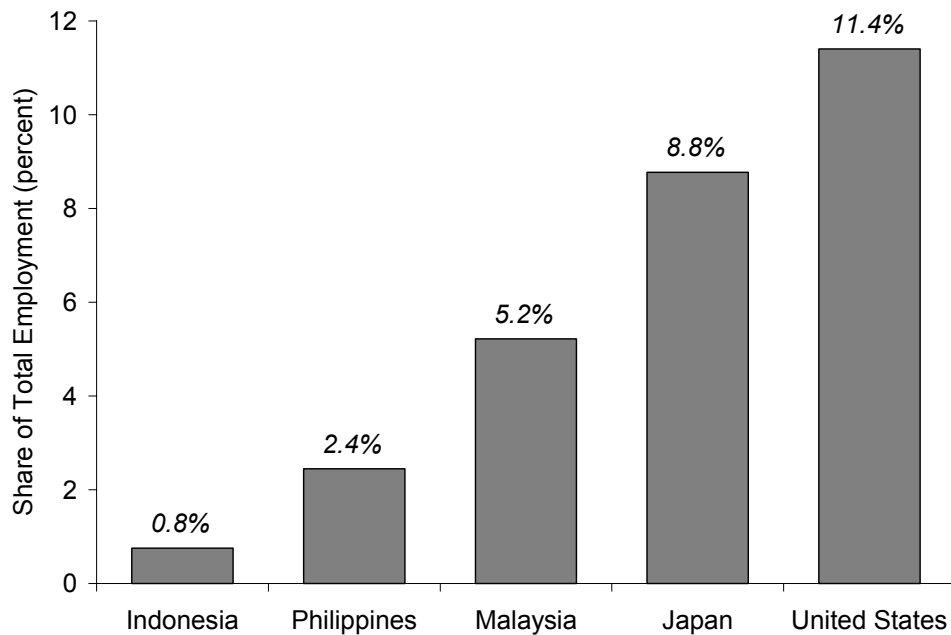
The BAP qualification fully meets international guidelines and compares well with the equivalent accountancy qualifications of most other countries; developing and developed. Moreover, in an environment

characterized by endemic levels of corruption, collusion and nepotism (KKN), this study found no evidence of examination leakage or manipulation.

Nevertheless, ineffective quality assurance and disciplinary mechanisms undermine the usefulness of audited financial statements and seriously impair the profession's credibility. Recent U.S. accounting scandals—and their Indonesian counterparts—highlight the importance of a strong ethical profession. Moreover, analyses reveal that strong professions contribute to economic development and minimize the occurrence and effects of financial crises. But Indonesia has relatively few financial sector professionals, including accountants (see Figure 1) and those professionals are concentrated in the main urban centers. This shortage has particular implications for ensuring effective accountability amidst massive government decentralization.

Figure 1. Indonesian Financial Sector Professionals

Employment in Finance, Insurance, Real Estate, and Business Services as a Percentage of Total Employment by Country (1997)



Source: United Nations (UN). 1997. *Statistical Yearbook 1997*. UN: New York. Cited in: Pomerleano, Michael (Lead Financial Specialist, World Bank). 2002 April. Back to the Basics: Critical Financial Sector Professions Required in the Aftermath of an Asset Bubble. *The Appraisal Journal*. pp. 173-181.

Indonesia is liberalizing its very restricted accountancy profession in line with international commitments. Foreign accounting firms may only operate through correspondent relationships, which negates some mechanisms that support high audit quality.

In response to these challenges, government is preparing a new PA Law, which is likely to support liberalization, significantly strengthen sanctions against negligent auditors and establish an independent oversight body to supervise standard setting, accreditation and discipline. The proposed restructuring is generally consistent with international trends. However, this study strongly supports continuation of professional certification because IAI: (i) has powerful incentives to support high certification standards, thereby negating rent-seeking behaviors; and (ii) is best placed to recognize and respond to market demands for professional skills.

Accounting and Auditing Standards

Over the past three decades, the foundation for Indonesian financial reporting has evolved substantially—it is now broadly consistent with IAS. Although much was accomplished with external support, IAI members contributed countless days of voluntary time to develop standards.

Pre-1973 financial reporting requirements were prescribed by Dutch-based company law that simply required “adequate accounts to be kept”. In 1973, IAI released Indonesian accounting principles that reflected 1965 U.S. generally accepted accounting principles (GAAP). In 1994, the Seventh IAI National Congress endorsed IAS as the basis for domestic financial reporting.

At June 2002, 57 PSAKs were effective. They were largely developed and refined under the Accountancy Development Projects—ADB also provided support. The Financial Accounting Standards Board (DSAK), under IAI auspices, promulgates PSAKs. DSAK’s formalized standard-setting process meets international norms and Indonesian legislation requires that company financial statements comply with PSAKs. However, DSAK is not legally recognized.

PSAKs comprise IAS, U.S. GAAP, sector-specific standards and Indonesia-specific standards, all within an IAS framework. The existing structure was conceptually sound when developed in the early 1990s. It blends the beneficial aspects of principle-based IAS, rules-based U.S. GAAP and sectoral guidance. Nevertheless, its structure differs from the two international benchmarks, IAS and U.S. GAAP. This potentially

reduces investor confidence. Furthermore, maintaining PSAKs requires constant monitoring of both systems. Without very significant resources being devoted to standard setting on an ongoing basis, PSAKs will tend to remain out of step with their international parents.

The Public Accountants Professional Standards Board (DSPAP), under IAI-KAP auspices, promulgates generally accepted auditing standards (SPAPs). DSPAP standard-setting procedures meet international norms. Since 1994, IAI has been committed to raising SPAPs to international levels. Most are based on U.S. AICPA-issued statements, although International Standards on Auditing (ISAs) are sometimes adopted. Although SPAPs were not closely examined, no evidence suggests that they differ from international benchmarks.

The 2001 Academic Paper envisages independent accounting and professional standard-setting boards. This proposal aligns with international trends for both accounting and auditing standard-setting arrangements.

Issues and Recommendations

This Diagnostic Study of Accounting and Auditing (DSAA) identifies issues and recommendations that are associated with gaps or weaknesses in private sector accounting and auditing arrangements. These recommendations are intended to supplement and support existing strategies and projects.

The study concludes that Indonesian private sector accounting and auditing practices and standards are largely consistent with international best practice. Moreover, Indonesian professional accountancy qualifications compare very favorably with regional and international norms. These conclusions are contrary to popular perception.

Nevertheless, Indonesia faces significant issues. First, the weak judicial environment negates many of the incentives and sanctions that support strong and reliable financial reports. Second, in comparison to other countries, Indonesia has relatively few professionally-qualified accountants, particularly outside the main urban centers. Third, the accuracy of financial statements depends largely on the reliability of asset and liability valuations. However, Indonesia's valuation profession is only just beginning to develop in line with regional and international norms.

In response, this study recommends continued development of standards and practices, and that support is given to facilitate the devel-

opment, enactment and implementation of the PA law. It also recommends measures to strengthen the valuation profession.

However, this study presents no magic solution for addressing the apparent shortage of accountants, particularly in non-urban areas. While some supply-side recommendations are made regarding education and training, the real issue appears to be demand. Nevertheless, anecdotal evidence suggests that two factors are creating stronger demand for accountants. First, increased awareness of corporate governance is driving demand for accountancy services, and second, decentralization activities are increasing demand for accountants, particularly outside the main urban centers.

I. Introduction

1. Study Background

A growing body of compelling economic research reveals that governance arrangements strongly influence development outcomes including social indicators such as infant mortality and adult literacy rates.

1. Sound accounting and auditing practices are an integral part of good governance arrangements. There is strong evidence that sound accounting and auditing mechanisms: (i) attract investment; (ii) support financial market development; (iii) reduce country risk premiums; (iv) improve privatization outcomes; and (v) lower the risk of financial crises, but when crises do occur, reduce their severity and duration.²

2. Moreover, the 1997-1998 Asian financial crisis exposed structural weaknesses in the banking and corporate sectors of affected countries owing largely to poor governance, a lack of transparency, and weak supervision and regulation.³

3. The Asian Development Bank (ADB) has been taking a number of initiatives to assist its Developing Member Countries (DMCs) to overcome these structural problems. The focus on improved governance includes enhancing the effectiveness of public administration and development management at the sector level and in national institutions. Where appropriate, institutional development of the local and provincial agencies and the private sector is also covered. A sound regulatory financial framework and its enforcement, capable institutions, skilled human resources, and effective monitoring and supervision are important prerequisites to an efficient financial structure.

4. In 2000, under ADB Regional Technical Assistance (RETA) 5877⁴, Diagnostic Studies of Accounting and Auditing (DSAAs) were prepared and published for Cambodia, Mongolia, Pakistan, Papua New Guinea, People's Republic of China, Uzbekistan and Viet Nam. This work was

² ADB. 2002. *Accounting and Auditing Practices in Selected Developing Member Countries: A Diagnostic Study of Azerbaijan, Fiji Islands, Marshall Islands, Philippines and Sri Lanka*. Manila. pp. 3-9.

³ Zhuang, Juzhong, David Edwards, David Webb and Ma. Virginita Capulong. 2000. *Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines and Thailand*. ADB: Manila.

⁴ *Strengthening Financial Management and Governance in Selected DMCs*.

extended during 2001-02 when further DSAAAs were prepared for Azerbaijan, Fiji Islands, Marshall Islands, the Philippines and Sri Lanka.⁵ This DSAA was prepared under an ADB staff consultancy.

2. Objectives

5. ADB has demonstrated its stand on the importance of good governance, through effective financial management, for sustained economic development. This study involved a diagnostic review of the existing accounting and auditing support and standards available in the Indonesian private sector. Its objective was to identify gaps and weaknesses in private sector accounting and auditing arrangements and to identify potential courses of action to overcome these problems.

3. Scope and Process

6. The study focused on private sector accounting and auditing arrangements and the private sector accountancy profession. It examined current Indonesian accounting and auditing structures and systems. It also: (i) analyzed the political, institutional, and regulatory and legal framework on accounting and auditing practice and the level of enforcement of existing laws, rules, and regulations; (ii) identified gaps and weaknesses in accounting and auditing support available and deviations from international standards; and (iii) identified options to remedy the identified weaknesses, with the objective of eventually doing away with these.

7. The study involved two workshops. Preliminary issues, and possible ways in which they might be resolved, were discussed at the first workshop. The second workshop focused on accounting and auditing standards. Both workshops were held at the ADB Indonesia Resident Mission (IRM) in Jakarta.

4. The Republic of Indonesia

General

8. Straddling the equator in Southeast Asia, Indonesia is the world's largest archipelago, with more than 13,700 islands covering 1.8 million square kilometers. The largest islands are the Kalimantan provinces on Borneo, Sumatra, Papua, Sulawesi and Java. The terrain is varied and

⁵ The Philippines DSAA was prepared under a staff consultancy. The remainder were prepared under RETA 5980: *Diagnostic Study on Accounting and Auditing Practices in Selected DMCs*

ranges from coastal lowlands to snow-capped mountains: nearly 60% of the land is forested and a significant portion is mountainous. A quarter of Indonesia's 400 volcanoes are active.

9. Indonesia's population of 211 million people makes it the world's fourth largest nation (after the People's Republic of China, India and the United States). With 173 million Muslims (88% of the population), it is also the world's largest Islamic country. The population comprises a range of ethnic groups including Javanese (45%), Sundanese (14%), Madurese (7.5%) and coastal Malays (7.5%). The official language is Bahasa Indonesia, with English, Dutch, and Javanese also widely spoken and more than 300 distinct regional languages.

10. Following around 300 years of Dutch rule, Indonesia declared independence from the Netherlands on 17 August 1945—legal independence was obtained in 1949 after four years of warfare and negotiations.

11. Indonesia is a republic with limited separation between the executive, legislative and judicial branches of government. The system of government is a presidential system with parliamentary characteristics. Recent reforms include imposing a limit of two five-year terms on both the President and Vice President. The President is both the chief of state and head of government, and is elected by the People's Consultative Assembly (the House of Representatives plus 200 indirectly selected members) for a five-year term; with the last election held on 23 July 2001.⁶ The House of Representatives comprises 500 members. The legal system is based on Roman-Dutch law, substantially modified by indigenous concepts.

12. Indonesia's main exports are crude oil, natural gas, plywood and other wood products, textiles, garments, rubber and rubber products and shrimp. It is the world's second-largest producer of rubber, the third-largest grower of coffee, and the leading producer of coconut and certain spices. Indonesia's natural resources include petroleum, natural gas, coal, timber, tin, copper, gold, silver, bauxite and nickel.

⁶ Indonesian presidents have been:
President Sukarno (1945-1966). The period from 1959 to 1965 was an authoritarian regime referred to as "Guided Democracy".
President Soeharto (1967-1998). This period is sometimes referred to as the "New Order" government.
President Habibie (1998-1999). President Habibie lifted controls on freedom of speech and association.
President Wahid (1999-2001).
President Megawati Sukarnoputri (daughter of President Sukarno) 2001–

13. In addition to the main export industries, Indonesia produces chemicals, cement, glass, fertilizer, ceramics, machinery and metal-based products. Indonesia is also involved in tourism and high-technology fields such as electronics and aerospace. Only 10% of the total land is cultivated. The main crops include rice, cassava, cocoa, sugar, coffee, peanuts, soybeans, rubber, palm oil and coconuts. Indonesia is now self-sufficient in rice production, after having once been the world's largest rice importer. Manufacturing overtook agriculture to become the largest sector of the economy (in terms of GDP) in 1991. Indonesia's main trading partners are Japan, the U.S., the European Union and Singapore. Table 1 presents key indicators for Indonesia and four other ADB DMCs.

Table 1. Key Indicators for Selected ADB DMCs

| Indicator | Indonesia | Malaysia | Philip- pines | People's Sri Republic Lanka of China | |
|---|-----------|----------|------------------|--|---------|
| General | | | | | |
| Population (<i>millions, 2000</i>) | 210.5 | 23.3 | 78.4 | 19.4 | 1,262.5 |
| Population density (<i>people per km², 2000</i>) | 116.0 | 71.0 | 263.0 | 295.0 | 135.0 |
| Urban population (<i>% of total, 2000</i>) | 40.2 | 57.3 | 58.6 | 23.6 | 34.3 |
| Average annual pop. growth rate (<i>%, 1995-2000</i>) | 1.6 | 2.4 | 2.2 | 1.3 | 0.9 |
| Social | | | | | |
| Under-five mortality rate (<i>per 1000, 1999</i>) | 42.0 | 8.0 | 31.0 | 15.0 | 30.0 |
| Life expectancy at birth (<i>years, 1999</i>) | 66.0 | 72.5 | 69.0 | 74.0 | 70.0 |
| Adult literacy rate (<i>15-yr+, %, 1999</i>): | | | | | |
| – Females | 81.0 | 83.0 | 95.0 | 89.0 | 78.0 |
| – Males | 91.0 | 91.0 | 95.0 | 94.0 | 91.0 |
| Population in poverty (<i>%, 1996-99</i>) | 23.4 | 8.1 | 40.0 | 26.7 | ... |
| Human Development Index (<i>1999</i>) | 0.68 | 0.77 | 0.75 | 0.74 | 0.72 |
| Economic | | | | | |
| Gross National Product (<i>\$ million, 1999</i>) | 125,043 | 76,944 | 77,967 | 15,578 | 979,894 |
| GDP per capita (<i>\$, 2000 derived</i>) | 730 | 3,836 | 1,008 | 845 | 855 |
| GDP growth rate (<i>%</i>) – 2003 (<i>forecast</i>) | 3.6 | 5.8 | 4.5 | 5.5 | 7.4 |
| – 2002 (<i>forecast</i>) | 3.0 | 4.2 | 4.0 | 3.5 | 7.0 |
| – 2001 | 3.3 | 0.4 | 3.4 | -1.3 | 7.3 |
| – 2000 | 4.8 | 8.3 | 4.2 | 6.0 | 8.0 |
| – 1999 | 0.8 | 6.1 | 3.3 | 4.3 | 7.1 |
| – 1998 | -13.1 | -7.4 | -0.6 | 4.7 | 7.8 |
| – 1997 | 4.7 | 7.3 | 5.2 | 6.3 | 8.8 |

INTRODUCTION

| Indicator | Indonesia | Malaysia | Philip- pines | Lanka | People's Sri Republic of China |
|---|-----------|----------|------------------|-------|--------------------------------------|
| Consumer Price Index (<i>Annual % change, 2001 estimate</i>) | 11.5 | 1.4 | 6.1 | 11.0 | 1.5 |
| Fiscal Balance / GDP (<i>% , 2001 estimate</i>) | -2.3 | -6.7 | -3.8 | -10.0 | -2.6 |
| Total External Debt / GNP (<i>% , 1999</i>) | 113.3 | 62.5 | 64.8 | 60.3 | 15.9 |
| Debt Service Ratio (<i>% of goods & services exports</i>), 2000 estimate) | 44.8 | 5.4 | 12.7 | 14.7 | 10.0 |
| Official Development Flows | | | | | |
| U.S.\$ million (<i>1999</i>) | 3,825.2 | 457.7 | 295.0 | 343.6 | 2,595.7 |
| Dollars per capita (<i>1999</i>) | 18.2 | 19.6 | 3.8 | 17.7 | 2.1 |
| Percentage of GNP (<i>1999</i>) | 3.1 | 0.6 | 0.4 | 2.2 | 0.3 |

Sources: ADB. 2001. *Growth and Change in Asia and the Pacific: Key Indicators 2001*. Volume XXXII. Manila. ADB. 2002. *Asian Development Outlook 2002*. Manila.

Recent Economic Trends⁷

14. Government is a major player in Indonesia's market-based economy. It owns around 180 state-owned enterprises (SOEs) and administers prices on certain goods including fuel, rice and electricity. Under Soeharto's New Order government, inflation was generally 5-10%, the rupiah was stable and the government avoided domestic financing of budget deficits.

15. Despite an abundance of natural resources and growth rates of 7%–8% in the early 1990s, Indonesia has faced severe economic problems. These economic problems have been exacerbated by structural problems including the lack of reliable legal recourse in contract disputes, corruption, weaknesses in the banking system and an unstable political environment.

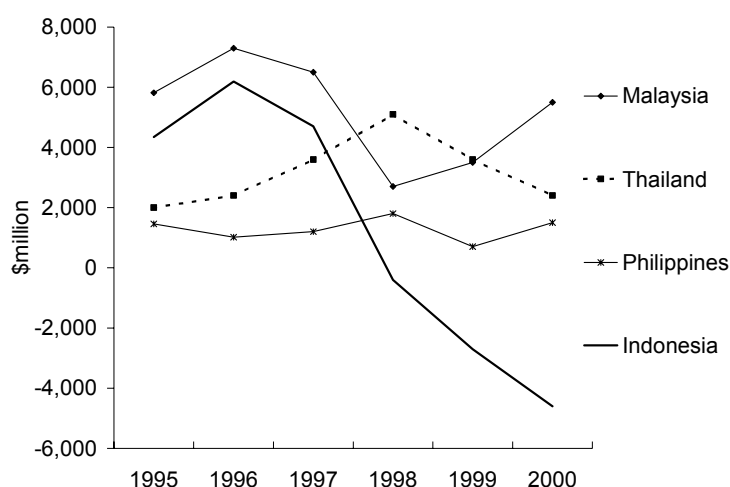
16. During the Asian financial crisis, inflation and interest rates escalated, GDP declined by 13.7% in 1998, real wages and employment fell, and poverty rose. In comparison to other crisis-affected economies, Figure 2 indicates that Indonesia's recovery has been less-than-smooth.

⁷ Primary Sources:

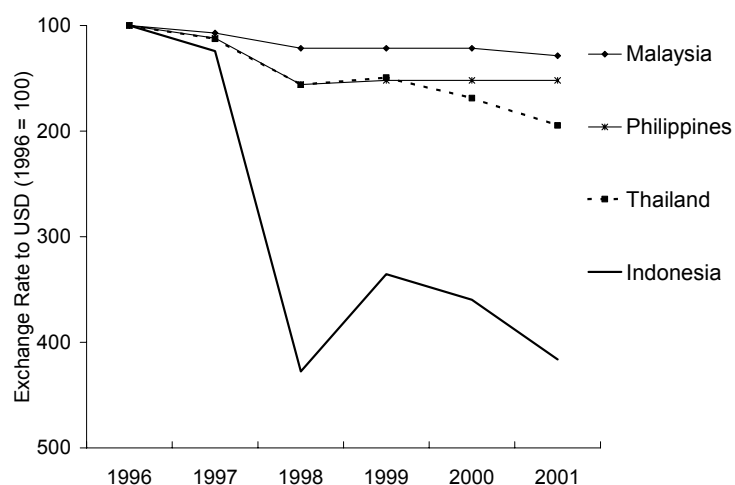
- World Bank. 2001. *Indonesia: The Imperative for Reform: Brief for the Consultative Group on Indonesia*,. Report No. 23093-IND. Washington. 2 November.
- ADB. 2002, *Asian Development Outlook 2002*, 14th Edition. Manila.

Figure 2. The Asian Financial Crisis Hit Indonesia Hard

1(a) Foreign Direct Investment



1(b) Relative Exchange Rates



Source: Derived from ADB. 2001. *Growth and Change in Asia and the Pacific: Key Indicators 2001*. Volume XXXII. Manila.

17. Government initiated action to address a number of Indonesia's economic problems. It reduced inflation, generated modest growth (4.8% in 2000 and 3.3% in 2001), recapitalized a handful of private banks and has begun recapitalizing the state-owned banking sector. In the aftermath of the financial and economic crisis, the government took custody of a significant portion of private sector assets through acquisition of non-performing bank loans and debt restructuring

process. However, progress has been limited. Banks continue to be wary of issuing new debt in an environment where little progress has been made in restructuring the huge burden of outstanding debts.

18. Higher growth rates are constrained by continuing dissatisfaction with the pace of bank and debt restructuring, the lack of progress on necessary economic reforms, burdensome public sector debt and ongoing conflicts in certain regions. In particular, the high level of government debt is a problem. Not only does it impose a big burden on the budget, it is itself a cause of instability. Reducing government debt is an important part of restoring stability and encouraging growth—both essential elements of poverty reduction.

19. Government's current targets include achieving medium-term fiscal sustainability, reducing budget subsidy expenditures, single digit inflation, continued divestiture of the government's holdings in the banking system, asset recovery from the sale of restructured and unstructured loans, decentralization of functions to local governments, privatization of state assets and publication of audited financial statements for the Bank of Indonesia.⁸

20. However, government continues to face challenges including: (i) eliminating widespread poverty and regional disparities; (ii) protecting and restoring the environment; (iii) strengthening democracy and human rights; (iv) improving public access to health, education, clean water, and sanitation; (v) promoting good governance and the equal role of women in development (vi) developing infrastructure; (vii) promoting economic growth, particularly by developing small- and medium-sized enterprises; and (viii) addressing corruption within the business sector.

Financial Governance: Issues and Challenges⁹

21. In the early 1990s, a number of problems with accounting, auditing and financial disclosure were identified. No specified financial records were required to be maintained or filed by companies and there was no requirement for financial statements to be independently audited. Company law required only that "adequate financial records" be kept. A

⁸ IMF. 2002. *Indonesia: Letter of Intent*. 2 April.

⁹ Primary Sources:

- Rosser, Andrew. 1999 July. The Political Economy of Accounting Reform in Developing Countries: The Case of Indonesia. Murdoch University: Working Paper No. 93.
- World Bank. 1994. *Indonesia: Sustaining Development*. Washington.

number of financial scandals were linked to misleading or fraudulent financial reporting. There were no requirements for public registration or disclosure of ownership and financial records, except in the case of listed companies.

22. During periods of economic growth, this lack of disclosure and regulation was not considered a problem. In fact, the lack of transparency financial reporting has suited those who engage in profitable related-party transactions with SOEs, those wishing to manipulate financial results to obtain finance or avoid taxation and those who sought to access state revenues outside the budget authorization process.

23. However, Indonesia has experienced a number of severe economic crises and has needed to attract both foreign investment and foreign aid. In order to do so the government has had to respond, at least in part, to the demands of investors and aid agencies for accounting and other capital market reforms.

24. The first major capital reforms occurred around 1988-89 and focused on capital market deregulation. The reforms included: (i) eliminating restrictions on share price movements; (ii) allowing foreign investors to purchase shares in publicly-listed companies; (iii) establishing a new over-the-counter market; (iv) simplifying procedures for issuing and listing securities; and (v) equalizing the tax treatment of interest and dividends.

25. Continued pressure from external agencies and a series of financial reporting scandals paved the way for further financial reporting reform. In 1994, government entered into a project (Second Accountancy Development Project) with the World Bank to improve the quality of financial reporting in both the public and private sectors.¹⁰ This project sought to: (i) modernize the government's accounting system; (ii) improve accounting education and training; and (iii) initiate actions for meeting the financial information requirements of capital markets. One of the outputs of this project was the development of a set of accounting, Financial Accounting Standards (PSAKs)¹¹ that were based largely on international accounting standards (IAS).

¹⁰ World Bank. 1994. *Staff Appraisal Report: Indonesia: Second Accountancy Development Project*, unpublished report, 29 July.

¹¹ These standards replaced Indonesia's first set of accounting standards, Indonesian Accounting Principles (PAI). PAI were initially developed in 1973 and significantly revised in 1984. Although these accounting standards do not have legislative backing, government agencies have generally supported the use of these standards by Indonesian companies.

26. Government also introduced new requirements for corporate reporting and disclosure by way of the Companies Code and Capital Markets Law. These changes included the following: (i) use of PSAKs by all companies in reporting their annual accounts, except where they had just cause not to do so; (ii) an audit requirement for all publicly listed companies; (iii) personal liability by directors and commissioners for provision of misleading financial information in financial reports; (iv) a specified format for financial reports; and (v) requirements that public accountants notify the regulatory agency *Bapepam* of breaches of the law.

27. Following the Asian financial crisis, the government required all limited firms with assets of Rp50 billion to publish financial statements and have them audited by external auditors (February 1998) and the Jakarta Stock Exchange (JSX) issued corporate governance regulations for listed companies in July 1999.

28. Implementation of these reforms has not been smooth. Moreover, despite improvements in accounting standards, audit requirements and financial disclosures, there were still serious gaps in the financial reporting and disclosure regime. For example, calls for improvements in the qualifications and independence of auditors were not heeded until 1997. Before 1997, international auditing firms were forced to operate by forming relationships with domestic firms. From 1997 onwards, foreign auditors were permitted to operate as individuals but were still prohibited from establishing auditing firms. Effective enforcement of sanctions for non-compliance with the law remains a problem.

5. ADB Focus on Indonesia Financial Governance

29. ADB has been actively involved in the Partnership for Governance Reform. The Partnership has led assessments of governance needs, coordinated international assistance, and highlighted best practice reform models. In particular, ADB has spearheaded corporate governance activities and actively participates in other areas, especially anti-corruption, public procurement and financial management, and decentralization activities.¹²

30. ADB's *Financial Governance Reforms: Sector Development Program*, along with IMF and World Bank assistance, has supported a set of public sector reforms that have created the basic legal framework and

¹² ADB. 2001. *Country Assistance Plan: Indonesia 2001-2003*. Manila.

environment for SOE reforms and helped to improve financial governance in both banking and non-banking sectors.¹³

6. International Guidelines and Surveillance¹⁴

31. The international community is supporting the development of guidelines, standards and codes to assess financial management and governance practices (see Table 2). Where appropriate, this report compares Indonesian arrangements and practices against these benchmarks.

32. These guidelines, standards and codes—to varying extents—all involve accounting and auditing arrangements. Furthermore, in an attempt to identify and avoid potential crises before they occur, the IMF and the World Bank have together embarked on a series of *Reports on the Observance of Standards and Codes (ROSCs)*. These reports summarize the extent to which countries observe certain internationally recognized standards.¹⁵ Although ROSCs are intended to be voluntary, the information provided by each country (or not provided, as the case may be) is likely to influence country dealings with international financial institutions, and the level of confidence that the international financial community has in a country.

Table 2. Selected International Guidelines, Standards and Codes

| Guideline, Standard or Code | Promulgated By |
|--|---|
| • Principles of Corporate Governance | Organization for Economic Cooperation and Development (OECD) |
| • Code of Good Practices on Fiscal Transparency | IMF |
| • Code of Good Practices on Transparency of Monetary and Financial Policies | IMF |
| • Implementation of the Objectives and Principles for Securities Regulation assessment surveys | International Organization of Securities Commissions' (IOSCO) |

¹³ ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Indonesia for the State-Owned Enterprise Governance and Privatization Program*. November 2001.

¹⁴ Narayan, Francis B., Ted Godden, Barry Reid, and Maria Rosa Ortega. 2000. *Financial Management and Governance Issues in Selected Developing Member Countries: A Study of Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan, and Viet Nam*. ADB: Manila. pp. 12-13.

¹⁵ IMF. September 2000. *Experimental Reports on Observance of Standards and Codes (ROSCs)*. www.imf.org/external/np/rosc

INTRODUCTION

| Guideline, Standard or Code | Promulgated By |
|---|--|
| <ul style="list-style-type: none">• International Accounting Standards (IAS)• International Standards on Auditing (ISA)• Banking Supervision guidelines | <ul style="list-style-type: none">International Accounting Standards Board (IASB)International Auditing and Assurance Standards Board (IAASB)Basel Committee on Banking Supervision (BCSB) of the Bank for International Settlements (BIS) |

7. Report Structure

33. This report examines Indonesian accounting and auditing practices. In addition to this introduction, the report has the following chapters:

- Chapter II – **Accounting and Auditing in Indonesia** – presents an overview of accounting and auditing arrangements in Indonesia. It provides context for the following chapters on professional infrastructure, and accounting and auditing standards.
- Chapter III – **Professional Infrastructure** – describes the professional accountancy infrastructure in Indonesia.
- Chapter IV – **Accounting and Auditing Standards** – describes the accounting and auditing standards that govern the preparation of external financial reports and the audit of those reports.
- Chapter V – **Issues and Recommendations** – presents the issues and recommendations that are associated with gaps or weaknesses in accounting and auditing arrangements.

II. Accounting and Auditing in Indonesia

This chapter presents an overview of Indonesia accounting and auditing arrangements. It provides context for the following chapters and comprises eleven sections as follows:

Part One: Accounting

- 1 – Introduction – identifies historical factors that have influenced accounting arrangements.
- 2 – The ‘Indonesian Accounting System’ – describes Indonesia accounting arrangements, which include the legislative and institutional framework, accounting bases and accounting information systems.
- 3 – Financial Reporting and Disclosure Requirements – describes financial reporting and disclosure requirements.
- 4 – The Quality of Financial Reporting and Disclosure – examines evidence regarding financial reporting quality.

Part Two: Auditing

- 5 – Introduction – introduces Indonesia auditing arrangements.
- 6 – Auditor Appointment and Dismissal – describes auditor appointment and dismissal by comparing Indonesian arrangements to regional norms and international best practices.
- 7 – Auditor Independence – examines the extent of Indonesian auditor independence.
- 8 – Auditor Reporting Requirements – describes Indonesian audit reporting requirements.
- 9 – Auditor Sanctions and Liability – examines auditor exposure to sanctions and litigation.
- 10 – Accounting and Auditing Firms – describes the presence of domestic and international accounting firms in Indonesia.
- 11 – The 2002 Decree on Public Accountant Services – describes the components of this important decree.

Part One. Accounting

1. Introduction

34. The Dutch introduced elements of double-entry bookkeeping to Indonesia in the 17th century. The East Indies Company—the principal commercial organization during the colonial era—had a significant and ongoing impact on Indonesian business arrangements.¹⁶

35. Colonial economic activities rapidly increased during the 1800s and early 1900s. This created demand for trained accountants and bookkeepers, which was partly met by an influx of Dutch and British accountants into the colony to help administer the vast estates, mills and industrial enterprises.¹⁷

36. Opportunities for local accountants grew during the 1942-45 interruption of Dutch colonial rule. Dutch accounting practices remained in use during the post-independence era of the 1950s. Moreover, tertiary accounting training continued to be based on the Dutch accounting system. However, the nationalization of Dutch-owned enterprises and the expulsion of Dutch nationals in 1958 created a shortage of technical, including accounting, expertise.¹⁸

37. In response, Indonesia turned to U.S. accounting practices. However, the introduction of U.S. accounting thought and practices blended well with Dutch accounting methods, particularly in government agencies. An increasing number of tertiary institutions, including the government-based *Sekolah Tinggi Akuntansi Negara* (College for State Accountancy, STAN), began to shift their accountancy programs from the Dutch to the U.S. system from 1960. In 1975, all institutions were required to adopt the U.S. system.¹⁹ Table 3 summarizes environmental developments that have influenced Indonesian accounting.

¹⁶ Diga, Joselito and Hadori Yunus. 1997. "Accounting in Indonesia" in *Accounting in the Asia-Pacific Region*, edited by Nabil Baydoun, Akira Nishimura and Roger Willet. John Wiley: Singapore. p. 284.

¹⁷ Yunus, H. 1990. *History of Accounting in Developing Nations: The Case of Indonesia*. Tim Koordinasi Pengembangan Akuntansi, Jakarta.

¹⁸ Diga, Joselito and Hadori Yunus. 1997. "Accounting in Indonesia" in *Accounting in the Asia-Pacific Region*, edited by Nabil Baydoun, Akira Nishimura and Roger Willet. John Wiley: Singapore. p. 285.

¹⁹ *Ibid.* p. 285.

Table 3. Environmental Factors Influencing Indonesian Accounting

| Political and Social Developments | Economic Developments | Accounting Developments |
|--|---|---|
| <p>Dutch Colonial Era (1959–1945) The Dutch subjugated Java and other Indonesian islands. Islam was the dominant religion of the population.</p> | <p>The United East Indies Company had a monopoly of Indonesian commerce. Indigenous Indonesians were restricted from involvement in commerce. Ethnic Chinese were given special rights to the retail trade and coastal traffic.</p> | <p>The Dutch introduced accounting into Indonesia. The first recorded accounting regulation was issued in 1642 by the Dutch Governor General of the Netherlands East Indies. The regulation governed the administration of cash receipts and receivables.²⁰</p> |
| <p>Sukarno Era (1945–1966) Indonesia gained independence in 1945. Sukarno became the first President of the Republic of Indonesia, and a close alliance between communists in Indonesia and the People's Republic of China developed. In 1965, an abortive communist coup d'état led to a counter coup that enabled the military leaders to disable the local communist party and remove most of the President's powers.</p> | <p>Due to the dominance of the Dutch and Chinese in commerce and the consequent economic inequalities in society, Indonesia chose a socialist approach to development, with the state playing a dominant role. In 1958, all Dutch-owned companies were nationalized and Dutch nationals expelled.</p> | <p>U.S. academics filled the positions left vacant by the Dutch, and U.S. accounting and auditing practices were introduced. Both Dutch and U.S. accounting practices were used concurrently.</p> <p>The Indonesian Institute of Accountants (IAI) was established in 1957 to guide and coordinate the activities of accountants.</p> |

²⁰ Abdoelkadir, K. K. 1982. The Perception of Accountants and Accounting Students on the Accounting Profession in Indonesia. Unpublished PhD Dissertation. Texas A & M University.

ACCOUNTING AND AUDITING PRACTICES IN INDONESIA

| Political and Social Developments | Economic Developments | Accounting Developments |
|--|--|--|
| Suharto Era (1966–1998) Suharto was installed as president in 1966 and more conservative political and economic policies were pursued. | Under Suharto's leadership, a capitalist approach to economic development was pursued. Foreign investment was again encouraged, and the 1967 enactment of the Foreign Investment Law resulted in an influx of foreign firms. | There was a transfer of accounting knowledge and skills from the head offices of foreign firms directly to their Indonesian employees and indirectly through their business activities. In 1973, IAI adopted a set of accounting principles, auditing standards and a code of professional conduct. The accounting principles were based on the accounting guidelines published by AICPA in 1965. |
| | 1997-1998 Asian Financial Crisis hits Indonesia hard. Many companies collapse. | A new set of IAS-based accounting standards were adopted in 1995. |
| Post-Suharto Era (post 1998) Suharto was forced to stand down as President in 1998. | Indonesia struggles amidst economic and social turmoil. | Regulations are tightened to improve financial disclosure. |

Source: Updated from: Siddik, A. F. and H. L. Jensen. 1984. *The Evolution of Accounting in Indonesia*. The Academy of Accounting Historians. pp. 41-60.

38. In the mid-1980s, a group of technocrats emerged with a strong interest in economic and accounting reform. Their objective was to create a more market-oriented and competitive economy, supported by good accounting practices—their policies received strong support from foreign investors and international agencies.²¹ Before the revival of the capital market and the introduction of accounting reforms in the 1980s and early 1990s, it had been common for private companies to maintain three sets of books—one which showed the “true” state of the business and was used for management decision-making; one which showed a positive result and which was used for raising loans from foreign and

²¹ Rosser, Andrew. 1999 July. The Political Economy of Accounting Reform in Developing Countries: The Case of Indonesia. Murdoch University: Working Paper No. 93.

local banks; and one which showed a loss or small profit and was used for taxation purposes.²²

39. In the early 1990s, pressure for accounting improvements grew in the wake of series of financial reporting scandals that seriously undermined investor confidence. It became clear to government policy-makers that the quality of financial reporting had to be improved if the capital market was to be transformed from a casino into a mechanism for mobilizing long-term investment flows.²³

40. The first and most serious scandal involved Bank Duta—a private bank owned by three Suharto-controlled charitable foundations. Bank Duta went public in early 1990, but failed to disclose several hundred million dollars in foreign exchange losses in its prospectus. Nor did the bank fully inform the capital market regulator (*Bapepam*), its auditors or its underwriters about these problems. In fact, its auditors had issued an unqualified audit opinion. Together with other factors, the Bank Duta scandal led to a massive withdrawal of funds from the capital market—the JSX Composite Index declined by a third between the middle and the end of 1990.²⁴

41. Other scandals involved Plaza Indonesia Realty (mid-1992) and Barito Pacific Timber (1993). The ensuing controversy resulted in a series of measures to strengthen financial accounting regulations. First, in late 1994, government introduced a new set of financial accounting standards, known as Financial Accounting Standards (PSAKs). Second, government launched a joint project with the World Bank to further develop Indonesia's accounting regulations and train accounting professionals. Third, in 1995, government introduced several accounting-related provisions in its new Companies Code. Fourth, later in 1995, government introduced further accounting requirements as part of the Capital Markets Law.²⁵

42. The rupiah's collapse in 1997-1998 further increased pressure for government to improve the quality of financial reporting. By early 1998, many of the country's conglomerates were technically bankrupt, the banking system faced collapse, a serious fiscal crisis was looming, rising inflation and unemployment had driven millions of people into poverty,

²² Kwik K. 1994. *Analisis Ekonomi Politik Indonesia*. Jakarta: Gramedia Pustaka Utama.

²³ Rosser, Andrew. 1999 July. The Political Economy of Accounting Reform in Developing Countries: The Case of Indonesia. Murdoch University: Working Paper No. 93.

²⁴ *Ibid.*

²⁵ *Ibid.*

and government had been forced to call in the IMF and negotiate a rescue package.

43. Moreover, amidst spreading political and social unrest, public analysis of the Asian economic crisis was blaming poor accounting practices for fueling the crisis. Foreign investors, it was argued, had “risked their money on deals that wouldn’t have looked so appealing had the books been prepared to international standards”.²⁶ The World Bank made accounting a major issue by calling on the (then) Big Five international accounting firms to withhold their brand name imprimaturs if their affiliates in developing countries did not meet international accounting and auditing standards.²⁷

44. Government pushed ahead with accounting reform. First, in February 1998, it announced that all limited firms with assets of Rp50 billion or more would be required to publish financial statements and have them audited by external auditors.²⁸ Second, in July 1999, this was followed by a decision by the nominally private but effectively government controlled JSX Company to introduce a new set of corporate governance regulations for publicly-listed companies.

45. Amidst all this, serious concerns continued to be expressed about the quality of financial reporting during the mid to late 1990s. Business consultants and analysts continued to claim that Indonesian financial reports were unreliable and misleading. Even figures associated with the Indonesia Accounting Institute (IAI) acknowledged that manipulation of financial reports was still widespread despite the regulatory changes.

46. At the same time, more financial reporting scandals were exposed. In May 1997, for instance, it was revealed that a leading listed property company, Summarecon, had produced two sets of financial accounts that reported contradictory results for one of its subsidiaries. The first set of accounts, which had been prepared to fulfill legal obligations in case the subsidiary was liquidated, reported that the subsidiary had made a loss of Rp70 billion. The second, which had been prepared for public shareholders, reported that the subsidiary had made a large profit. Concerned that the company had doctored its accounts to

²⁶ Asian Wall Street Journal. 1998. 20 October.

²⁷ *Ibid.*

²⁸ Jakarta Post. 1998. 23 February.

mislead investors, both *Bapepam* and the IAI announced that they would launch investigations into the matter.²⁹

2. The 'Indonesian Accounting System'

Legislative and Institutional Framework

47. Indonesia's commercial regulatory framework reflects two influences. First, certain laws have been carried over from the Dutch colonial era. Second, the Sukarno and Suharto governments passed laws in the post-independence period. In contrast to some other countries, laws affecting commercial activities are formulated through Presidential decrees and regulations issued by government agencies. In general, the legal framework affecting present financial accounting practices includes the companies and investment laws, income tax laws and securities market regulation (see Table 4).

Table 4. Key Governing Laws and Regulations: Private Sector

| Title | Description |
|-----------------------------|---|
| <i>Commercial Code 1847</i> | Governs business activity and is based upon the 1838 Netherlands Commercial Code, with some minor amendments. It does not incorporate subsequent amendments to the Netherlands Commercial Code. The Code has a general requirement that adequate accounting records be maintained so that an entity's financial position may be determined, however it does not specify what books or records must be kept. |

²⁹ Rosser, Andrew. 1999 July. The Political Economy of Accounting Reform in Developing Countries: The Case of Indonesia. Murdoch University: Working Paper No. 93.

ACCOUNTING AND AUDITING PRACTICES IN INDONESIA

| Title | Description |
|--|--|
| <i>Law on Limited Liability Companies (No.1) 1995 (PT Law)</i> | <p>The <i>PT Law 1995</i> came into effect in March 1996 and stipulates the financial reporting requirements for companies and the manner in which profits may be appropriated. The company directors must present annual financial reports to the general shareholders meeting no later than five months after the end of the financial year-end. The company's directors and shareholders must sign the reports.</p> <p>The <i>PT Law 1995</i> requires that financial statements must be prepared in compliance with PSAKs. Non-compliance must be disclosed and the reasons for non-compliance should be provided.</p> <p>The <i>PT Law 1995</i> requires that the financial statements of the following types of companies be audited by a public accountant:</p> <ul style="list-style-type: none"> ▪ Companies in a field connected with the mobilization of funds from the public (i.e., banks, investment funds and insurance companies). ▪ Companies that have issued debt instruments. ▪ Publicly held companies. <p>The general shareholders' meeting may not approve financial statements that do not comply with the audit requirements. The <i>PT Law 1995</i> also requires that audited financial statements, once approved by shareholders, be published in two daily newspapers.</p> |
| <i>Law on Company Registration (No. 3) 1982</i> | <p>In addition to listing Indonesian companies, this law supports efforts to make company information publicly accessible. Among other things, this law requires that details of each company's authorized, issues and paid-in capital be reported to the Ministry of Trade and Industry.</p> <p>However, the NCCG has identified weaknesses with this law and its implementation, including:</p> <ul style="list-style-type: none"> ▪ The lack of publicly available information required by the law ▪ Absence of timely and accurate mechanisms for collection and publication of information.³⁰ |

³⁰ Kurniawan, Dudi M. and Nur Indriantoro. 2000. Corporate Governance in Indonesia. Paper Presented to the Second Asian Roundtable on Corporate Governance. Hong Kong, China. 31 May - 2 June 2000. p. 25.

ACCOUNTING AND AUDITING IN INDONESIA

| Title | Description |
|---|---|
| <i>Government Regulation (No. 64) 1999 regarding Company Financial Statements</i> ³¹ | <p>The promulgation of this regulation reflected a significant improvement in promoting company transparency. Previously, only listed companies were required to file audited financial statements. This regulation required the following companies to file audited financial statements:</p> <ul style="list-style-type: none"> ▪ Those incorporated under the PT Law 1995 ▪ Those that accumulate funds from the public ▪ Those that issue debt instruments ▪ Those that have total or net assets exceeding Rp 25 billion. <p>In accordance with the regulation:</p> <ul style="list-style-type: none"> ▪ Audited financial statements, comprising a balance sheet, income statement, cash flow statement, statement of changes in equity, and notes to the financial statements (including a list of liabilities and capital participation) must be reported ▪ Information is more easily available, including through the Internet and in hard copy as local Company Registry Offices. |
| <i>Law on Capital Markets (No. 8) 1995</i> | <p>Among other things, governs the preparation, presentation and audit of financial statements (see Appendix 14). It is supported by <i>Bapepam</i> Rules that include:³²</p> <ul style="list-style-type: none"> ▪ Preemptive Rights (IX.D.1) ▪ Conflicts of Interest on Certain Transactions (IX.E.1) ▪ Material Transactions and Changes in Major Line(s) of Business (IX.E.2) ▪ Mergers and Consolidations of Public Companies and Issuers (IX.G.1) ▪ Planning and Conducting the General Meeting of Shareholders (IX.I.1) ▪ The Main Articles of Association of Companies Offering their Equities to the Public and of Publicly Listed Companies (X.K.1) ▪ Disclosure of Information that Must Immediately be Made Public (X.K.4) |
| <i>Banking Law (No. 7) 1992</i> ³³ | <p>This law states that Bank Indonesia (BI) may assign a public accountant, for and on behalf of BI, to perform an audit on any bank, either on a periodical basis, or at any time required. In relation to this, public accountants are delegated BI authority (Article 31A).</p> |

³¹ Kurniawan, Dudi M. and Nur Indriantoro. 2000. Corporate Governance in Indonesia. Paper Presented to the Second Asian Roundtable on Corporate Governance. Hong Kong, China. 31 May - 2 June 2000.

³² *Ibid.*

³³ As amended by *Law on Banking (No. 10) 1998*.

| Title | Description |
|---|---|
| <i>Law on Bank Indonesia</i> (No. 23) 1999 | This law repeats the <i>Banking Law</i> (No. 7) 1992 delegation of BI authority to public accountants (Article 30(1)). |
| <i>Law on Pension Funds</i> (No. 11) 1992 | Article 52(1)(a) of this law implies that the Minister of Finance shall receive the financial statements of pension funds that have been audited by public accountants. |

48. A new draft company law was prepared by the Ministry of Justice and Human Rights and submitted to the State Secretary's Office in April 2002 for consideration. Although the Company Law 1995 and the new draft law provide for substantial responsibilities of directors, they only cover liability for annual reports, not all public information.³⁴ The company law is administered by the Investment Coordinating Board (BKPM), whose principal mandate is to regulate all forms of investment activities in the country. The registration function is incidental to its main objective although BKPM uses its statutory powers over financial reporting to monitor the nature and level of foreign ownership in Indonesian-based enterprises.³⁵

Accounting Bases and Accounting Information Systems

49. Financial statements must be prepared using the accrual accounting basis. Accounting information systems range from paper-based manual systems to sophisticated, distributed internet-based systems. Many businesses and SOEs use locally-developed accounting packages.

3. Financial Reporting and Disclosure Requirements

50. Corporate disclosure is regulated by several different organizations. The agencies concerned with aspects of financial reporting in Indonesia include:³⁶

³⁴ ADB. 2002 June. Progress Report on the Release of Third Tranche: Financial Governance Reforms Sector Development Program (Loan 1618-INO) to Indonesia. Board Paper: Manila.

³⁵ Saudagaran, Shahrokh M. and Joselito G. Diga. 2000. The Institutional Environment of Financial Reporting in ASEAN. *International Journal of Accounting*. Vol 35(1). pp. 1-26.

³⁶ Diga, Joselito and Hadori Yunus. 1997. "Accounting in Indonesia" in *Accounting in the Asia-Pacific Region*, edited by Nabil Baydoun, Akira Nishimura and Roger Willet. John Wiley: Singapore. p. 288.

- Bank Indonesia. Apart from administering the country's monetary policies, the Indonesian central bank prescribes financial reporting requirements for all banks and non-bank financial institutions operating in Indonesia.
- Pertamina. This state petroleum agency is responsible for regulating all aspects of the oil and gas industry in Indonesia, including exploration, production and distribution. Pertamina also administers all production sharing contracts involving joint ventures with foreign companies. Pertamina prescribes the financial reporting requirements for the industry.
- Ministry of Finance. This ministry oversees activities of the Directorate General of Taxation and *Bapepam*.
- Directorate General of Taxation. This agency is responsible for administering tax laws. It prescribes the books of accounts and financial statements required of all corporate taxpayers.
- *Bapepam*. *Bapepam* acts as the overall securities regulator of the corporate securities market in Indonesia. Together with the privately-operated JSX and Surabaya Stock Exchange (SSX), *Bapepam* specifies the reporting requirements of domestic companies that intend to raise finance through a public issuance of its securities.

51. Companies of identified industries are required to submit their annual audited financial statements to specified government regulatory agencies. Publicly listed companies have to submit their annual audited financial statements to *Bapepam* and the JSX or SSX 120 days after the end of their fiscal year. These companies are also required to submit their annual audited financial statements to the Department of Trade and Industry 180 days after the end of their fiscal year. Technically there are no explicit regulatory requirements to submit audited financial statements to the Tax Office, however, practically some tax officials will expect the taxpayer to attach a copy of the audited financial statements with the annual tax return when lodged. During tax examinations, examiners will normally ask for the corporation's annual audited financial statements if there are any.

52. Decree No 97/PM/1996 states that government requires all companies listed on a stock exchange to provide four copies of financial statements. The financial statements should include two consecutive comparisons of two years. In addition, those financial statements should conform with PSAKs. In total, the number of disclosures required by the

government comprise 158 items. The content of decree No.97/PM/1996 in the financial statement section is as follows:³⁷

- Financial statements are based on Accounting Standards determined by IAI and *Bapepam* regulations in the accounting field and a public accountant registered at Bapepam must audit it. If there are differences between the company and the public accountant on reported financial statements and if the conflict causes the public accountant to give a negative comment, refuse to comment, resign, or be fired, then the company has to disclose this fact and the cause of conflict and important aspects regarding it.
- Financial statements must be presented for the last two years or since the company started business for the companies that started less than two years ago. The statements must include: Balance sheet, Income statement, Income balance statement, Cash flow statement, Notes to financial statement, and Other reports and explanatory materials, which are an integral part of the financial statements if required, such as Commitment and Contingencies Statement for eminent and public company operating in banking industry.
- Notes to the financial statements must show separately the amount of each kind of transaction and balance of directors, employees, commissioners, outstanding stockholders, and other parties that have special relationship as stated in the Statement of Financial Accounting Standard. Those separate summaries are needed for receivables, debt, sales or revenue, and expenses. If the amount of transaction for each category with certain party is over Rp 1 billion, this amount must be presented separately and all parties' name must be disclosed.
- The company must disclose all the transactions that influence the equity account and matching with initial balance and ending balance on separate summary in the Notes to Financial Statements.
- Notes to Financial Statements must disclose business segment information as stated in Statement on Financial Accounting Standard.
- The additional information below must be disclosed in the notes, which are in accordance with PSAKs.

³⁷ Tearney, Michael G. 2001. An Evaluation of Disclosure of Financial Information by Public Companies in Indonesia. Unpublished Paper. Von Allmen School of Accountancy, Gatton College of Business and Economics, University of Kentucky.

- Detail of stock ownership by the directors, commissioners, and stockholders who own 5% or more (amount of stock, nominal value and percentage)
- Brief description about unfinished litigation, which probably has impact of more than 2% of net assets or annual profit of company and its subsidiaries.
- Export sales or foreign revenue more than 10% (ten percent) of total sales and revenue.
- Sales or revenue related to certain business area, as determined by the company or its subsidiaries, if the stated sale is 10% or more of total sales or revenues.
- Sales to or revenue from a customer or group of affiliated customers which is more than 20% of total sales or revenue
- Expenses which are more than 5% of total expense or cost related to a project or product that will only provide revenue in the future, or that does not relate to the productive activities.

4. The Quality of Financial Reporting and Disclosure

53. Evidence regarding the quality of Indonesian financial reporting and disclosure varies. But in general, there does appear to be room to improve investor perceptions.

54. First, a 1999 PricewaterhouseCoopers survey of Singapore-based institutional investors, showed that Indonesia ranked lowly among 12 Asia-Australia countries in perceived standards of disclosure and transparency, accountability to shareholders, board processes and auditing and compliance.³⁸

55. Second, a 2001 study comparing Indonesian and U.S. disclosure, calculated a disclosure index of 97% for the U.S. and 96% for Indonesia—i.e., 97% of the required U.S. disclosures were actually made. The authors concluded that:³⁹

“perhaps the primary reason for different disclosure indexes in Indonesia and the United States is because of the much more severe sanctions (i.e. civil liability under current legal conditions in the U.S.) for non-disclosure in the U.S. than Indonesia.”

³⁸ PricewaterhouseCoopers and Singapore Stock Exchange. 1999. 1999 Survey of Institutional Investors.

³⁹ Tearney, Michael G. 2001. An Evaluation of Disclosure of Financial Information by Public Companies in Indonesia. Unpublished Paper. Von Allmen School of Accountancy, Gatton College of Business and Economics, University of Kentucky. tearney@ukcc.uky.edu

56. Table 5 reports the results of a comparative study of financial reporting requirements.

Table 5. Financial Reporting Requirements for East Asian Economies

| Economy | Mandatory consolidated reporting | Disclosure of derivatives | Disclosure of related party transactions* | Reporting frequency in months* | Mandatory disclosure of extraordinary items* |
|-----------------------------------|----------------------------------|---------------------------|---|--------------------------------|--|
| Australia | Yes | Yes | Yes | 3 | Yes |
| China, People's Republic of (PRC) | No | n.a. | Yes | 3 ²⁰⁰² | Yes |
| Hong Kong, China | Yes | Yes | Yes | 3 | Yes |
| Indonesia | Yes | Yes | Yes | 12 | Yes |
| Japan | Yes | Yes | Yes | 6 | Yes |
| Korea, Republic of | Yes | Yes | Yes | 6 | Yes |
| Malaysia | Yes | Yes | Yes | 3 | Yes |
| Philippines | Yes (draft) | Yes (draft) | Yes | 3 | Yes |
| Singapore | Yes | Yes | Yes | 6 | Yes |
| Taipei, China | Yes | Yes | Yes | 6 | Yes |
| Thailand | Yes | Yes | Yes | 3 | Yes |
| Viet Nam | No | No | No | 3 | Yes |

Note: * Listed company requirements, except for PRC and Viet Nam.

Source: PricewaterhouseCoopers. 2001 August. Consultancy Prepared for the Economic Analysis Unit (EAU). Reported in Economic Analytical Unit (EAU). 2002. *Changing Corporate Asia, What Business Needs to Know: Volume 1. Main Report*. Department of Foreign Affairs and Trade: Australia. p. 38.

Part Two. Auditing

5. Introduction

57. Auditing has historically been concerned with the faithful and accurate accounting of entity financial performance and position. This concern arises from the imperative of maintaining accountability in the presence of agency conflicts between firm management and owners.⁴⁰ Over time, this notion of accountability has expanded as interest groups established new performance standards.⁴¹ However, the underlying philosophy has remained constant—essentially one of ensuring that accounting records have been kept and verifying compliance with generally accepted accounting principles.⁴²

58. Accordingly, audit quality can influence the market value of a company as investors place a higher level of trust in information that has been subject to an independent audit. Investors should be able to rely on the audit function to provide an independent and comprehensive review of the information being reviewed and of the judgments and estimates behind it.⁴³

59. Auditing was established in Indonesia with the 1907 establishment of State Accountant Bureau with duties including preparing and auditing companies' accounts. Accountants from the Netherlands

⁴⁰ Jensen and Meckling posit that the demand for auditing results from a desire to reduce the management shirking that results from information asymmetries between managers and owners. They demonstrate that managers will voluntarily increase the observability of their actions by hiring independent auditors to monitor their behavior: Jensen, M, & Meckling W. 1976. Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Accounting and Economics* 305 October. See also Chow C. 1982. The Demand for External Auditing: Size, Debt and Ownership Influences. *The Accounting Review* April 272; Benston G. 1985. The Market for Public Accounting Services: Demand, Supply and Regulation 4. *Journal of Accounting and Public Policy* 33.

⁴¹ In addition to agency theory, a number of theoretical frameworks have been put forward to explain the demand for auditing services and the behavior of auditors. These include information theory, insurance theory, legislated demand theory and contracting theory.

⁴² see Flint D. 1988. *Philosophy and Principles of Auditing: An Introduction*, Macmillian, London. p. 20.

⁴³ The Parliament of the Commonwealth of Australia. 2002. Joint Standing Committee on Public Accounts and Audit: Report 397: Review of Independent Auditing by Registered Company Auditors. 18 September. p. 93.

undertook these functions. Indonesia's first private auditing firm was established in 1918 in Jakarta.⁴⁴

60. The exposure of previously undetected frauds and financial misstatements following the 1997 crisis, led to auditors being publicly blamed for business collapses. However, auditors contended that they were under intense management pressure to accept rosy results. Moreover, they felt that had little control over asset valuations, which depended on the judgments of other professionals, such as valuers.⁴⁵

61. The following sections examine Indonesian auditing practices regarding auditor appointment and dismissal, auditor independence, auditor reporting requirements, and auditor liability. Malaysian arrangements are presented for comparison.⁴⁶

6. Auditor Appointment and Dismissal

62. Section 13 of the IFAC *Code of Ethics for Professional Accountants* (1996) outlines procedures for communicating between incoming and outgoing auditors.⁴⁷ Furthermore, ISA 315 states the requirements for communications between predecessor and successor auditors when a change of auditors occurs. It places the initiative for communication with the successor auditor who is required to make specific inquiry, after obtaining permission from the prospective client, of the predecessor auditor as to such matters as management integrity, management disagreements and the reason for change in auditor. Table 6 sets out Indonesian arrangements for auditor appointment and dismissal.

⁴⁴ Bachtiar, Emil. 2001. The Professionalization of Accounting in Indonesia. Paper Presented to the Second Accounting History International Conference, Osaka, 8-10 August 2001.

⁴⁵ Kurniawan, Dudi M. and Nur Indriantoro. 2000. Corporate Governance in Indonesia. Paper Presented to the Second Asian Roundtable on Corporate Governance. Hong Kong, China. 31 May–2 June 2000. pp. 21-22.

⁴⁶ The analytical framework used, and the Malaysian information, is adapted from: Favere-Marchesi, Michael. 2000. Audit Quality in ASEAN. *The International Journal of Accounting*. Vol 35(1). pp. 121-149. (The Indonesian information was provided by HTM, member firm of Deloitte Touche Tohmatsu International).

⁴⁷ International Federation of Accountants (IFAC). 1996. *Code of Ethics for Professional Accountants*. New York.

Table 6. Auditor Appointment and Dismissal

| Factor | Indonesia | Malaysia |
|--|--|---|
| Nominating party | Directors and/or shareholders | Shareholders |
| Appointing party | Shareholders | Shareholders |
| Party approving appointment | BI and Bapepam approve appointments in some cases. | Shareholders and the Central Bank of Malaysia for financial institutions |
| Dismissal by appointing body | Yes | Yes |
| Dismissal by body other than appointing body | Yes. Statutory auditors appointed by the Board of Directors can be dismissed by the shareholders | No |
| Auditors rights to defend position on dismissal or resignation | No | Yes. Written or personal representations to the shareholders |
| Compensation on termination | Yes. Any outstanding fees for professional services before termination | Fees owing to the outgoing auditor must be paid before the incoming auditor can accept the engagement |

7. Auditor Independence

63. The *Code of Ethics for Professional Accountants* states that accountants in public practice should be, and should appear to be, free of any interest that might be regarded as being incompatible with integrity, objectivity and independence.⁴⁸ ISA 220 and the Statement of Policy by the IFAC Council (1992) support periodic peer reviews. Furthermore, Section 8 of the IFAC *Code of Ethics* (1996) relates to the objectivity of auditors with respect to their clients.

64. As regards auditor independence, in a recent landmark case, the U.S. SEC brought its first successful action for fraud against an auditor in more than twenty years. The case underscored the SEC's concern that "the quality of auditing is being compromised by the amount of (more lucrative) non-audit work that companies' auditors now perform for

⁴⁸ International Federation of Accountants (IFAC). 1996. *Code of Ethics for Professional Accountants*.

their clients.⁴⁹ Table 7 summarizes the restrictions aimed at preserving the independence and objectivity of statutory auditors.

Table 7. Auditor Independence

| Factor | Indonesia | Malaysia |
|--|------------------------|--|
| Restrictions on relationships: personal commercial financial, or influential | Yes | Yes. However, financial interests or relationships are allowed if the auditor's indebtedness to the company or related party is less than RM 2,500 |
| Restrictions on services provided by audit firms to audit clients (other than the audit) | Legal services | Bookkeeping, accounting, legal services and corporate recovery |
| Audit fees fixed in advance | Yes | Yes |
| Rules to calculate audit fees | No | Yes. However, the Malaysian Institute of Accountants' (MIA) basis for determining audit fees serves as a guide only. In practice, audit fees are negotiated between the company and the auditors |
| Over-dependence on a single client with respect to audit fees | No | Yes |
| Rules to avoid low balling | No | Yes |
| Required rotation of audit firms | Yes. Every three years | No |
| Required rotation of audit partners | Yes. Every five years | No |
| Restrictions on auditors moving to clients | No | No |
| Sanctions for breach of independence | Yes | Yes |
| Safeguards to objectivity: | | |
| • Challenges to objectivity disclosed | No | Yes |

⁴⁹ The Economist. 2001 June 23. *Andersen's Fairy Tales: A \$7 million fine from the SEC again raises doubts about the independence of auditors.* p. 77.

| Factor | Indonesia | Malaysia |
|---------------------------------------|-------------|----------|
| • Quality reviews by regulators | Yes | No |
| • Quality reviews by peer audit firms | No. By MOF. | No |
| • Internal quality reviews | Yes | Yes |

8. Auditor Reporting Requirements

65. ISA 700 – *the Auditor's Report on Financial Statements* – establishes standards and provides guidance on the form and content of the auditor's report issued as a result of an audit performed by an independent auditor of the financial statements of an entity. Much of the guidance provided can be adapted to auditor reports on financial information other than financial statements.

Table 8. Audit Reporting

| Issue | Indonesia | Malaysia |
|--|---------------------------------------|---|
| In Auditor's Report: | | |
| • Fraud or irregularities | No | No |
| • Illegal acts | No | No |
| • Internal controls and systems | No | No |
| • Maintenance of proper accounting records | No | Yes |
| Reporting to Other Parties: | | |
| • Fraud or irregularities | Yes. Report to the Board of Directors | Yes. Report to the Board of Directors |
| • Illegal acts | Yes. Report to the Board of Directors | Yes. Written report to the Registrar of Companies |
| • Internal controls and systems | Yes. Report to the Board of Directors | Yes. Report to the Board of Directors |
| • Maintenance of proper records | Yes. Report to the Board of Directors | No |
| Report on compliance with accounting laws and regulations | Yes | Yes |
| Standard forms of audit reports required by law | Yes | No |
| Matters to be included in reports specified by law | Yes | Yes |
| Standard forms of audit reports established by professional bodies | Yes | Yes |

9. Auditor Sanctions and Liability

66. Exposing auditors to civil liability creates strong incentives to raise quality and maintain independence. There must however be a balance between providing this incentive and avoiding a decline in audit services due to excessive litigation costs.⁵⁰

Table 9. Auditor Liability

| Issue | Indonesia | Malaysia |
|---|-----------|------------------------------|
| Professional Sanctions: | | |
| • Warning | Yes | Yes |
| • Reprimand | Yes | Yes |
| • Fine | Yes | Yes |
| • Temporary suspension | Yes | Yes |
| • Permanent exclusion | Yes | Yes |
| Civil liability Exposure: | | |
| • Auditee | Yes | Yes |
| • Shareholders | Yes | Yes |
| • Other third parties | Yes | Unclear. No legal precedence |
| Professional indemnity insurance required | No | No |

67. The following table summarizes liability and sanctions applicable to auditors of publicly listed companies for issuing misleading audit opinions. It reflects the provisions of the 2002 Finance Minister Decree.

Table 10. Auditor Liability and Sanctions as at 30 September 2002

| Mechanism | Liability for Compensation to Injured Parties | Operating Restrictions | Financial Sanctions | Custodial Sanctions | Other Sanctions |
|------------------------------------|---|---|---------------------|---------------------|----------------------------------|
| Finance Minister Decree 2002 | | | | | |
| • Material report differences | ... | License suspension for maximum of 24 months | ... | ... | Other (e.g., must undertake CPE) |
| • Very material report differences | ... | License revocation | ... | ... | ... |

⁵⁰ Palmrose, Zoe-Vonna. 1988. An Analysis of Auditor Litigation and Audit Service Quality. *The Accounting Review*. 63. pp. 55-73.

| Mechanism | Liability for Compensation to Injured Parties | Operating Restrictions | Financial Sanctions | Custodial Sanctions | Other Sanctions |
|---|---|----------------------------------|---|---------------------|-------------------------|
| Bank Indonesia Law (No. 23) 1999 | In association with Civil Code | License suspension or revocation | Fines | ... | Warnings and reprimands |
| Capital Markets Law | In association with Civil Code | License suspension or revocation | <ul style="list-style-type: none"> Maximum IDR500m for non-individuals Maximum IDR100m for individuals⁵¹ | ... | Warnings and reprimands |
| Civil Code (in conjunction with other laws) | Allows class actions to be filed for unlimited compensation | ... | | ... | ... |
| Professional Body (IAI) | ... | License suspension or revocation | Vary | ... | Warnings and reprimands |

10. Accounting and Auditing Firms

68. All the large international accountancy firms are represented in Indonesia. As of 1 August 2001, there were 137 accounting firms registered with *Bapepam* ranging from sole practitioners to the Big Four international firms (see Table 11).

Table 11. Accounting Firms Registered with *Bapepam* at June 2001

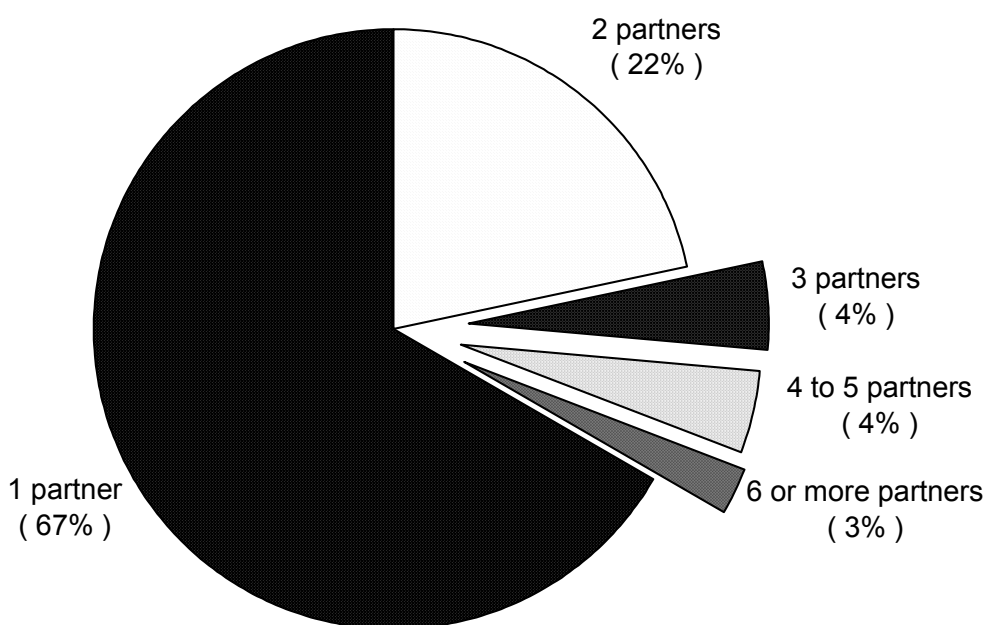
| Type of Firm | Number of Firms | Number of Partners | | |
|--|-----------------|--------------------|---------|---------|
| | | Minimum | Average | Maximum |
| 'Big Five' International Firms (June 2001) | 5 | 4 | 8.8 | 15 |
| Affiliates of Other International Firms | 20 | 1 | 2.1 | 7 |
| Other Firms | 131 | 1 | 1.4 | 4 |
| Total | 156 | 1 | 1.7 | 15 |

Source: www.Bapepam.go.id

⁵¹ President of Indonesia. 1995 November 10. *Regulation Concerning Capital Market Organization No. 45*. Article 64.

69. Most Indonesian accounting firms are very small (see Figure 3).
70. Indonesian accountants may practice as either sole proprietorships or in partnerships. There are essentially three types of partnership: basic, open and limited. The primary legislation dates from the Dutch colonial period and partnerships are still referred to by their Dutch names.⁵²
71. In the basic partnership (*maatschaap*), partners are jointly and severally liable and their liability for the partnership's debts is unlimited. The provisions of the Indonesian Civil Code 1847 govern *maatschaaps*. This type of partnership is most common among professionals, including accountants.
72. Similar to the basic partnership, the partners in an open partnership (*firma*) are jointly and severally liable and their liability for the partnership's debts is unlimited. In addition, each partner has the right to bind the partnership to third parties, unless that right has been specifically denied. This partnership is most commonly used by trading and service enterprises.

Figure 3. Distribution of *Bapepam*-Registered Accounting Firms by Number of Partners (as at June 2001)



Source: Derived from Bapepam data (Source: www.Bapepam.go.id)

⁵² Foo, See Liang. 1997. "Indonesia" in *Financial Reporting in the Pacific Asia Region*, edited by Ronald Ma. Singapore: World Scientific Publishing. pp. 347-364.

73. The third type of partnership is the limited partnership or the *commanditaire vennootschap* (cv). It is similar to the open partnership but permits the admission of silent partners. The *firma* and *cv* are governed primarily by the provisions of the *Commercial Code*.

11. The 2002 Decree on Public Accountant Services

74. Amidst international efforts to strengthen auditing arrangements (see Box 1), on 30 September 2002, the Indonesian Finance Minister signed a Decree on Public Accountant Services.⁵³

⁵³ Finance Minister Decree No. 423/KMK.06/2002. 30 September 2002.

Box 1. Stricter Rules for U.S. Capital Markets

On 30 July 2002, the Public Company Accounting Reform and Investor Protection (Sarbanes-Oxley) Act 2002 was signed into U.S. law. In accordance with the Act:

- The lead audit partner and the reviewing partner must rotate off the audit every five years.
- The General Accounting Office (GAO) will examine and report on the potential effects of mandatory rotation of public accounting firms by July 2003.
- The CEO, Controller and CFO, Chief Accounting Officer may not have been employed by the company's audit firm during the one-year period proceeding the audit.
- Audit committees must be established.
- A Public Company Accounting Oversight Board will be created. Among other things, the Board will: (i) register public accounting firms; (ii) establish auditing, quality control, ethics, independence, and other standards; (iii) conduct inspections of public accounting firms; (iv) conduct investigations and disciplinary proceedings; and (v) impose sanctions on public accounting firms and associated persons. The SEC will appoint the Board's five fulltime members in consultation with the Federal Reserve Chair and the Secretary of the Treasury. Two of the members must be or have been CPAs, and the remaining three must not be and cannot have been CPAs. The Chair may be held by one of the CPA members, if they have not been engaged as a practicing CPA for five years.
- Annual quality reviews (inspections) must be conducted for firms that audit more than 100 companies, all others must be conducted every 3 years.
- CEOs and CFOs must sign a written statement certifying that the financial statements fairly present, in all material respects, the operations and financial condition of the issuer. Fines and imprisonment may be imposed where the report is found misleading or fraudulent.
- GAO will conduct a study regarding the consolidation of public accounting firms since 1989, including the present and future impact of the consolidation, and the solutions to any problems discovered.
- Public accounting firms may not provide the following services to audit clients: (i) bookkeeping or accounting services; (ii) information systems design or implementation; (iii) appraisal or valuation services, fairness opinions, or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser, or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service that the Board determines impermissible.
- Public accounting firms must gain pre-approval from the audit committee before any other non-audit services are provided (e.g., taxation advice).
- Annual reports must contain an "internal control report", which: (i) states that management is responsible for establishing and maintaining adequate internal control structures and procedures for financial reporting; and (ii) assesses the effectiveness of internal control systems. Auditors must attest to, and report on, management's internal control assessment.
- The SEC must examine and report on the adoption of principles-based accounting by July 2003 (see p. 120).

75. This new Finance Minister decree (see Appendix 22):
- Revokes an earlier Finance Minister Decree [63].⁵⁴
 - Tightens public accountant licensing requirements and procedures [2–5, 7–16].
 - Defines attestation services as including general audits, performance audits and special audits [1, 6].
 - Mandates audit partner rotation (three years) and auditing firm rotation (five years) [6].
 - Requires periodical quality reviews of local PA firms that have signed cooperation agreements with foreign firms [17(2)(c)].
 - Specifies supervision and inspection arrangements [18–23].
 - Specifies sanctions for infringements [47–48] (see Table 12).

Table 12. 2002 Finance Minister Decree: Synopsis of Sanctions

| Infringement Type | Sanctions |
|---|---|
| Light Infringement [48(3)] <ul style="list-style-type: none"> • Failure to satisfy relevant laws regarding provision of non-attestation services [6(2)]. • Failure to meet provisions regarding PA Office establishment, organization and operations [7, 11, 15, 16, 17, 38, 39, 40, 41]. • Impeding inspections [21]. • Incorrectly signing attestation report [25, 44]. • Failure to respect prohibitions and obligations regarding PA functions [26, 29, 34]. • Failure to meet continuing professional education (CPE) requirements [28, 54]. • Failure to maintain prescribed records or submit required reports [35, 36, 37, 42]. • Warning sanction from IAI [55(1)(a)]. • Not meeting transitional provisions [59(2-3), 60(d)]. | Warning <ul style="list-style-type: none"> • Maximum of three times within 48 months—fourth warning results in license freeze [49]. • May be publicized [57(2)]. |

⁵⁴ Finance Minister Decree on Public Accountant Services (No. 43/KMK.017/1997) as amended by Finance Minister Decree No. 470/KMK.017/1999.

ACCOUNTING AND AUDITING PRACTICES IN INDONESIA

| Infringement Type | Sanctions |
|---|---|
| Serious Infringement [48(4)] <ul style="list-style-type: none"> • Failure to comply with professional standards or engagement agreement results in material report differences [24]. • Business license freeze [43(4)(a)] • License freeze sanction from IAI [55(1)(b)]. • Failure to adhere to auditor rotation requirements [6(4)]. • Fourth light infringement within 48 months [49(2)]. • Not meeting transitional provisions [59(5-6)]. | License Freeze <ul style="list-style-type: none"> • Maximum of 24 months [50]. • Second infringement results in license revocation [50(3)]. • Business license frozen during license freeze [51]. • Prohibited from rendering attestation and non-attestation services during freeze period [50(1)]. • Must continue to undertake CPE and remains responsible for services that were rendered [54]. • Sanction must be publicized [57(1)]. |
| Very Serious Infringement [48(5)] <ul style="list-style-type: none"> • Failure to comply with professional standards or engagement agreement results in very material report differences [24]. • Business license revocation [43(4)(b-c)]. • Second serious infringement [50(3)]. • Failure to meet licensing or registration requirements [5(1-3), 27, 33(3), 52, 53]. • Dismissal from IAI membership [55(1)(c)]. • Not meeting transitional provisions [58(3)]. | License Revocation <ul style="list-style-type: none"> • Sanction must be publicized [57(1)]. |

III. Professional Infrastructure

This chapter describes Indonesia's professional accountancy infrastructure. Where appropriate, it compares Indonesian arrangements with relevant international standards and guidelines (see Appendix 4). The chapter is structured as follows:

- 1 – Introduction – describes the historical development of Indonesia's accountancy profession.
- 2 – Professional Organization and Regulation – discusses the assignment of professional functions and describes the legislation and organizations that regulate the profession and the professional bodies that represent accountants.
- 3 – Ministry of Finance (MOF) – describes the functions of the Directorate for Supervision of Accountants and Appraisers (*Direktorat Pembinaan Akuntan dan Jasa Penilai, DPAJP*).
- 4 – Indonesian Institute of Accountants (IAI) – examines the structure and activities of *Ikatan Akuntan Indonesia* (IAI), the national professional accountancy organization.
- 5 – Indonesian Accountancy Qualifications – describes and examines the four Indonesian accountancy qualifications.
- 6 – Other Professional Organizations – discusses the activities of related professional associations, such as the Indonesian Chapter of the Institute of Internal Auditors (IIA).
- 7 – The Appraisal (Valuation) Profession – describes the Indonesian appraisal profession and the challenges it faces.
- 8 – Globalization and Liberalization Challenges – describes the challenges posed by liberalization and how the profession is responding to these.
- 9 – Professional Quality Control and Assurance – describes and examines the arrangements and mechanisms that are intended to support professional quality control. These include legislative sanctions against negligent auditors and provisions for civil actions.
- 10 – The Draft Public Accountant (PA) Law – describes development of the draft PA Law.
- 11 – Issue Synopsis: Professional Infrastructure – summarizes the issues identified in this chapter.

1. Introduction⁵⁵

76. There was no domestic accountancy profession until the 1950s—almost all Indonesian accountants were Dutch-trained and professionally qualified. The enactment of the *Accountant Title Law (No. 34) 1954 (Undang-undang Tentang Pemakaian Gelar “Akuntan”)* provided the foundation for training Indonesian accounting graduates, restricted use of the Accountant title, required accountants to register with the Ministry of Finance (MOF) and authorized the Finance Minister to regulate the profession.

77. In 1957, the first group of accounting students graduated from the University of Indonesia. However, local Dutch auditing firms did not recognize their qualifications. Later that year, together with senior Indonesian Dutch-trained accountants, these graduates established the Indonesian Institute of Accountants (*Ikatan Akuntan Indonesia, IAI*) in 1957. Its objectives, among other things, are to promote the status of the accounting profession, support national development and upgrade the skills and competence of accountants.

Table 13. Development of the Indonesian Accountancy Profession

| | |
|-------|---|
| 1954 | Enactment of <i>Accountant Title Law (No. 34) 1954</i> provides the foundation for training Indonesian accounting graduates, restricts use of the Accountant title, requires accountants to register with the MOF and authorizes the Finance Minister to regulate the profession. |
| 1957 | First accounting graduates emerge from the University of Indonesia and, together with senior Dutch-trained accountants, establish the Indonesian Institute of Accountants (IAI). |
| 1960s | Decrease in financial activity reduces demand for accountancy services and impedes the profession's development. |

⁵⁵ Primary Sources:

- Bachtiar, Emil. 2001 August. The Professionalization of Accounting in Indonesia. Paper presented to the Second International Accounting History Conference, Osaka, August 2001.
- Diga, Joselito and Hadori Yunus. 1997. “Accounting in Indonesia” in *Accounting in the Asia-Pacific Region*, edited by Nabil Baydoun, Akira Nishimura and Roger Willet. John Wiley: Singapore. pp. 286-287.
- Foo, See Liang. 1997. “Indonesia” in *Financial Reporting in the Pacific Asia Region*, edited by Ronald Ma. Singapore: World Scientific Publishing. pp. 347-364.
- Siddik, A. F. and H. L. Jensen. 1984. *The Evolution of Accounting in Indonesia*. The Academy of Accounting Historians.
- Yunus, H. 1990. *History of Accounting in Developing Nations: The Case of Indonesia*. Tim Koordinasi Pengembangan Akuntansi, Jakarta.

PROFESSIONAL INFRASTRUCTURE

| | |
|------|---|
| 1967 | In permitting the first partnership between a local KAP and an international KAP, government requires the international KAP to support accountant training and development of the profession. |
| 1971 | Although MOF Decree No. 76/1971 restricts the terms and conditions of partnerships, six major international KAPs establish correspondent firms with Indonesian KAPs between 1971 and 1975. ⁵⁶ |
| 1974 | Indonesian Accountancy Development Foundation (YPIAI) formed to support the profession's development. |
| 1985 | Coordinating Agency for Accountancy Development (TKPA) supersedes YPIAI. Its mission is to develop accounting education, the accounting profession, a set of professional standards and a code of ethics. It eventually closes in 1994 Association of Internal Auditors of State-Owned Enterprises and Local Government SOEs (FKSPI BUMN/BUMD) formed to improve internal auditing practices. |
| 1986 | Finance Minister Decree stipulates requirements for establishing a KAP and legitimizes KAP correspondence relationships with foreign firms (KAPAs). ⁵⁷ |
| 1988 | World Bank-supported <i>Accountancy Development Project</i> begins—it operates until 1994. |
| 1994 | IAI Public Accountants Professional Standards Committee (KSPAP) issues Professional Standards for Public Accountants (SPAPs). |
| 1995 | Second World Bank-supported <i>Accountancy Development Project</i> commences—it closes in 2000. Capital Markets Law (No. 8) 1995 with associated regulations, introduces controls over PAs and KAPs engaged in capital market activities. ASEAN member countries agree to liberalize trade in services and to mutually recognize each other's service suppliers, including accountants. |
| 1997 | International-standard Public Accountant Certification Examination (USAP) introduced. Finance Minister Decree on Public Accountant Services (No. 43/KMK.017/1997) tightens licensure procedures, strengthens oversight and (ostensibly) introduces penalties for erring PAs. PAs must now gain a license to practice, but citizenship requirement is removed. Asian Financial Crisis hits Indonesia hard. Many companies and banks, whose financial statements had been given clean audit opinions, collapse in its wake. |
| 1998 | ADB-supported FGRSDP requires legislation and regulations making: (i) auditors liable for negligence in performing audits; and (ii) directors liable for false information in annual reports and other public information. |
| 1999 | Finance Minister Decree amendment reiterates government-licensing requirement. |

⁵⁶ Diga, Joselito and Hadori Yunus. 1997. "Accounting in Indonesia" in *Accounting in the Asia-Pacific Region*, edited by Nabil Baydoun, Akira Nishimura and Roger Willet. John Wiley: Singapore. pp. 286.

⁵⁷ Finance Minister Decree No. 763/KMK.011/1986 on Public Accountants.

| | |
|------|---|
| 2000 | IAI approves revised Rules of Conduct for Public Accountants. |
| 2001 | MOF-BPKP review finds that ten KAPs violated professional standards in relation to their audits of 38 liquidated banks. Unable to impose sanctions, government issues warning letters. MOF Academic Paper proposes basis for a new Public Accountant Law. MOF assumes responsibility for quality assurance over PAs and KAPs from BPKP. |
| 2002 | IAI considers breaches by ten KAPs. Three are acquitted on all charges, three are ordered to undergo retraining and four are given a strong warning and temporarily barred from auditing banks. |

78. During the 1960s, the decrease in financial activity reduced demand for accountancy services and impeded the profession's development. Changed conditions towards the end of the decade provided renewed impetus for growth. In particular, a Finance Minister Decree made IAI membership compulsory for licensed accountants. In 1973, IAI established the Accountant Examination Norm Committee (*Komite Norma Pemeriksan Akuntan*, KNPA) to support improvements in examinations. The Indonesian Accountancy Development Foundation (*Yayasan Pengembangan Ilmu Akuntansi Indonesia*, YPIAI) was formed in 1974 to support the profession's development through training programs and research activities. The Coordinating Agency for Accountancy Development (*Tim Koordinasi Pengembangan Akuntansi*, TKPA) superseded YPIAI in 1985. IAI and the World Bank supported TKPA's activities until its closure in 1993. Its mission was to develop accounting education, the accounting profession, a set of professional standards and a code of ethics.⁵⁸

79. Further progress was made in the 1990s under the World Bank-sponsored *Accountancy Development Projects*.⁵⁹ Accounting and auditing standards were developed, professional standards were strengthened and the Public Accountant Certification Examination (*Ujian Sertifikasi*

⁵⁸ Deloitte Touche Tohmatsu Emerging Markets Ltd. 2000 May. Indonesian Accounting Standards (PSAK): Recommended Changes in Selected PSAKs for Improving Conformity with the International Accounting Standards. Report Prepared for the Financial Governance Reforms Support Project: Capital Markets Component ADB TA No. 1620-INO. pp. 2-3.

⁵⁹ Accountancy Development Projects:

- World Bank Loan 3801-IND: *Accountancy Development Project II* (1995–2000), for \$25 million approved on 22 September 1994.
- World Bank *Accountancy Development Project I* (1988–1994), for \$113 million, approved on 17 May 1988.

Akuntan Publik, USAP) was introduced. The international-standard USAP has been mandatory for practicing PAs since 1997 (accountants who were already in public practice in 1997 were not required to sit the USAP). The USAP's introduction was supported by a decree that also tightened licensure procedures, strengthened oversight and (ostensibly) introduced penalties for erring PAs.⁶⁰ There are four levels of Indonesian accountants: (i) MOF-registered Accountants; (ii) IAI PA Certificate (*Bersertifikasi Akuntan Publik*, BAP) holders; (iii) MOF PA Certificate holders; and (iv) holders of MOF PA Practicing Licenses.

80. Forty-five years after its foundation, IAI has developed into a nationally respected professional institute. Its 6,000 members—of whom more than 65 percent reside in Jakarta—comprise practicing accountants, management accountants, government accountants and accounting academics.

81. Significant numbers of Indonesian companies and banks—with apparently sound financial positions—collapsed in the 1997-98 Asian financial crisis's wake. Most had received unqualified audit opinions. Subsequent events questioned the legitimacy of these opinions. In June 1998, ADB approved the Financial Governance Reforms Sector Development Program (FGRSDP) to support government efforts to promote and strengthen the governance of the financial and public sectors.⁶¹ Government-agreed FGRSDP policy conditions included enacting legislation and regulations making: (i) auditors liable for negligence in performing audits; and (ii) directors liable for false information in annual reports and other public information.

82. In 2001, the MOF released an *Academic Paper*⁶² that examined issues to be covered by a new Public Accountants (PA) Law. It identified the PA Law's objectives as: (i) protecting the public trust provided to PAs; (ii) providing a better legal framework for the public accountancy profession; and (iii) supporting national economic development and preparing for the liberalization of public accounting services. In

⁶⁰ Finance Minister Decree on Public Accountant Services (No. 43/KMK.017/1997) as amended by Finance Minister Decree No. 470/KMK.017/1999.

⁶¹ The FGRSDP was approved on 25 June 1998 and comprised a program loan for \$1,400 million (Loan No. 1618-INO); a \$3 million equity investment; a \$47 million investment loan (Loan 1619-INO); a \$50 million technical assistance loan to support commercial bank restructuring, governance improvements and institutional strengthening of various government agencies (TA Loan No. 1620-INO).

⁶² Ministry of Finance (MOF). 2001. *Academic Draft: Draft of Public Accountant Law*. MOF: Jakarta.

particular, the *Academic Paper* contended that existing arrangements provided weak support for criminal and civil sanctions against PAs and Public Accounting Firms (*Kantor Akuntan Publik*, KAPs).⁶³ The Government intends to submit the draft PA Law to the state secretariat in 2003.⁶⁴

83. Whatever the case, shortcomings in existing laws and regulations meant that government oversight bodies were unable to sanction seemingly errant auditors. In particular, there is growing consensus that IAI disciplinary arrangements are flawed and need urgent revision. A strong accountancy profession, with regional representation, is essential to Indonesia's development.

84. First, investors and lenders realize that good accounting and auditing standards are worthless when poorly implemented.⁶⁵ It is essential that investors perceive that effective mechanisms exist to ensure that audits are conducted in accordance with auditing standards and ethical rules.

85. Second, decentralization has devolved financial responsibilities to local governments, but there is a shortage of suitably experienced and qualified accountants outside Jakarta.

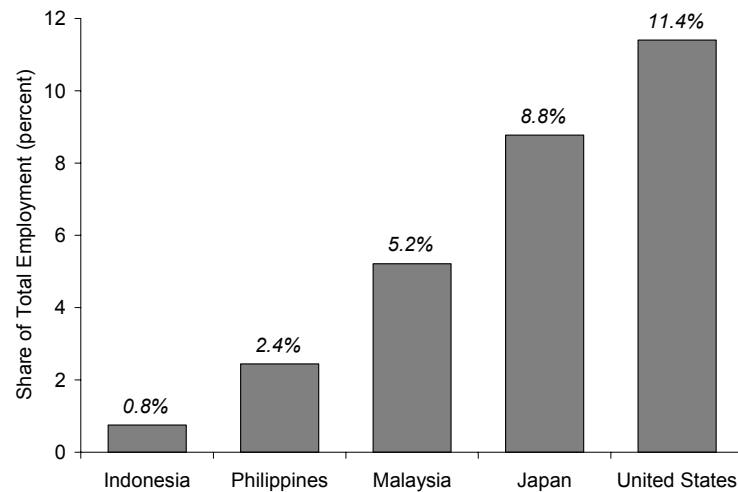
⁶³ *Ibid*, p. 17.

⁶⁴ Although the PA Law had not been enacted, ADB reviewed the FGRSDP policy conditions and, in July 2002, agreed to release the third and final program tranche of \$350 million.

⁶⁵ McKinsey & Company. 2002 July. *Global Investor Opinion Survey: Key Findings*.

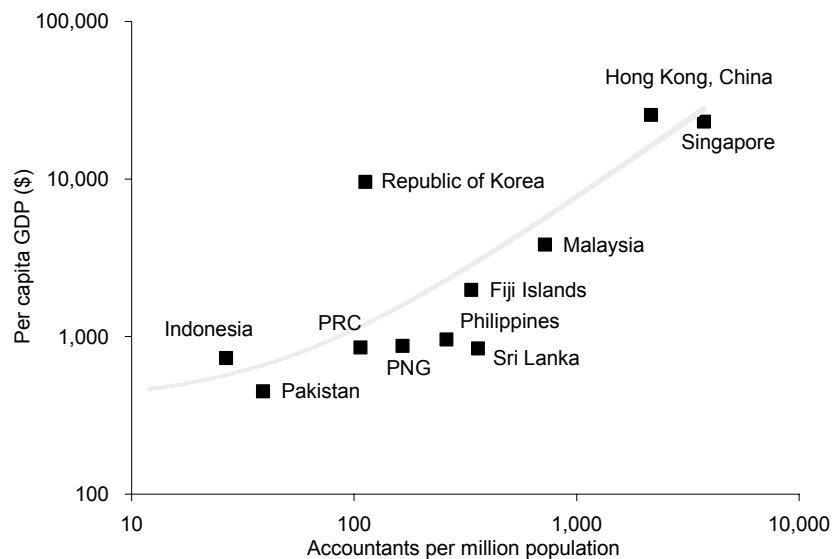
Figure 4. Indonesian Financial Sector Professionals

(a) Indonesia has a relative scarcity of financial sector professionals in general (1997) ...



Employment in Finance, Insurance, Real Estate, and Business Services as a Percentage of Total Employment by Country (1997)⁶⁶

... and (b) comparatively few accountants in particular (2001-02).



Various sources including: ADB. 2001. *Key Indicators of Developing Asian and Pacific Countries. Volume XXXII*. ADB Diagnostic Studies of Accounting and Auditing. Manila: ADB.

⁶⁶ United Nations (UN). 1997. *Statistical Yearbook 1997*. UN: New York. Cited in: Pomerleano, Michael (Lead Financial Specialist, World Bank). 2002 April. Back to the Basics: Critical Financial Sector Professions Required in the Aftermath of an Asset Bubble. *The Appraisal Journal*. pp. 173-181.

86. Third, evidence suggests that the availability of financial sector skills affects the buildup, duration and severity of equity and property bubbles (and restructuring in their aftermath). Countries that have capable professionals—such as accountants, appraisers, analysts and insolvency experts—recognize and respond more swiftly to asset bubbles than countries with limited financial sector skills.^{67, 68} However, Indonesia has a comparative dearth of financial sector professionals, including accountants (see Figure 4).

“Essentially, financial markets with depth and breadth are able to manage crisis better than markets without them. Development of non-bank financial institutions, such as insurance schemes and collective investment instruments, requires a high level of professional expertise. The strong correlation among the base of skills, the growth of non-bank financial intermediation, and the stability of the financial system suggests that poor prevention and weak responses to financial crises are linked to inadequate skills and human capital in the financial services sector.”⁶⁹

2. Professional Organization and Regulation

Introduction

87. Indonesia is reviewing professional arrangements in preparation for the new PA Law (p. 88). This section examines professional organization in general and then describes Indonesian arrangements.

Assignment of Professional and Regulatory Functions

88. Country institutional structures reflect historical and cultural influences. But, given the pace of change in developing and transitional countries, there is seldom time for institutions to develop organically. Therefore, other countries' structures are borrowed.⁷⁰

89. Transitional and developing countries usually assign professional responsibilities to government organizations (such as the Finance

⁶⁷ Allen, Franklin and Douglas Gale. 2000 January. Bubbles and Crises. *Economic Journal*. 110. pp. 236-55.

⁶⁸ Pomerleano, Michael (Lead Financial Specialist, World Bank). 2002 April. Back to the Basics: Critical Financial Sector Professions Required in the Aftermath of an Asset Bubble. *The Appraisal Journal*. pp. 173-181.

⁶⁹ *Ibid.* p. 175.

⁷⁰ Narayan, Francis B., Ted Godden, Barry Reid and Ma. Rosa P. Ortega. 2000. *Financial Management and Governance Issues in Selected Developing Member Countries: A Study of Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan, and Viet Nam*. ADB: Manila.

Ministry). Along with historical reasons, they argue that government action plugs a hole until private sector capacity is developed. But, evidence suggests that this approach impedes the accountancy profession's development.⁷¹

90. Some economies have better professional infrastructures than others because of their legal traditions. Common law countries have independent judges and juries and legal principles supplemented by precedent-setting case law to respond to evolving circumstances (e.g., Malaysia and the U.S.). Civil law countries rely on legal codes containing specific rules (e.g., Indonesia and the Republic of Korea). Consequently, civil law countries are less adept at responding to changing economic and environmental circumstances. Legal traditions affect the development of professions to a remarkable degree.⁷² Indeed researchers have found a robust correlation between the civil law tradition and lack of professions, on one hand, and a supporting and beneficial impact of professions on the rule of law, on the other.⁷³

91. Historical accounting influences also affect professional arrangements, particularly the degree of government involvement (see Table 14).

Table 14. Accounting Practices Classified by Country Grouping

| Accounting System | Accounting Model | Features | Countries |
|----------------------------|----------------------|--|--|
| Standards Based Accounting | British Commonwealth | <ul style="list-style-type: none"> • Commercially driven • Overriding rule is that financial statements show a 'fair' picture. • Accounting practices reflect, and develop with, business practices • Professional regulation dominates. | Australia, Bahamas, Ireland, Fiji Islands, India, Jamaica, Kenya, Malaysia, Netherlands, New Zealand, Pakistan, Papua New Guinea, Zimbabwe, Singapore, South Africa, Sri Lanka, Trinidad & Tobago, United Kingdom. |

⁷¹ See, for instance, Armstrong, Mikael and Katerina Hellström. 1998 April. *A Case Study of the Czech Republic*. Stockholm School of Economics: Paper presented at 21st EAA Congress: Accounting in Times of Transition. Antwerp.

⁷² Pomerleano, Michael (Lead Financial Specialist, World Bank). 2002 April. Back to the Basics: Critical Financial Sector Professions Required in the Aftermath of an Asset Bubble. *The Appraisal Journal*. pp. 173-181.

⁷³ La Porta, Rafael, Florencio López-de-Silanes, Andrei Shleifer and Robert W. Vishny. 1998. Law and Finance. *Journal of Political Economy*. Vol. 106(6). pp. 1113-1155.

ACCOUNTING AND AUDITING PRACTICES IN INDONESIA

| Accounting System | Accounting Model | Features | Countries |
|--------------------------|----------------------|---|---|
| Uniform Accounting Plans | United States | <ul style="list-style-type: none"> • Same as British Commonwealth Model except that professional regulation coexists with government regulation. | Canada, Indonesia , Japan, Republic of the Marshall Islands, Mexico, Panama, Philippines, United States. |
| | Soviet Union | <ul style="list-style-type: none"> • Government driven • Dominated by statistics and taxation requirements • Accounting practices are statute-based • Accountancy profession not required | Azerbaijan, People's Republic of China, Mongolia, Russia, Uzbekistan. |
| | Continental European | <ul style="list-style-type: none"> • Government driven • Dominated by taxation requirements • Accounting practices are statute-based | Belgium, Cambodia, France, Germany, Italy, Spain, Sweden, Switzerland, Viet Nam, Venezuela. |
| | Latin American | <ul style="list-style-type: none"> • "Castilian model" • Very similar to continental European model. | Argentina, Bolivia, Chile, Colombia, Ethiopia, Paraguay, Peru, Uruguay. |

Source: Modified from, Nobes, Christopher and Robert Parker. 1995.
Comparative International Accounting: Fourth Edition: Prentice Hall. p. 67.

92. Table 15 considers professional and regulatory assignments. It compares full government regulation with full professional delegation. In practice most countries have, or are moving towards, a mixed approach with regulated semiautonomous bodies coexisting with independent professional associations.

Table 15. Assignment of Professional and Regulatory Activities

| Activity | Objectives and Issues | Comparison of Arrangements | |
|--------------------------|--|---|--|
| | | Government | Professional Body |
| Accountant Certification | Involves setting certification criteria, preparing examinations, conducting examinations, grading examinations, evaluating practical experience and approving qualifications. Institutional arrangements should support high certification standards. The process offers rent-seeking opportunities. | <ul style="list-style-type: none"> ▪ May lack capability ▪ Rent-seeking activities may undermine quality | <ul style="list-style-type: none"> ▪ Has powerful incentives to support high certification standards ▪ Being closer to the market, is more likely to be responsive to employer needs |
| Auditor Licensing | For countries that license auditors, the process involves: setting criteria, examining applications and approving applications. The process offers rent-seeking opportunities. Arrangements should support high standards. | <ul style="list-style-type: none"> ▪ Has legislative power ▪ May lack capability ▪ Rent-seeking activities may undermine quality | <ul style="list-style-type: none"> ▪ Has powerful incentives to support high licensing standards ▪ Larger firms may dominate process |

ACCOUNTING AND AUDITING PRACTICES IN INDONESIA

| Activity | Objectives and Issues | Comparison of Arrangements | |
|---|--|---|---|
| | | Government | Professional Body |
| Professional Standard Setting | Professional standards generally comprise an Ethical Code and Professional Rules of Conduct. Although these standards are largely internationally harmonized, individual countries may tighten rules or incorporate legal references. Conversely, other countries may dilute standards to reduce auditor exposure to sanctions and liability. | <ul style="list-style-type: none"> ▪ Has legislative power ▪ May lack capability ▪ May be less responsive to international changes | <ul style="list-style-type: none"> ▪ Has capability and understanding ▪ Internal lobby groups may dilute provisions |
| Enforcement and Sanctions: Public Accountant Negligence ⁷⁴ | Accounting and auditing standards and disclosure requirements have little value when they are not backed by appropriate compliance sanctions. Possible sanctions include warnings, public reprimands, license suspension, license revocation, administrative penalties, criminal penalties or civil litigation. But in developing or transition economies, judicial inadequacies often render the civil liability deterrent ineffective. | <ul style="list-style-type: none"> ▪ Has legislative power ▪ May lack capability ▪ Rent-seeking activities may undermine effectiveness | <ul style="list-style-type: none"> ▪ May lack legislative support ▪ Professional bodies tend to be reticent to punish public accountant firms |
| Quality Control over Public Accounting Firms | Involves adopting or developing quality control standards and relevant guidance that require firms of practicing accountants to establish the quality control policies and procedures necessary to provide reasonable assurance of conforming with professional standards in performing services. | <ul style="list-style-type: none"> ▪ Has legislative power ▪ May lack capability ▪ Rent-seeking activities may undermine effectiveness | <ul style="list-style-type: none"> ▪ Has capability and understanding ▪ May lack a power basis for discharging function |

⁷⁴ Most countries assign other disciplinary enforcement (e.g., advertising breaches) to professional bodies.

PROFESSIONAL INFRASTRUCTURE

| Activity | Objectives and Issues | Comparison of Arrangements | |
|-----------------------------|--|--|--|
| | | Government | Professional Body |
| Accounting Standard Setting | The standard-setting process should be transparent, orderly and inclusive. Most importantly, financial statement users should be well represented. The adoption of IASs lessens the process's complexity. | <ul style="list-style-type: none"> ▪ Has legislative power ▪ May lack capability | <ul style="list-style-type: none"> ▪ Has capability ▪ May lack power ▪ May be biased towards financial statement preparers and auditors |
| Auditing Standard Setting | The standard-setting process should be transparent, orderly and inclusive. The standards should provide a sound basis for civil or administrative sanctions—auditors have powerful incentives to support weak auditing standards, thereby reducing potential liabilities. ⁷⁵ The direct adoption of ISAs lessens these risks. | <ul style="list-style-type: none"> ▪ Has legislative power ▪ May lack capability | <ul style="list-style-type: none"> ▪ Has capability ▪ Auditors have powerful incentives to support weak auditing standards, thereby reducing potential liabilities |

Indonesian Professional Organization and Regulation

93. The Indonesian accountancy profession is largely self-regulated. IAI undertakes certification, standard setting, quality assurance and disciplinary activities. Table 16 summarizes the regulation and organization of the accountancy profession. Importantly, on 30 September 2002, the Finance Minister signed a new decree on public accountant services.⁷⁶ The following sections provide further information on governing legislation, and the mandate and activities of the MOF and IAI.

⁷⁵ During the 2000 US election cycle (in the period to 30 June 2000) the US accountancy profession gave \$10.4 million in campaign contributions to House, Senate and Presidential candidates. Major contributors included AICPA (\$0.7 million), Andersen Worldwide (\$1.5 million), Deloitte & Touche (\$1.4 million), Ernst & Young (\$2.2 million), KPMG (\$1.0 million) and PricewaterhouseCoopers (\$1.4 million). Source: BusinessWeek. 2000 September 25. Accounting Wars: Powerful Auditor-Consultants are the Targets of Arthur Levitt's Crusade. Magazine Article.

⁷⁶ Finance Minister Decree No. 423/KMK.06/2002. 30 September 2002.

Table 16. Regulation and Organization of the Accountancy Profession

| | |
|--------------------------------|--|
| Governing Laws and Regulations | <ul style="list-style-type: none"> ▪ The <i>Accountant Title Law (No. 34) 1954</i> restricts use of the Accountant title and provides for the Finance Minister to regulate the profession. ▪ The <i>Capital Markets Law (No. 8) 1995</i> regulates the activities of PAs that support the capital markets. It is supported by several implementing regulations, in particular, the <i>Rules for the Registration of Public Accountants 1996</i>. ▪ The <i>Finance Minister Decree on Public Accountant Services No. 43/KMK.017/1997</i>⁷⁷ details licensing requirements and organizational structures. ▪ Several laws require financial statements to be audited by PAs. These include the <i>Law on Limited Liability Companies (No.1) 1995</i> (PT Law 1995), <i>Banking Law (No. 7) 1992</i>, <i>Law on Pension Funds (No. 11) 1992</i>, and the <i>Capital Markets Law (No. 8) 1995</i>. |
| Regulatory Bodies | <ul style="list-style-type: none"> ▪ DPAJP (MOF) supervises PAs and KAPs (About 31,000 Accountants were registered with DPAJP at July 2002). This involves licensing the profession, ensuring adequate professional standards are in place, policing the standards and developing the profession. DPAJP also supervises the appraisal (valuation) profession. ▪ <i>Bapepam</i> registers and supervises PAs and KAPs engaged in capital market activities (As of August 2001, 137 KAPs were registered with <i>Bapepam</i>, allowing them to provide services to capital market participants, see page 41). However, the Financial Services Authority (<i>Otorita Jasa Keuangan, OJK</i>) will assume these functions (once operational). ▪ Bank Indonesia (BI) registers KAPs for financial sector audits and supervises their activities. However, OJK will assume these functions (once operational). ▪ The National Accreditation Agency (<i>Badan Akreditasi Nasional, BAN</i>) accredits accountancy programs at state universities. |
| Professional Associations | <ul style="list-style-type: none"> ▪ IAI is Indonesia's primary professional accountancy body. Its 6,000 members comprise public sector accountants (35 percent), public accountants (25 percent), management accountants (20 percent), academic accountants (5 percent) and other accountants (15 percent). ▪ IAI is involved in accounting and auditing standard setting, certification, ethics and discipline, and Continuing Professional Education (CPE). |

⁷⁷ As revised by the Finance Minister Decree No. 470/KMK.017/1999 Concerning Changes in Finance Minister Decree 43/KMK.017/1997.

-
- Other related professional bodies exist. Of these, the internal auditors' institutes and the Indonesian Society of Appraisers (*Masyarakat Profesi Penilai Indonesia, MAPPI*) are particularly important.
-

Governing Laws and Regulations

94. This subsection describes the key legislation that governs the accountancy profession. Most of the substance is contained in lowly-ranking ministerial decrees.⁷⁸ However a new Public Accountant (PA) Law is being drafted (see page 88).

95. The Accountant Title Law (No. 34) 1954 allows only those who have accepted qualifications to call themselves accountants (see Appendix 13).⁷⁹ Furthermore the law:

- Establishes the Expert Committee (*Panitia Ahli*) whose organizational structure and procedures are determined by the Education and Finance Ministers. The Finance Minister may assign other tasks to the Committee relating to the regulation, management or development of accountancy. The Committee comprises accounting academics from the Universities of Indonesia and Gajah Mada.
- Requires accountants to either: (i) complete an accepted academic degree at a government-recognized university; or (ii) complete other Committee-approved examinations.
- Stipulates that accountants' details must be recorded in the MOF State Register of Accountants (*Register Negara*).
- Requires that KAP heads hold the Accountant title—violations are punishable by two months imprisonment or a maximum fine of Rp 10,000 (\$1.15).
- Implicitly bars accountants from practicing as limited liability companies.

96. The Capital Markets Law (No. 8) 1995 regulates the activities of PAs that support the capital markets (see Appendix 14). In particular, this law:

⁷⁸ The legal hierarchy is: (i) 1945 Constitution; (ii) laws; (iii) government regulation in place of law (*Perpu*); (iv) government regulation (PP); (v) presidential decrees; and (vi) ministerial decrees.

⁷⁹ However, employees of the State Accounting Office and the Directorate General of Taxation are exempted from the law (due to conflicts with rules and regulations governing wages and salaries, which designates their positions as tax accountants, assistant accountants, etc).

- Identifies PAs and KAPs as capital market-supporting professionals who must register with *Bapepam* before engaging in capital market activities (Article 64).
- Requires that PAs have a valid professional license (Article 64) and comply with their professional association's ethical code and professional standards, as long as those standards do not conflict with the law or its implementing regulations (Article 66).
- Allows *Bapepam* to impose administrative sanctions against *Bapepam*-registered PAs for violations of the law or its implementing regulations (Chapter XIV).
- Allows criminal penalties to be imposed on unregistered PAs—up to five years imprisonment and maximum fines of Rp 5 billion (\$620,000)(Article 103).
- Stipulates that persons who suffer losses arising from violations may sue responsible PAs and KAPs for compensation (Article 111).

97. *Bapepam Implementing Regulations* apply to *Bapepam*-registered PAs engaged in capital market activities. These regulations were issued in accordance with the *Capital Markets Law (No. 8) 1995* and include the *Rules for the Registration of Public Accountants (Kep-37/PM/1996)* require PAs to: (i) undertake Continuing Professional Education (CPE); and (ii) comply with the PA *Professional Standards (SPAPs)* and *Code of Ethics*. This rule also prescribes KAP structures and requires that they be subject to IAI external quality control reviews (see Appendix 15).

98. Before 1997, licensed PAs were automatically entitled to run KAPs. In keeping with new *Bapepam* regulations, in January 1997, the *Finance Minister Decree on Public Accountant Services (No. 43/KMK.017/1997)* required PAs to obtain a license to run a KAP. Moreover, the Decree tightened licensing criteria by requiring PAs to: (i) be domiciled in Indonesia; (ii) pass the IAI certification exam; (iii) be an IAI member; and (iv) have at least three years relevant practical experience. Furthermore, the Decree required that KAPs must be headed by licensed PAs and employ at least three auditors.⁸⁰ The 1999 amendment of this Decree was minor in that it reiterated the government-licensing requirement.⁸¹

⁸⁰ Bachtiar, Emil. 2001 August. The Professionalization of Accounting in Indonesia. Paper presented to the Second International Accounting History Conference, Osaka, August 2001.

⁸¹ *Finance Minister Decree No. 470/KMK.017/1999 Concerning Changes in Finance Minister Decree 43/KMK.017/1997.*

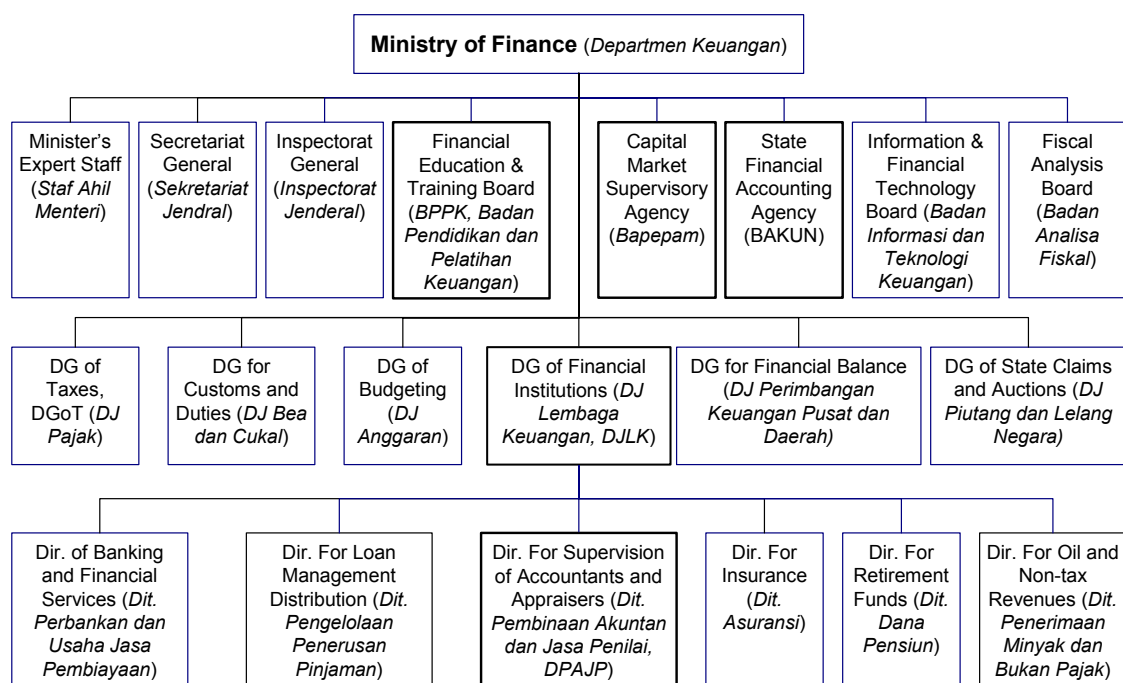
99. On 30 September 2002, the Indonesian Finance Minister signed a Decree on Public Accountant Services. Among other things, the new decree reflects international trends and: (i) tightens public accountant licensing requirements and procedures; (ii) mandates audit partner rotation (three years) and auditing firm rotation (five years); (iii) requires periodical quality reviews of local public accountant firms that have signed cooperation agreements with foreign firms; (iv) specifies supervision and inspection arrangements; and (v) specifies sanctions for infringements. The Decree is presented in Appendix 22.

3. Ministry of Finance (MOF)

100. The MOF comprises *Bapepam*, DGoT and the Directorate General for Financial Institutions (*Direktorat Jenderal Lembaga Keuangan, DJLK*) (see Figure 5). DJLK administers applicable legislation⁸² and formulates and implements policies based on laws, implementing regulations and Finance Minister policies. It also develops standards, norms, guidelines, criteria and procedures in relation to its responsibilities. Furthermore, DJLK develops technical guidance for, and conducts evaluations of, organizations and professions under its oversight.

⁸² Accountant Title Law (No. 34) 1954 and Finance Minister Decree on Public Accountant Services No. 43/KMK.017/1997.

Figure 5. MOF Organizational Structure



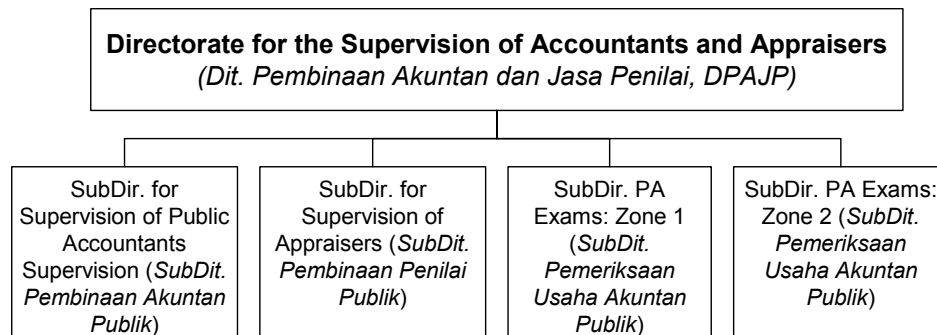
Sources: MOF, Gold Group Asia-Pacific Ltd. 2002. *Indonesian Governments Guide* 2002. pp. 134-140.

101. The Directorate for Supervision of Accountants and Appraisers (*Direktorat Pembinaan Akuntan dan Jasa Penilai, DPAJP*) within DJLK supervises PAs and KAPs (see Figure 6). This involves licensing the profession, ensuring adequate professional standards are in place, policing the standards and developing the profession. DPAJP is also responsible for the appraisal (valuation) profession (see page 79).

102. On 1 January 2001, DPAJP assumed responsibility for reviewing KAPs (from BPKP). It is developing its capacity and procedures (e.g., human resources and standard operating procedures) to undertake this important responsibility.⁸³ At July 2002, 31,000 accountants were registered with MOF (*Register Negara*).

⁸³ AusAID is supporting these activities through the Technical Assistance Management Facility II (TAMF II) Project.

Figure 6. DPAJP Organizational Structure



Sources: MOF, Gold Group Asia-Pacific Ltd. 2002. *Indonesian Governments Guide* 2002. pp. 134-140.

4. Indonesian Institute of Accountants (IAI)

Introduction

103. Before 1957, accountants were without local professional representation. In 1957, in accordance with the *Accountant Title Law* (No. 34) 1954), the first group of accounting students graduated from the University of Indonesia. But Dutch professional organizations did not recognize their qualifications and they could not sign audit reports for Dutch auditing firms.⁸⁴ Together with senior Indonesian Dutch-trained accountants, these graduates established IAI in 1957. Professor Soemardjo Tjitrosidojo, a Dutch-trained academic, was the Institute's first Chair.⁸⁵

104. IAI's professionalization efforts gathered pace following its first convention in 1969. In particular, a Finance Minister Decree made membership compulsory for licensed accountants and, in 1973, the Institute established the Accountant Examination Norm Committee (*Komite Norma Pemeriksman Akuntan, KNPA*).⁸⁶ The Institute's objectives, among other things, are to promote the status of the accounting profession, support national development and upgrade the skills and competence of accountants.

⁸⁴ Akuntansi. 1989 January. *Lambat tapi Pasti* (Slowly but Surely): An Interview with Drs. Hendra Darmawan. Magazine Article.

⁸⁵ Yunus, H. 1990. History of Accounting in Developing Nations: The Case of Indonesia. Tim Koordinasi Pengembangan Akuntansi, Jakarta.

⁸⁶ Bachtiar, Emil. 2001 August. The Professionalization of Accounting in Indonesia. Paper presented to the Second International Accounting History Conference, Osaka, August 2001.

105. Forty-five years after its foundation, IAI has developed into a nationally-respected professional institute, with 6,000 members in 20 branches nationwide.⁸⁷ Its membership comprises public accountants, management accountants, government accountants and academics.

IAI Organizational Structure⁸⁸

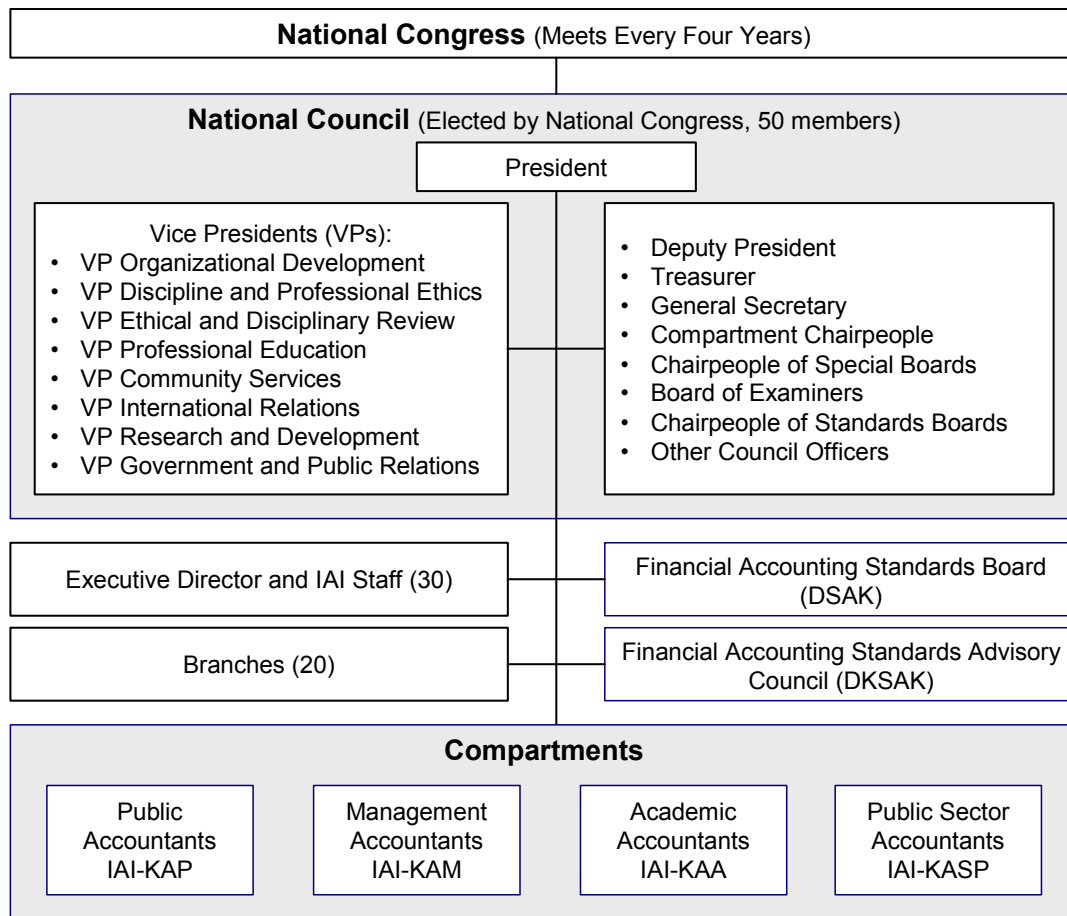
106. The IAI Congress convenes every four years. It elects the National Council, which comprises about 150 members and is led by the Institute President. The Institute has four compartments and two boards (see Figure 7). An Executive Director heads the Institute's fulltime staff of about 30 people. The four compartments are:

- Academic Accountants Compartment (IAI-KAA) The IAI-KAA (*IAI Kompartemen Akuntan Akademik*) advises on improvements to academic curricula. It also prepares the curricula for the USAP exam and CPE requirements.
- Management Accountants Compartment (IAI-KAM) IAI-KAM (*Kompartemen Akuntan Manajemen*) prepares and implements proposals regarding management accountant standards of competency. IAI-KAM is also considering developing qualifications for management and commercial accountants.
- Public Accountants Compartment (IAI-KAP) IAI-KAP (*Kompartemen Akuntan Publik*) regulates KAP licensing, sets professional standards, reviews disciplinary breaches and imposes sanctions.
- Public Sector Accountants Compartment (IAI-KASP) IAI-KASP (*IAI Kompartemen Akuntan Sektor Publik*) promulgates EDs for public sector accounting standards and financial reporting requirements.

⁸⁷ www.akuntan-iai.or.id

⁸⁸ Primary source: www.akuntan-iai.or.id

Figure 7. IAI Structure



Source: Modified from IAI materials (2002).

IAI Activities⁸⁹

107. The Institute undertakes the following activities:

- (i) **Standard Setting.** IAI is committed to international harmonization. It develops and promulgates accounting standards, auditing standards, attestation standards, accounting and review services standards, quality control standards and consulting services standards.
- (ii) **Training.** Practicing PAs must undertake a minimum of 30 Continuing Professional Education (CPE) hours per annum and 120 CPE hours over every three-year period. IAI conducts two to

⁸⁹ Primary source: www.akuntan-iai.or.id

- three CPE courses each week, comprising seminars and workshops. These events are open to the public.
- (iii) Public Accountant Certification Exam (USAP). IAI administers the Public Accountant Certification exam twice annually, in Jakarta and Surabaya.
 - (iv) Publication. IAI publishes *Media Akuntansi* (the journal for the accounting profession), and technical journals including: *Jurnal Riset Akuntansi Indonesia* (Accounting Research Journal); and *Jurnal Riset Akuntansi Sektor Publik* (Public Sector Accounting Research Journal).
 - (v) Training and Consulting Services. IAI provides training and consulting services to small businesses.
 - (vi) Political Lobbying. From time to time, IAI lobbies government on matters of interest to the profession and the public.

IAI Membership Composition

108. IAI bylaws classify members into three types: (i) *Regular Members* are those who hold the MOF Accountant title; (ii) *Non-regular Members* are those who have completed their *Sarjana Strata Satu* (S1) economics degree with an accounting major. Organizations or individuals that use the accounting profession's services may also qualify as non-regular members; and (iii) *Honorary memberships* may be granted to Indonesian citizens that have made significant contributions to the accounting profession's development.

109. Most IAI members reside in major cities (more than 65 percent live in Jakarta). IAI's 6,000 members comprise public sector accountants (35 percent), public accountants (25 percent), management accountants (20 percent), academic accountants (5 percent) and other accountants (15 percent).

Affiliations

110. IAI is a member of the ASEAN Federation of Accountants (AFA), IASC and IFAC. It has memorandums of understanding with the Institute of Chartered Accountants in Australia (ICAA) and CPA Australia. IAI withdrew from the Confederation of Asian and Pacific Accountants (CAPA) in 1999 due to financial constraints.⁹⁰

⁹⁰ Narayan, Francis B. 2000 May 15. Back-to-Office Report of Mission to Laos, Viet Nam, Cambodia and Indonesia. ADB: Manila.

Resources and Financing

III. Table 17 summarizes IAI's financial performance for the past two years and reveals that the Institute relies heavily on income from commercial activities (e.g., training and publications) rather than membership fees. IAI faces three significant challenges in relation to membership fees. First, IAI's decentralization of billing responsibilities to branch offices has hampered billing procedures (i.e., some members are not billed). Second, IAI members are not good at paying their dues. Third, less than one-fifth of registered accountants are IAI members. Nevertheless, Table 17 reveals reasonably healthy financial performance.

Table 17. IAI Revenues and Expenses

| Item | Year Ended 30 June 2001 | | | | |
|-----------------------------|-------------------------|-------|-----------|-------|-----------------------|
| | Revenues | | Expenses | | Surplus/ (Deficit) |
| Indonesian Rupiah | (Rp 000) | % | (Rp 000) | % | (Rp 000) |
| <i>Non-Restricted Fund:</i> | | | | | |
| Membership Fees | 647,270 | 15.9 | 457,199 | 14.8 | 190,071 |
| CPE Training Courses | 1,201,052 | 29.5 | 527,141 | 17.1 | 673,911 |
| IAI Special Events | 106,321 | 2.6 | 221,156 | 7.2 | (114,835) |
| Other | 592,766 | 14.6 | .. | .. | 592,766 |
| Professional Training | .. | .. | 4,742 | 0.2 | (4,742) |
| Administration | .. | .. | 882,198 | 28.5 | (882,198) |
| Jakarta Initiative | 105,752 | 2.6 | 11,741 | 0.4 | 94,011 |
| <i>Restricted Fund:</i> | | | | | |
| USAP Fees | 410,588 | 10.1 | 373,628 | 12.1 | 36,960 |
| Publication Sales | 947,923 | 23.3 | 524,085 | 17.0 | 423,838 |
| SME Clinics | 8,450 | 0.2 | 57,966 | 1.9 | (49,516) |
| Donations | 45,006 | 1.1 | 30,160 | 1.0 | 14,846 |
| | 4,065,128 | 100.0 | 3,090,016 | 100.0 | 975,112 |
| U.S. Dollars | U.S.\$ | % | U.S.\$ | % | U.S.\$ |
| <i>Non-Restricted Fund:</i> | | | | | |
| Membership Fees | 72,727 | 15.9 | 51,371 | 14.8 | 21,356 |
| CPE Training Courses | 134,950 | 29.5 | 59,229 | 17.1 | 75,721 |
| IAI Special Events | 11,946 | 2.6 | 24,849 | 7.2 | (12,903) |
| Other | 66,603 | 14.6 | .. | .. | 66,603 |
| Professional Training | .. | .. | 533 | 0.2 | (533) |
| Administration | .. | .. | 99,123 | 28.5 | (99,123) |
| Jakarta Initiative | 11,882 | 2.6 | 1,319 | 0.4 | 10,563 |
| <i>Restricted Fund:</i> | | | | | |
| USAP Fees | 46,133 | 10.1 | 41,981 | 12.1 | 4,152 |
| Publication Sales | 106,508 | 23.3 | 58,886 | 17.0 | 47,622 |
| SME Clinics | 949 | 0.2 | 6,513 | 1.9 | (5,564) |
| Donations | 5,057 | 1.1 | 3,389 | 1.0 | 1,668 |
| | 456,755 | 100.0 | 347,193 | 100.0 | 109,562 |

Note: IRP-USD conversion at 8,900.

Source: IAI. 2001. *IAI Financial Statements for the Year Ended 30 June 2001*. Jakarta.

Issues and Challenges

112. IAI faces significant challenges. First, less than 20 percent of the 31,000 registered accountants are IAI members. Second, the Institute's disciplinary procedures are being criticized as inappropriate and ineffective (see Box 2, p. 84). Third, IAI membership is highly concentrated in Jakarta. Although there are 20 branches nationwide, most are inactive. Fourth, although members are required to pay annual dues, they seldom do.⁹¹ Fifth, the proposed PA Law will potentially lead to significant professional restructuring. Sixth, liberalization commitments require efforts to strike mutual recognition agreements (MRAs) that in turn require maintenance of professional standards (see page 81). Seventh, IAI wishes to further strengthen certification requirements (i.e., curriculum, examination and practical experience requirements).

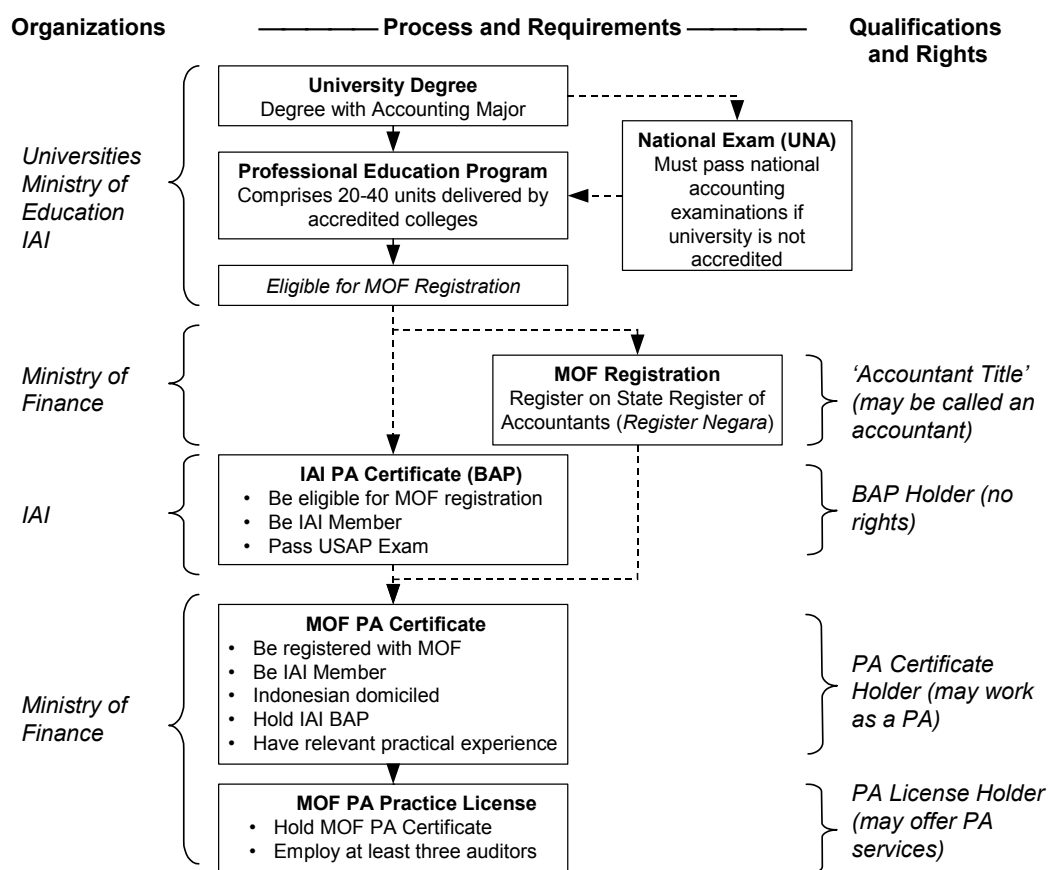
5. Indonesian Accountancy Qualifications

Introduction

113. Before the *Accountant Title Law (No. 34) 1954*, there were no restrictions on using the Accountant title. Figure 8 describes Indonesian accountancy qualifications. This section examines these qualifications and compares them to international norms.

⁹¹ Narayan, Francis B. 2000 May 15. Back-to-Office Report of Mission to Laos, Viet Nam, Cambodia and Indonesia. ADB: Manila.

Figure 8. Indonesian Accountancy Qualifications



University Accountancy Qualification

114. In accordance with the *Accountant Title Law* (No. 34) 1954, accountants must first complete an accredited economics degree (*Sarjana Strata Satu, S1*) majoring in accounting. Seventeen universities are currently accredited to offer these degrees.

115. The Directorate General of Higher Education (*Direktorat Jenderal Pendidikan Tinggi, DIKTI*), within the Ministry of National Education (*Departemen Pendidikan Nasional, DPN*), is responsible for higher education, including quality assurance. In 1995, DPN established the National Accreditation Agency (*Badan Akreditasi Nasional, BAN*) to act as an accreditation board and a quality assurance agency to maintain high

teaching and research standards.⁹² BAN accredits study programs into four categories: A (excellent), B (good), C (average) and D (poor).

116. IAI must first recommend universities to offer accountancy programs before BAN considers accrediting them. Graduates from unaccredited universities must pass the national accounting examinations (*Ujian Nasional Akuntansi, UNA 1 dan 2*). These were developed under the World Bank-supported Accountancy Development Project II.

Professional Education Program

117. A 1999 decision to implement professional accountancy education aims to improve accountancy education standards and the accreditation program.⁹³ ADB is supporting its implementation through the *Technological and Professional Skills Development Sector Project* (2000–2006).⁹⁴

118. Accounting graduates who have completed 144 credit units must complete the Professional Education Program, before they can register with DPAJP and use the Accountant title. Accredited colleges deliver the Professional Education Program, which comprises 20–40 credit units.

MOF Registration

119. Accountant title users must: (i) have either completed an accredited *S1* accountancy degree, or passed the national accounting examinations (UNA 1 and 2); (ii) have completed the Professional Education Program; and (iii) be registered with DPAJP (*Register Negara*). At July 2002, 31,000 Accountants were registered with DPAJP.

IAI PA Certificate (BAP)

120. IAI may issue the Public Accountant Certificate (*Bersertifikasi Akuntan Publik, BAP*) to people who: (i) are IAI members; (ii) are eligible to hold the Accountant title; and (iii) have passed the Public Accountant Certification Examination (USAP).

121. The USAP was introduced in 1997. Accountants who were already in public practice before then did not have to sit the USAP. It was

⁹² Assisted under ADB Loan 1253-INO: *Higher Education Project*, for \$140.0 million, approved on 21 September 1993 and completed in March 2000.

⁹³ Ministry of Education and Culture (MOEC) Decision Letter No. 56), *On the Regulation of Professional Education for Accountants*, dated 31 March 1999.

⁹⁴ Loan 1792-INO: *Technological and Professional Skills Development Sector*, for \$180 million, approved on 29 November 2000.

developed with World Bank assistance in line with IFAC guidance and international norms (USAP is based on the Australian, Canadian and U.S. CPA exams).⁹⁵

122. IAI administers the USAP twice annually (in March and November) in two examination centers (Jakarta and Surabaya). It comprises five subjects: accounting theory and practice, auditing and other professional services, management accounting and financial management, taxation and commercial laws, and accounting information systems. The exam is very competitive; fewer than 10% of candidates pass all five subjects in one sitting.⁹⁶ In contrast to most other countries, no examination exemptions (cross-credits) are allowed.

123. USAP candidates must be: (i) IAI members; and (ii) eligible for the accountant title. This study revealed no indications of 'leakage' (for instance, DPAJP has received no complaints in this regard). Although, the BAP gives no special rights, larger KAPs generally require staff to complete the USAP.

124. To retain the BAP, holders must undertake a minimum of 30 CPE credit units per annum and 120 CPE credit units over each three-year period. IAI conducts CPE seminars, workshops and training sessions.

MOF PA Certificate⁹⁷

125. DPAJP may issue a PA Certificate to people who: (i) are on the State Register of Accountants; (ii) are domiciled in Indonesia; (iii) hold the IAI-issued BAP; (iv) are IAI members; and (v) have at least 3,000 hours relevant practical experience.

126. In addition to general audit experience with a KAP or state audit agency, the practical experience must include at least one year supervising general audit assignments. The certificate is valid for life.

MOF PA Practice License⁹⁸

127. MOF PA Certificate holders may not offer PA services without first obtaining the DPAJP-issued PA Practice License. DPAJP may issue a PA Practice License to those who: (i) hold the MOF PA Certificate; and (ii)

⁹⁵ World Bank Loan 3801-IND: *Accountancy Development Project II* (1995–2000), for \$25 million approved on 22 September 1994.

⁹⁶ Source: www.akuntan-iai.or.id

⁹⁷ *Finance Minister Decree on Public Accountant Services* (No. 43/KMK.017/1997) as amended by *Finance Minister Decree No. 470/KMK.017/1999*.

⁹⁸ *Ibid.*

employ at least three MOF PA Certificate holders. The license is valid for life and is free of charge.

International Comparison

128. IFAC-issued International Education Standards (IESs) and International Education Guidelines (IEGs) address pre-qualification education of professional accountants and continuing professional development. Appendix 4 describes the international guidelines for accountancy qualifications. Moreover, IFAC recently released new IES and IEG exposure drafts (EDs) for public comment (see Appendix 5).

129. Table 18 shows that the Indonesian MOF PA Certificate meets international guidelines and compares favorably with the qualifications of selected countries.

Table 18. Comparison of Public Accountant Qualifications

| Requirement | International | Indonesia | California (U.S.) | Philippines |
|-------------|---|---|---|--|
| Education | Recognized education program (IFAC: IEG 9, Para 26). | ✓ Accredited accounting degree supplemented by a university-based professional education program (pp. 72-73). | ✓ Core course comprising 45 semester units of accounting, auditing or business-related subjects (a variety of other qualifications are accepted). | ✓ A revised curriculum for the Bachelor of Science in Accountancy, which reflects IEG 9 requirements, is being introduced. |
| Examination | Yes, a significant portion of responses must be written (IFAC: IEG 9, Para 44). | ✓ Yes. Developed in line with IFAC Guidelines (p. 73). | ✓ Yes. | ✓ / ✗ Multiple-choice questions (to reduce leakage). |
| Experience | Minimum of three years practical experience in an appropriate, supervised environment (IFAC: IEG 9, Para 49). | ✓ Minimum of 3,000 hours prescribed practical experience (p. 74). | ✓ / ✗ Two, three, or four years prescribed experience; depending on education level. | ✗ None, a CPA with no practical experience can conduct audits and issue audit opinions (the introduction of practical experience is being considered). |

| Requirement | International | Indonesia | California (U.S.) | Philippines |
|-----------------------------------|--|---|--|---|
| Continuing professional education | Annual minimum of 30 hours, or 90 hours over each three-year period, of structured learning activities (IFAC, ISAR). | ✓ 120 hours over three years with a minimum of 30 hours per year (p. 73). | ✓ 80 hours for each two-year license renewal period (following first license renewal). | ✗ None, Senate suspended the CPE requirement in 1999 on the basis that it infringed constitutional rights (the introduction of compulsory CPE is proposed). |

Source: Table adapted from: Favere-Marchesi, Michael. 2000. Audit Quality in ASEAN. *The International Journal of Accounting*. Vol. 35(1). pp. 121-149. Californian data from ADB. 2002. *Accounting and Auditing Practices in the Republic of the Marshall Islands*. Manila. Philippines data from ADB. 2002. *Accounting and Auditing Practices in the Philippines*. Manila.

6. Other Professional Organizations

Introduction

130. This section describes the composition and activities of other relevant professional organizations.⁹⁹ The Indonesian Society of Appraisers (*Masyarakat Profesi Penilai Indonesia*, MAPPI) is discussed separately (p. 79).

Forum for Corporate Governance in Indonesia (FCGI)

131. Established in February 2000, the aim of the Forum for Corporate Governance in Indonesia (FCGI) is to support improved corporate governance practices in Indonesia. FCGI's activities complement those of the National Committee on Good Corporate Governance (NCCG), which is responsible for drafting the *Code of Conduct of Good Corporate Governance* and developing strategies to implement the *Code*.

132. FCGI's activities have included: (i) publishing booklets on Good Corporate Governance; (ii) developing a self-assessment questionnaire that enables companies to assess their corporate governance arrangements; (iii) publishing information on good corporate governance; and (iv) broadcasting a television program that promotes

⁹⁹ Much of this section's content is sourced from www.fcgi.or.id

good corporate governance practices. FCGI's membership comprises business and professional associations.¹⁰⁰

Institute of Internal Auditors (IIA)—Indonesia Chapter

133. The U.S.-based Institute of Internal Auditors (IIA) is an international professional association that supports the promotion and development of internal auditing. The IIA Indonesia Chapter was established in 1989. Members can sit for the Certified Internal Auditor (CIA) exam, which comprises four parts; internal audit process, internal audit skills, management control and information technology, and the audit environment.

134. The IIA Indonesia Chapter has around 200 members and publishes an internal auditing magazine every two months. It has four strategic priorities: (i) raising awareness of internal auditing in Indonesia with both private and public sector organizations; (ii) increasing membership; (iii) increasing the number of CIA-qualified auditors; and (iv) providing training and education. The IIA provides internal auditing practitioners, executive management, boards of directors and audit committees with standards, guidance and information on internal auditing.

Association of State-owned Enterprise (SOE) Internal Auditors (FKSPI BUMN/BUMD)

135. Established in 1985, the Association of Internal Auditors of State-Owned Enterprises and Local Government SOEs (*Forum Komunikasi Satuan Pengendaaun Intern BUMN/BUMD, FKSPI BUMN/BUMD*) supports improvements in internal auditing practices and represents members' interests. Its membership comprises about 1,000 internal auditors from around 190 SOEs. Membership numbers are expected to increase significantly as internal auditors from local government SOEs join.

¹⁰⁰ FCGI's membership comprises: (i) Institute of Internal Auditors (IIA) – Indonesia Chapter; (ii) Association of State-owned Enterprise Internal Auditors (FKSPI BUMN/BUMD); (iii) Internal Auditor Education Foundation (YPIA); (iv) Association of Publicly Listed Companies (AEI); (v) Indonesian Financial Executives Association (IFEA); (vi) Indonesian Society for Transparency (MTI) ; (vii) Association of Indonesian Securities Companies (APEI) ; (viii) Indonesian Society of Appraisers (MAPPI); (ix) IAI - Management Accountants Compartment (IAI-KAM); and (x) The Indonesian Netherlands Association (INA). Although not a member, the Jakarta Initiative Task Force (JITF) is actively involved in FCGI.

Internal Auditor Education Foundation (YPIA)

136. FKSPI BUMN/BUMD supported the 1995 establishment of the Internal Auditor Education Foundation (*Yayasan Pendidikan Internal Auditor, YPIA*). YPIA's main activities are organizing training and education for internal auditors, particularly SOE internal auditors. It also provides internal auditing consulting services and supports research and development activities.

Association of Publicly Listed Companies (AEI)

137. Established in 1988, the Association of Publicly Listed Companies' (*Asosiasi Emiten Indonesia, AEI*) membership has grown from 24 to 314 publicly-listed companies. AEI is involved in the development of Indonesia's capital markets and is often relied upon by *Bapepam* to provide input into the formulation of capital market regulations.

Indonesian Financial Executives Association (IFEA)

138. The Indonesian Financial Executives Association (IFEA)¹⁰¹ was founded in 1975. Initially a consultative association, a major IFEA activity is now negotiating with government on financial market policy. IFEA has about 200 members and is a member of the International Association of Financial Executives Institute (IAFEI).

Indonesian Society for Transparency (MTI)

139. The Indonesian Society for Transparency (*Masyarakat Transparansi Indonesia, MTI*) was established to encourage and support good governance and to minimize KKN.

Association of Indonesian Securities Companies (APEI)

140. Established in 1995, the Association of Indonesian Securities Companies (*Asosiasi Perusahaan Efek Indonesia, APEI*) provides training courses for underwriters, brokers and investment managers. Its membership comprises about 185 securities companies.

¹⁰¹ IFEA was originally known as the Indonesia Financial Executives Institute (IFEI).

7. The Appraisal (Valuation) Profession

Introduction

141. Appraisers value property, including commercial property, Industrial property (manufacturing plants and warehouses), residential property, machinery and personal property. Rooted in economics, asset valuation principles and techniques were initially established in the 1930s. Appraisers reduce the risk involved in property transactions by assigning credible values to property based on a standard method. Financial statement preparers and external auditors rely heavily upon the professional work and opinions of the appraisal profession. Appraisal opinions are also an integral part of insolvency procedures and financing activities.

142. In many countries, the regulation and development of the profession usually have followed a crisis of some sort: the savings and loan crisis in the U.S., the property crisis in the 1980s in Europe, the reform of the centrally planned economies in Eastern Europe, and the 1997-98 financial crisis in Asia.

143. Countries establishing mortgage-lending markets and introducing mortgage-based instruments in their capital markets need to improve valuation standards. Clearly, appraisal standards should be correctly applied and regulated. This can be accomplished by establishing professional standards of valuation, educational requirements, methodology, ethics and oversight in developing real estate markets.

Indonesian Arrangements

144. In January 2001, DPAJP became responsible for supervising the appraisal profession. This involves licensing the profession, ensuring adequate professional standards are in place, policing the standards and developing the profession. In comparison to other countries, Indonesia has few appraisers (see Table 19). DPAJP issues licenses to appraisers and firms.

145. Two professional appraisal bodies exist. The Indonesian Society of Appraisers (*Masyarakat Profesi Penilai Indonesia, MAPPI*) is the oldest body. The Indonesian Association of Appraisal Firms (*Gabungan Perusahaan Penilai Indonesia, GAPPI*) was formed more recently.

146. MAPPI recognizes three appraiser levels: (i) registered appraisers; (ii) certified appraisers; and (iii) public appraisers. Indonesian appraisal services include: (i) valuating tangible and intangible assets; (ii) share and business valuations; (iii) property management; (iv) project

feasibility studies; (v) project management; and (vi) investment intermediation.

Table 19. Appraisal, Actuarial and Insolvency Professionals by Country

| Country | —Appraisers— | | – Insolvency Experts – | | — Actuaries — | |
|--------------------|--------------|-------------------------------|------------------------|-------------------------------|---------------|-------------------------------|
| | Number | Number per Million Population | Number | Number per Million Population | Number | Number per Million Population |
| PRC | 13,420 | 10.6 | 8 | 0.01 | 8 | 0.01 |
| Germany | 8,000 | 97.4 | 81 | 0.99 | 1,661 | 20.22 |
| Hong Kong, China | 1,084 | 159.5 | .. | .. | 199 | 29.27 |
| India | 350 | 0.3 | 33 | 0.03 | 111 | 0.11 |
| Indonesia | 1,400 | 6.7 | 4 | 0.02 | 7 | 0.03 |
| Japan | 5,700 | 45.0 | 5 | 0.04 | 853 | 6.73 |
| Korea, Republic of | 1,724 | 36.5 | 1 | 0.02 | 11 | 0.23 |
| Malaysia | 500 | 21.5 | 26 | 1.12 | .. | .. |
| Singapore | 519 | 129.2 | 11 | 2.74 | 82 | 20.41 |
| Sweden | 500 | 56.4 | 14 | 1.58 | 246 | 27.74 |
| Thailand | .. | .. | 8 | 0.13 | 13 | 0.21 |
| United Kingdom | 20,000 | 334.8 | 1,614 | 27.02 | 4,764 | 79.75 |
| United States | 80,000 | 284.1 | 1,841 | 6.54 | 14,968 | 53.16 |

Source: Michael Pomerleano (Lead Financial Specialist, World Bank). 2002 April. Back to the Basics: Critical Financial Sector Professions Required in the Aftermath of an Asset Bubble. *The Appraisal Journal*. pp. 173-181.

Indonesian Society of Appraisers (MAPPI)

147. Established in 1980, the Indonesian Society of Appraisers (*Masyarakat Profesi Penilai Indonesia*, MAPPI) represents appraisers. MAPPI is a member of the International Valuation Standards Committee (IVSC).

148. Its 1,400 members include individuals and companies engaged in appraisal activities (e.g., appraisal firms, banks and financial institutions, capital market firms, the Directorate of Land and Building Taxation, insurance agencies, auction houses and property companies). Jakarta-based MAPPI has branches in Medan, Surabaya and Semarang.¹⁰²

¹⁰² www.fcgi.or.in

Valuation Standards

149. Founded in 1981, IVSC formulates and promulgate IVSs and associated procedural guidance. Subsidiary IVSC goals include: (i) encouraging IVS recognition by IASB and other accounting standard-setting bodies; and (ii) encouraging professional recognition of valuers by other disciplines. IVSC has 52 participating country bodies. It coordinates its activities with these country bodies, IAASB, IASB, IFAC, IOSCO, OECD and the World Bank.¹⁰³

150. MAPPI and GAPPI have together formed the Indonesian Valuation Standards Committee (*Komite Penyusun Standar Penilaian Indonesia, KPSPI*). In 2002, KPSPI promulgated a set of Indonesian Valuation Standards (*Standar Penilaian Indonesia, SPIs*).¹⁰⁴ SPIs are directly based on IVSs.

8. Globalization and Liberalization Challenges

151. When the Uruguay Round of trade negotiations was agreed in 1994, measures to liberalize trade in services were included for the first time through the adoption of the General Agreement on Trade in Services (GATS). The WTO created a Working Party on Professional Services (WPPS), which was instructed to give priority to reviewing the international operation of services in the accountancy sector and in determining how a more liberal regime might be introduced.

152. IFAC appointed a special GATS task force to monitor the WPPS's work, comment on proposals and make implementation suggestions. The WPPS's work program is addressing three areas: (i) international standards; (ii) mutual recognition of qualifications as a means of promoting mobility among qualified accountants; and (iii) rules regarding domestic professional regulation (usually the greatest barrier to the free provision of services—although domestic regulations are needed to protect the public, there is a danger that they can become protectionist).

153. Indonesia is involved in the GATS negotiations. It is also a party to, and has corresponding obligations under, several other international memberships and agreements that are relevant to the Indonesian accountancy profession including IFAC, APEC and ASEAN.

154. In December 1995, ASEAN members entered into an agreement to promote preferential trade in services, including business services.

¹⁰³ Source: www.ivsc.org

¹⁰⁴ KPSPI. 2002. March. Indonesian Valuation Standards (*Standar Penilaian Indonesia, SPI*). KPSPI: Jakarta.

Under the accord, ASEAN member countries agreed to liberalize trade in services by substantially eliminating all existing discriminatory measures and market access limitations among members and prohibiting the enactment of new restrictions or limitations. Members also agreed to mutual recognition of each other's licensing or certification requirements for service suppliers.

155. Table 20 presents the findings of a 2000 survey that compared restrictions on accountancy services across economies. The domestic index reflects restrictions on the establishment and ongoing operations of domestic service providers. The foreign index reflects restrictions facing foreign service providers when establishing and conducting operations in the local market. Of the 34 economies surveyed, Indonesia had the third most restricted environment for foreigners.¹⁰⁵

Table 20. Restrictions on Accountancy Services

| Index | Low | Medium | High |
|-----------------|--|---|--|
| Foreign Index: | Finland, Netherlands, United Kingdom | Argentina, Australia, Belgium, Brazil, Canada, Chile, Denmark, France, Germany, Greece, Hong Kong (China), India, Italy, Japan, Luxembourg, Mexico, New Zealand, Portugal, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United States | Austria, Indonesia, Republic of Korea, Malaysia, Philippines, Thailand |
| Domestic Index: | Chile, Finland, Indonesia, Malaysia, South Africa, Switzerland, Turkey | Argentina, Australia, Greece, Italy, Luxembourg, Mexico, Netherlands, Singapore, Sweden, Thailand, United Kingdom | Austria, Belgium, Brazil, Canada, Denmark, France, Germany, Hong Kong (China), India, Japan, Republic of Korea, New Zealand, Philippines, Portugal, Spain, United States |

Source: Nguyen-Hong, Duc. 2000 August. *Restrictions on Trade in Professional Services*. Staff Research Paper. Australian Productivity Commission: Commonwealth of Australia. pp. 19-23.

156. There are currently no automatic recognition or mutual recognition agreements (MRAs) between IAI and its counterparts in other countries

¹⁰⁵ Nguyen-Hong, Duc. 2000 August. *Restrictions on Trade in Professional Services*. Staff Research Paper. Australian Productivity Commission: Commonwealth of Australia. p. 32.

(Appendix 4 describes WTO-GATS guidelines for MRAs). Furthermore, the domestic profession is largely closed to direct foreign participation—international firms are able to establish correspondent relationships with local firms, but are barred from direct investment.

157. However, in May 2002, the Seventy-fourth AFA Council Meeting agreed that representatives from Indonesia, Malaysia, Philippines, Singapore and Thailand would meet in Jakarta, later in 2002, to identify actions to liberalize the ASEAN accountancy profession.¹⁰⁶

158. A recent paper examined efforts to protect Indonesia's domestic accountancy profession over the past 50 years, and the current liberalization trend.¹⁰⁷ In particular, a 1986 Finance Minister Decree legitimized correspondent relationships with foreign accountancy firms.¹⁰⁸ A 1997 Decree further relaxed restrictions on foreign accountants by removing citizenship requirements.¹⁰⁹ The development of the draft Public Accountant (PA) Law continues this liberalization trend (p. 88).

9. Professional Quality Control and Assurance

Introduction

159. Significant numbers of Indonesian companies and banks—with apparently sound financial positions—collapsed in the wake of the Asian financial crisis. Most had received unqualified audit opinions. Subsequent events indicated that these opinions were incorrect.

160. Legislative weaknesses meant that oversight bodies could not sanction erring auditors and relied on IAI to take disciplinary action. But IAI's response was considered weak. Some commentators contend that IAI disciplinary arrangements need urgent revision (see Box 2). This section describes the mechanisms and processes that support professional quality.

¹⁰⁶ ASEAN Federation of Accountants (AFA). 2002 May 5. Minutes of 74th AFA Council Meeting. www.mia.org.my

¹⁰⁷ Bachtiar, Emil. 2001 August. *The Professionalization of Accounting in Indonesia*. Paper presented to the Second International Accounting History Conference, Osaka, August 2001.

¹⁰⁸ Finance Minister Decree on Public Accountants (No. 763/KMK.011/1986).

¹⁰⁹ Finance Minister Decree on Public Accountant Services (No. 43/KMK.017/1997).

Box 2. Accountants' Accountability

... Indonesia has seen many accounting frauds even though the chicanery [did] not set off the fierce public attacks on auditors as those in the U.S..

Part of the problem is caused by lax law enforcement against auditors as public accounting firms are virtually outside the government legal arm, overseen only by [IAI]. Accounting firms accused of violating major auditing rules are tried by a judiciary board whose panel of judges are also representatives of accounting firms who are appointed by and answer to [IAI].

One can easily question the independence of this peer oversight process. For example, ten public accountants who were found guilty of accounting fraud in connection with their audited reports on banks, which went bankrupt in 1998 and 1999, were given only very lenient punishments. Three of them were acquitted of all charges, three were ordered to undergo retraining and four were given a strong warning and barred for some time from auditing banks.

Moreover, regulations on auditing principles virtually close almost all avenues for liability lawsuits against auditors because their reports always start with a statement that the financial accounts are the responsibility of the management since outside auditors are legally required only to give an opinion and not judgment, in accordance with Indonesian [GAAP].

... A thorough review of the rules determining how companies draw up their accounts, and how these accounts should be independently audited, is now most imperative.

Independent auditors now seem to depend too much on the internal audit system and the presumption that the management is honest. Instead of digging too deeply into the accounts, they usually only do sample audits to check the internal control system. No wonder audited accounts appear to be designed mainly to avoid liability suits and not to inform the public on the process of calculations that lead into the numbers in the accounts.

The Finance Ministry may consider adopting the recent order by the U.S. [SEC] that requires the management and chief financial officers at major publicly-traded companies to swear under oath in writing that the numbers in their financial statements are correct. This threat of civil and criminal penalties would go a long way in preventing management fraud.

Given the vital role of auditors in maintaining the integrity of the financial market, the supervision of the accounting profession also needs to be strengthened with an independent oversight committee and an independent judiciary board, unlike the current one which acts simultaneously as the prosecutor and the judge and is run entirely by the accounting community themselves ...

– Editorial, The Jakarta Post, 16 July 2002¹¹⁰

¹¹⁰ The Jakarta Post. 2002 July 16. *Accountants' Accountability*. Newspaper Editorial. p. 6.

Professional Ethics and Standards

161. The Public Accountants Professional Standards Board (*Dewan Standar Profesional Akuntan Publik, DSPAP*) promulgates SPAPs. DSPAP comprises auditing practitioners, from small and large firms, and is part of the IAI Public Accountants Compartment (IAI-KAP). SPAPs comprise auditing standards, attestation standards, accounting and review standards, consulting services standards, quality control standards and the code of professional conduct.

162. In May 2000, DSPAP approved revised *Rules of Conduct for Public Accountants* (see Table 21) The Rules are directly based upon the AICPA *Rules of Conduct*.ⁱⁱⁱ Appendix 4 describes international guidelines and norms for professional quality control and assurance (see page 162), which are comparable to the AICPA *Rules of Conduct*.

Table 21. Effective Indonesian SPAPs as at 30 June 2002

| Number | Title | Effective Date |
|--------|--|----------------|
| | <i>Standards for Consulting Services</i> | |
| 100 | Definition and Standards for Consulting Services | 1 January 1998 |
| | <i>Quality Control Standards</i> | |
| 100 | Quality Control Systems for Public Accounting Firms (KAPs) | 1 January 1998 |
| 200 | Formulation of Quality Control Policies and Procedures | 1 January 1998 |
| 300 | Standards for Conducting and Reporting Quality Reviews | 1 January 1998 |
| | <i>IAI-KAP Rules of Conduct for Public Accountants</i> | |
| 100 | Independence, Integrity and Objectivity | 5 May 2000 |
| 200 | General Standards and Accounting Principles | |
| 300 | Responsibilities to Clients | |
| 400 | Responsibilities to Colleagues | |
| 500 | Other Responsibilities and Practices | |

Source: IAI. 2001. *Professional Standards for Public Accountants*. Jakarta.

IAI Disciplinary Arrangements

163. Within IAI-KAP, the Judiciary Body for Public Accountants (*Badan Peradilan Profesi Akuntan Publik, BP2AP*) considers public complaints regarding the application of professional standards and ethical issues. When complaints are filed, BP2AP follows due-process procedures

ⁱⁱⁱ www.akuntan-iai.or.id

involving: (i) evidence gathering; (ii) hearings; (iii) determination; and (iv) sanctions. As with other countries, this process may take up to a year (although BP2AP Guidelines suggest a maximum timeframe of three months).

164. In the past, BP2AP has sanctioned PAs for misconduct including: (i) insufficient communication with other auditors; (ii) failure to maintain adequate audit working papers; (iii) failure to maintain independence and objectivity; (iv) soliciting and inappropriate advertising; and (v) failure to observe ethics. PAs may appeal BP2AP findings to the IAI Honorary Council (also within the IAI-KAP). The Honorary Council comprises senior government officials, industry representatives and public accountants.¹¹²

Regulatory Mechanisms for Quality Control and Enforcement

165. At first glance, Indonesian regulatory mechanisms for sanctioning negligent PAs and KAPs appear sound. However, Bank Indonesia's powers only became effective in May 1999. Moreover, *Bapepam* and MOF sanctions must be applied in a consecutive manner—warnings are the usual result of disciplinary action. Furthermore, although injured parties may take civil action against negligent auditors, Indonesia's dysfunctional judicial system blunts this mechanism.

All PAs and KAPs

166. MOF may impose administrative sanctions on negligent PAs and KAPs, including: (i) warnings; (ii) license suspension, for a maximum 24 months; and (iii) license revocation. However, these sanctions must be imposed in a consecutive manner.¹¹³

167. Before 2001, BPKP conducted quality reviews of KAPs (both domestic and foreign). The reviews were based on SPAPs. On 1 January 2001, DPAJP assumed responsibility for reviewing KAPs from BPKP. It is currently developing its capacity and procedures (e.g., human resources and standard operating procedures) to undertake this responsibility.¹¹⁴

¹¹² Kurniawan, Dudi M. and Nur Indriantoro. 2000. *Corporate Governance in Indonesia*. Paper Presented to the Second Asian Roundtable on Corporate Governance. Hong Kong, China. 31 May – 2 June 2000. pp. 22-23.

¹¹³ *Finance Minister Decree on Public Accountant Services* (No. 43/KMK.017/1997) as amended by *Finance Minister Decree No. 470/KMK.017/1999*.

¹¹⁴ AusAID is supporting these activities through the Technical Assistance Management Facility II (TAMF II) Project.

Capital Markets

168. *Bapepam* may impose administrative sanctions for violations of the *Capital Markets Law (No. 8) 1995* or its implementing regulations, including: (i) written reprimands; (ii) fines; (iii) restrictions on business activity; (iv) suspensions of business activity; (v) revocations of business licenses; (vi) cancellations of approvals; and (vii) cancellations of registrations.¹¹⁵ However, these sanctions must be applied in a consecutive manner.

169. *Bapepam* is authorized to investigate and evaluate PAs and KAPs that provide services in the capital markets.¹¹⁶ To this end, it regularly issues warning letters to PAs and KAPs, but has not imposed other sanctions.

Financial Sector

170. Bank Indonesia (BI) is responsible for banking supervision. In relation to this, BI contracts KAPs to undertake audits.¹¹⁷ BI's initial intention was to only appoint the very largest international KAPs as bank auditors however, in the face of professional lobbying, this policy was relaxed and second-tier firms are now approved.

171. An independent financial services supervisory board is being established.¹¹⁸ The Financial Services Authority (*Otorita Jasa Keuangan, OJK*) will assume banking supervision responsibilities from BI. Meanwhile, BI will supervise banks until OJK is established (no later than 31 December 2002).¹¹⁹

172. BI may impose administrative sanctions on negligent PAs and KAPs, including: (i) fines; (ii) warnings; (iii) revocation or annulment of business licenses by the competent institution if the violation is conducted by an entity; (iv) imposition of disciplinary sanctions if the violation is conducted by a business entity.¹²⁰

173. BI has revoked some KAP appointments but has not imposed any other sanctions. Moreover, BI has only had this authority since May 1999 with enactment of the *Bank Indonesia Law (No. 23) 1999*. Consequently, it was unable to sanction the auditors in relation to the 1997-98 bank audits.

¹¹⁵ Chapter XIV, *Capital Markets Law (No. 8) 1995*.

¹¹⁶ Article 65, *Capital Markets Law (No. 8) 1995*.

¹¹⁷ In accordance with Article 30, *Bank Indonesia Law (No. 23) 1999*.

¹¹⁸ In accordance with Article 34, *Bank Indonesia Law (No. 23) 1999*.

¹¹⁹ Article 35, *Bank Indonesia Law (No. 23) 1999*.

¹²⁰ In accordance with Article 72, *Bank Indonesia Law (No. 23) 1999*.

Civil Actions Against Negligent Auditors

174. Under provisions of the *Civil Code*—and in conjunction with various company, capital market, and banking laws and regulations—parties that suffer losses due to audit failures may sue auditors (see Box 3). Nevertheless, as of July 2002, investors or shareholders had never filed a class action lawsuit against PAs or KAPs.¹²¹

Box 3. Provision for Civil Action Against Negligent Auditors

“Any person who suffers losses arising from violations of this Law and or its implementing regulations can sue for compensation, either jointly or severally with other Persons with similar claims, against the person or persons responsible for such violations.”

– Article 111, *Capital Markets Law (No. 8) 1995*.

10. The Draft Public Accountant (PA) Law

Introduction

175. The Asian financial crisis revealed weaknesses in Indonesian financial governance arrangements. In June 1998, ADB approved the FGRSDP to support government efforts to improve resource allocation efficiency, and promote and strengthen the governance of the financial and public sectors.¹²² To achieve this objective, the FGRSDP promoted: (i) the adoption of best-practice financial governance arrangements; (ii) improved disclosure and transparency of financial accounting, auditing and reporting; and (iii) the strengthening of the legal and regulatory framework to support effective implementation of financial and public sector reforms. In relation to auditing, the existing legal framework for

¹²¹ The Jakarta Post. 2002 July 22. *Class Action Suit Against Crooked Accountants Urged*. Newspaper Article. p. 1.

¹²² ADB 1998. *Report and Recommendation of the President to the Board of Directors on the Proposed Loans to the Republic of Indonesia for Financial Governance Reforms: Sector Development Program (FGRSDP) and a Proposed Equity Investment in a Secondary Mortgage Facility*. Manila.

The FGRSDP was approved on 25 June 1998 and comprised a program loan for \$1,400 million (Loan No. 1618-INO); a \$3 million equity investment; a \$47 million investment loan (Loan 1619-INO); a \$50 million technical assistance loan to support commercial bank restructuring, governance improvements and institutional strengthening of various government agencies (TA Loan No. 1620-INO).

public accountants does not explicitly make PAs liable for audit negligence.¹²³ Government-agreed policy conditions included enacting legislation and regulations making: (i) auditors liable for negligence in performing audits; and (ii) directors liable for false information in annual reports and other public information.¹²⁴

176. A draft PA Law was prepared in 2000, but was limited in scope and subsequently abandoned. In 2001, a special team was established to draft a PA Law.¹²⁵ Later that year, in accordance with Indonesian procedures for preparing bills¹²⁶, government released an *Academic Paper* proposing the approach to be taken by the new law.¹²⁷ Drafting activities recommenced following its release. The draft law remains under review and, since November 2001, AusAID has been assisting the preparatory process.¹²⁸ Although the PA Law had not been enacted, ADB reviewed the FGRSDP policy conditions and, in July 2002, agreed to release the third and final program tranche of \$350 million. Meanwhile, government remains committed to the draft PA Law, which it plans to submit to the State Secretariat in 2003 (see Box 4).

¹²³ However, under provisions of the Civil Code – and in conjunction with various company, capital market, and banking laws and regulations – parties that suffer losses due to audit failures may sue auditors.

¹²⁴ ADB. 2002 June. Progress Report on the Release of Third Tranche: Financial Governance Reforms Sector Development Program (Loan 1618-INO) to Indonesia. Board Paper: Manila.

¹²⁵ Finance Minister Decree No. 186/KMK.06/2001. 16 April 2001.

¹²⁶ Presidential Decree No. 188/1998, dated 29 October 1998, *Procedures for the Preparation of a Bill*.

¹²⁷ MOF. 2001. *Academic Draft: Draft of Public Accountant Law*. Jakarta.

¹²⁸ Through the AusAID Technical Assistance Management Facility II (TAMF II) Project.

Box 4. Government Drafts New Bill on Accountancy Profession

The government is drafting a new bill on the accountancy profession in a bid to help prevent misstatements and misrepresentations in audited financial reports. Mirza Mochtar, Director of Public Accounting and Appraisal Services at the Ministry of Finance, said the new bill would provide better legal protection for both clients and accountants.

"The bill aims to provide a stronger legal foundation for both clients and accountants, including protecting clients from being defrauded by their accountants," Mirza told The Jakarta Post on Wednesday.

In the wake of the Enron and WorldCom scandals involving Arthur Andersen, one of the world's big five accounting firms, public accountants worldwide have been under fire for allegedly cooking their clients' books. However, Mirza claimed that the bill did not have anything to do with the latest financial scandals. "The current law on the accountancy profession was out-of-date even when it was put on the statute books in 1954. It is no longer appropriate for current conditions. That's why we need to draft a new one," he said.

According to Mirza, his directorate had set up a team to draft the bill. After the draft was finished, the next step would be to form an inter-ministerial team to discuss the draft. The inter-ministerial team would consist of officials from the Ministry of Justice, the Ministry of Finance and the State Secretariat.

Mirza said that according to the bill, any public accountants found violating professional ethics and standards would have their licenses revoked by the government without prior notice. He added that the bill would also open the possibility for criminal charges to be laid against accountants or accounting firms who deliberately made misstatements or misrepresentations in financial reports.

"It is difficult to bring accountants before the criminal courts as the current ministerial decree does not authorize the filing of criminal prosecutions," he explained.

The new bill also provides that a company may only retain the services of an accounting firm for a maximum of four years. Under the current law, there is no such limitation. Mirza added that the new bill would also force accounting firms to give up their consulting services to avoid conflicts of interest.

Another crucial change under the bill, Mirza said, was that the government would conduct a regular review of accounting firms. The reviews would be held annually to assess the performance of the firms and to see if they had carried out their work in accordance with the set standards and rules.

– The Jakarta Post, 5 July 2002¹²⁹

The 2001 Academic Paper

177. In 2001, the MOF released an *Academic Paper*¹³⁰ that examined issues to be covered by the new PA Law. The *Academic Paper* identified the PA

¹²⁹ The Jakarta Post. 2002 July 5. *Government Drafts New Bill on Accountancy Profession*. Interview with Mirza Mochtar, Director of Public Accounting and Appraisal Services at the Ministry of Finance. Newspaper Article.

¹³⁰ MOF. 2001. *Academic Draft: Draft of Public Accountant Law*. Jakarta.

Law's objectives as: (i) protecting the public trust provided to PAs; (ii) providing a better legal framework for the public accountancy profession; and (iii) supporting national economic development and preparing for the liberalization of public accounting services.¹³¹ In particular, the *Academic Paper* contended that existing arrangements provided weak support for criminal and civil sanctions against PAs and KAPs.¹³² It reviewed existing arrangements and made proposals for the new PA Law—comparator countries included Japan, the Republic of Korea (ROK), Singapore and the U.S.

178. Appendix 6 summarizes the description, analysis and proposals that the *Academic Paper* presents. The following key changes are proposed. First, professional arrangements would be restructured. Second, PA and KAP obligations, responsibilities and prohibitions would be clearly stated, providing a basis for enhanced quality control and greater legal responsibility—KAPs would be required to hold professional indemnity insurance. Third, the law would stipulate administrative, civil and criminal sanctions. These would not apply in a step-by-step manner (as previously) and KAP partners would be jointly and fully accountable. Fourth, the PA Law would be consistent with liberalization commitments (on a reciprocal basis).

Support for the New Public Accountant Law

179. The Government has stated that it will strengthen financial governance arrangements. Until July 2002, this commitment was supported by FGRSDP policy conditionalities including enactment of the PA Law. However, Parliament's legislative agenda is extremely busy (about 200 bills are either with Parliament, or are being developed.¹³³). At the same time, very few laws are being passed due to "political bickering" and resource constraints.^{134, 135} Nevertheless, two factors provide domestic pressure for public accounting reform in this difficult legislative environment.

180. First, because of recent U.S. failures, accounting and auditing arrangements are currently receiving heightened attention internation-

¹³¹ *Ibid*, pp. 8-9.

¹³² *Ibid*, p. 17.

¹³³ MOF Estimate.

¹³⁴ The Jakarta Post. 2002 July 17. *House Leaders Ask for More Funds for Passage of Bills*. Newspaper Article. p. 1.

¹³⁵ The January–March 2002 House Session endorsed three out of a planned 24 bills. The May–July 2002 House Session endorsed two out of a planned 22 bills.

ally. In response, many countries are strengthening their accounting and auditing arrangements to retain investor confidence. Meanwhile, FDI approvals in Indonesia during the first five months of 2002 declined by almost 60 percent, when compared to the same period in 2002.¹³⁶ Not surprisingly, legislators are interested in the draft PA Law (see Box 5).

Box 5. 'Strong Sanctions Against Bad Accountants a Must'

A senior legislator supported the Government's move to draft a new bill on the accounting profession, saying that the ruling could help ensure good corporate governance in Indonesia.

Learning from the current accounting scandals in the U.S., the bill should impose stiffer sanctions for delinquent accountants to deter them from fraud in the future, said Faisal Baasir, Deputy Head of the House of Representatives Commission IX on Financial Affairs.

... Faisal acknowledged that the new bill had yet to reach the hands of the legislators, as it was still being drafted by the government. "The sooner the better," said Faisal, who pledged that legislators would push for imposing strong punishments, including jail terms for bad accountants.

– The Jakarta Post, 13 July 2002¹³⁷

181. Second, parallels have been drawn between the U.S. failures and certain Indonesian failures. Some commentators contend that Indonesia's self-regulating regime is ineffective (see Box 6). However, some PAs strongly contest this assertion. They argue that too much time has passed since the failures, and the government investigations lacked rigor.¹³⁸

¹³⁶ The Jakarta Post. 2002 July 13. *Japanese Investors Urge RI to Improve Business Climate*. Newspaper Article.

¹³⁷ The Jakarta Post. 2002 July 13. *Strong Sanctions Against Bad Accountants a Must*. Newspaper Article.

¹³⁸ Study interview notes.

Box 6. Indonesia is No Stranger to Accounting Scams: Expert

“Scams have already occurred in Indonesia, and it should serve as a wake-up call for the Indonesian public and accounting community,” [Professor Wahyudi Prakarsa, University of Indonesia] said, while pointing at the latest financial fraud case involving ten public accountant firms here.

The ten firms had audited 37 banks before the 1997 financial crisis, and the audit results revealed that the ... banks were sound. However, as the financial crisis struck the country, the banks collapsed due to poor financial performance. It was revealed later by a government investigation that the firms had been involved in accounting scams.

The government has reprimanded the firms, but no sanctions were given, as the government has no right to impose any sanctions. The only body that has the right to sentence accounting firms is a non-governmental agency formed by the [IAI] called the Judiciary Body for Public Accountants (BP2AP). The agency investigated the case and handed down the punishment. But, the sanctions were considered too lenient, as the agency only prohibited three firms from auditing banking clients, while the remaining seven walked free.

Wahyudi believed that the case is only the tip of the iceberg [and that there are] many other similar accounting scams here. ... Therefore, the most important step, he asserted, was for the government, which is currently drafting an accounting bill, to create tight regulations to prevent possible fraud.

– The Jakarta Post, 11 July 2002¹³⁹

11. Issue Synopsis: Professional Infrastructure

182. This chapter concludes that—although some professional arrangements meet international norms—others compare very badly. Fortunately, some improvements are straightforward, inexpensive and easy to implement. These include making the PA Law changes and disallowing correspondent relationships in favor of direct foreign firm presence. Others will take time and involve easing professional access, strengthening qualifications (below BAP level) and raising the profession’s status.

183. Chapter VIII—*Issues and Recommendations*—identifies and describes constraints and proposes corrective actions. These include the following issues regarding Indonesia’s professional accountancy infrastructure:

- The draft PA Law presents a unique opportunity to strengthen the profession, raise the credibility of financial reporting and support economic development. This study supports the general thrust of the draft PA Law. However:

¹³⁹ The Jakarta Post. 2002 July 11. *Indonesia is No Stranger to Accounting Scams: Expert*. Interview with Professor Wahyudi Prakarsa from the University of Indonesia. Newspaper Article. p. 13.

- The assignment of certain functions should be carefully considered (i.e., training and accreditation). This study strongly supports IAI retention of the certification function and cautions against direct DAI provision of training.
- The efficacy of the proposed arrangements depends on DAI composition, appointment, dismissal and funding arrangements.
- The draft PA Law focuses solely on public accountants and ignores other accounting professionals.
- The proposed arrangements must be implemented in a practical and realistic manner.
- Quality control rigor depends on how exposed international parents are to domestic operations. But international firms have little or no liability for their Indonesian activities, so the most powerful mechanism for ensuring quality audits is ineffective.
- There is only one internationally-comparable accountancy qualification (BAP). However, IAI-KAP is undertaking preliminary work on establishing management accountant qualifications and IAI has long considered introducing an Accountant Technician qualification.

IV. Accounting and Auditing Standards

This chapter describes the accounting and auditing standards that govern the preparation of external financial reports and the audit of those reports. It is structured as follows:

Part One: Accounting Standards

- 1 – Introduction – reviews the historical development of Indonesian accounting standards.
- 2 – Financial Accounting Standards Board (DSAK) – outlines the role and composition of DSAK, the primary accounting standard-setting body.
- 3 – Accounting Standard-Setting Process – describes the accounting standard-setting process.
- 4 – Indonesian Financial Accounting Standards (PSAKs) – describes Indonesian financial accounting standards.
- 5 – Conformity with International Accounting Standards (IAS) – compares PSAKs and IASs.
- 6 – Legal Status of PSAKs – describes the legal status of PSAKs for financial reporting.
- 7 – Taxation Reporting Requirements – reviews the relationship between PSAKs and taxation reporting practices.
- 8 – Public Sector Accounting Standards – describes the standards that govern public sector reporting.

Part Two: Auditing Standards

- 9 – Introduction – describes the historical development of Indonesian auditing standards.
- 10 – Auditing Standard Setting – discusses audit standard-setting arrangements.
- 11 – Indonesian Auditing Standards (SPAPs) – describes Indonesian auditing standards.
- 12 – Comparison with International Standards on Auditing (ISAs) – examines differences between Indonesian auditing standards and ISAs.
- 13 – Public Sector Auditing Standards – describes government auditing standards.
- 14 – Issue Synopsis: Accounting and Auditing Standards – summarizes the issues identified in this chapter.

Part One. Accounting Standards

1. Introduction¹⁴⁰

184. Over the past three decades, the basis for Indonesian financial reporting has evolved substantially—it is now broadly consistent with International Accounting Standards (IAS).¹⁴¹ IAI can take credit for this achievement—although much was accomplished with external support, IAI members contributed countless days of voluntary time to develop standards. Table 22 traces the evolution of Indonesian Financial Accounting Standards.

¹⁴⁰ Primary Sources:

- Deloitte Touche Tohmatsu Emerging Markets Ltd. 2000 May. Indonesian Accounting Standards (PSAK): Recommended Changes in Selected PSAKs for Improving Conformity with the International Accounting Standards. Report Prepared for the Financial Governance Reforms Support Project: Capital Markets Component ADB TA No. 1620-INO. pp. 2-3.
- Diga, Joselito and Hadori Yunus. 1997. "Accounting in Indonesia" in *Accounting in the Asia-Pacific Region*, edited by Nabil Baydoun, Akira Nishimura and Roger Willet. John Wiley: Singapore. pp. 286-287.
- Foo, See Liang. 1997. "Indonesia" in *Financial Reporting in the Pacific Asia Region*, edited by Ronald Ma. Singapore: World Scientific Publishing. pp. 347-364.
- Kurniawan, Dudi M. and Nur Indriantoro. 2000. Corporate Governance in Indonesia. Paper Presented to the Second Asian Roundtable on Corporate Governance. Hong Kong, China. 31 May - 2 June 2000.
- Rosser, Andrew. 1999 July. The Political Economy of Accounting Reform in Developing Countries: The Case of Indonesia. Murdoch University: Working Paper No. 93.
- Saudagaran, Shahrokh M. and Joselito G. Diga. 2000. The Institutional Environment of Financial Reporting in ASEAN. *International Journal of Accounting*. Vol 35(1). pp. 1-26.

¹⁴¹ In 2001, the International Accounting Standards Board (IASB) assumed responsibility from the International Accounting Standards Committee (IASC) for promulgating IASs. In future, IASB-issued standards will be called International Financial Reporting Standards (IFRSs). Although the IASB now expects its standards to be called IFRSs, this report uses the term IASs (in the interests of continuity).

Table 22. Evolution of Indonesian Financial Accounting Standards

| | | |
|--------------|---|---|
| Until 1973 | <i>Early Dutch Accounting</i> | Dutch-based legislation and accounting requirements. |
| 1973–1984 | <i>Early U.S. GAAP</i> | In 1973, IAI adopts Indonesian accounting principles (PAIs), which are directly based on U.S. GAAP (as it existed in 1965). |
| 1984–1994 | <i>Updated U.S. GAAP</i> | In 1984, PAIs are significantly revised to expand their coverage and reflect developments in U.S. GAAP. |
| 1994 to date | <i>International Accounting Standards (IAS)</i> | At its September 1994 Congress, IAI endorses the use of IAS as a basis for domestic financial reporting. IAS-based Financial Accounting Standards (PSAKs) are subsequently issued. Since 1994, IAI has worked to harmonize PSAKs with IASs. |

185. Before 1973, financial reporting requirements were based upon the prescriptions of Dutch-based company law that simply required “adequate accounts to be kept”. Two factors led to the 1973 adoption of U.S.-based generally accepted accounting principles (GAAP). First, Indonesian academics were increasingly influenced by U.S. accounting thought and practices. In particular, an important 1962 academic study¹⁴² contended that U.S. arrangements were most appropriate for the Indonesian environment and strongly advocated their adoption. Second, after a substantial fall in activity—following the 1960 suspension of trading in the shares of Dutch companies—the capital market eventually closed in 1968. However, government officials recognized that properly functioning capital markets were necessary to increase FDI levels. In response, officials established three bodies and made them responsible for reactivating the capital markets.¹⁴³ Their functions included working with IAI to prepare and promulgate Indonesian accounting standards.

186. In 1973, IAI formed an *ad hoc* committee to develop Indonesian GAAP. The committee based its work directly upon U.S. GAAP (as it

¹⁴² Hadibroto, Suhadji. 1962. A Comparative Study of American and Dutch Accountancy and their Impact on the Profession in Indonesia. Unpublished PhD Dissertation, Lembaga Pencrbit Fakultas Ekonomi, Universitas Indonesia, Jakarta.

¹⁴³ In 1968, the *Money and Capital Markets Preparation Team* was created to recommend policy actions to BI, on the development of Indonesian money and capital markets. Two other BI-led bodies were established in 1970 and 1972 to implement these policy actions, reactivate the capital market and to supervise its activities.

existed in 1965¹⁴⁴). In December 1973, IAI adopted the Committee's recommendations in the form of Indonesian accounting principles (*Prinsip Akuntansi Indonesia*, PAI), which comprised basic accounting principles, practices, methods and techniques. IAI coordinated its efforts with the MOF Directorate General of Taxation (*Direktorat Jenderal Pajak*, DJP) and *Bapepam* thereby ensuring that PAIs gained official endorsement (e.g., as an acceptable basis for tax assessments). IAI subsequently established the Indonesian Accounting Principles Committee (*Komite Prinsip Akuntansi Indonesia*, KPAI) in 1974 to set accounting standards on an ongoing basis.

187. In response to economic reforms and market deregulation, KPAI issued significantly revised PAIs in 1984. However, despite substantial improvements, the revised PAIs still did not address industry-specific accounting practices (e.g., banking, insurance or mining) and had a narrow coverage (for instance, they largely ignored consolidation and provisioning). The limited coverage of PAIs, combined with an absence of legal backing, meant that companies still had enormous latitude in their financial reporting choices.

188. By the early 1990s, more than 200 companies were listed in Indonesia—a tenfold increase in just a decade. Demands from investors, creditors and lenders for comprehensive and high quality accounting standards accompanied this rapid growth. Consequently, in 1994, the IASC-issued *Framework for the Preparation and Presentation of Financial Statements* was adopted. At the same time, IAS-compatible Financial Accounting Standards (*Pernyataan Standar Akuntansi Keuangan*, PSAKs) were developed. In September 1994, the Seventh IAI National Congress endorsed the use of IAS as the basis for domestic financial reporting and approved the new PSAKs. Since 1994, IAS-harmonization activities have continued.¹⁴⁵

¹⁴⁴ Grady, Paul. 1965. Inventory of Generally Accepted Accounting Principles for Business Enterprises, *Accounting Research Study No. 7*. American Institute of Public Accountants.

¹⁴⁵ These efforts were part of the 1988-2000, World Bank-sponsored, Accountancy Development Projects:

- World Bank Loan 3801-IND: *Accountancy Development Project II* (1995-2000), for \$25 million approved on 22 September 1994.
- World Bank *Accountancy Development Project I* (1988-1994), for \$113 million, approved on 17 May 1988.

2. Financial Accounting Standards Board (DSAK)

189. In 1994, KPAI was reconstituted as the Financial Accounting Standards Committee (*Komite Standar Akuntansi Keuangan*, KSAK). In 1998, KSAK's structure and processes were altered to strengthen standard-setting arrangements. First, the more independent Financial Accounting Standards Board (*Dewan Standar Akuntansi Keuangan*, DSAK) superseded KSAK. Second, three fulltime staff were appointed to support DSAK's activities. Third, DSAK's procedures were revised to improve standard setting. For instance, criteria for selecting issues for consideration were developed and implemented. Moreover, formal standard-setting processes were developed. DSAK's composition (see Table 23) and processes are determined by formal rules.

Table 23. Financial Accounting Standards Board (DSAK) Composition

| Sector | 1994 | July 2002 |
|--|------|-----------|
| <i>Private Sector:</i> | | |
| Practicing accountants | 5 | 5 |
| Management accountants | 2 | 4 |
| Academics | 5 | 2 |
| <i>Public Sector:</i> | | |
| <i>Bapepam</i> | 1 | 1 |
| Directorate General of Taxation (DGoT) | 1 | 1 |
| Supreme Audit Board (BKP) | 1 | .. |
| Ministry of Finance (DPAJP) | 1 | .. |
| Bank Indonesia (BI) | 1 | 1 |

190. Established in 1998, the Financial Accounting Standards Advisory Council (*Dewan Konsultatif Standar Akuntansi Keuangan*, DKSAK) advises DSAK on issues to be addressed by accounting standards and raises funds to support standard-setting activities. DKSAK represents a wider constituency that includes regulators, public accounting firms, business entities and state owned enterprises.

191. In 2001, the MOF Directorate General for Financial Institutions (*Direktorat Jenderal Lembaga Keuangan*, DJLK) released an *Academic Paper* proposing the approach and contents of a new Public Accountants (PA) Law.¹⁴⁶ It envisages an independent accounting standard-setting board. Government plans to submit the draft PA Law to the State Secretariat in 2003.

¹⁴⁶ Ministry of Finance (MOF). 2001. *Academic Draft: Draft of Public Accountant Law*. MOF: Jakarta.

192. The issue of whether accounting standard setting should be a government or private-sector function is a common one faced by many countries and is influenced by a range of factors.¹⁴⁷ However, this proposal aligns with international trends for semiautonomous, representative bodies to set accounting standards (for instance the 2001 reconfiguration of international accounting standard-setting arrangements).

3. Accounting Standard-Setting Process

193. A sound accounting standard-setting process has five phases: (i) **design**—a particular aspect of accounting is identified and researched and an exposure draft prepared; (ii) **approval**—the draft is subjected to review and, if it survives, it is approved as a standard; (iii) **education**—financial statement users and preparers are educated in the impacts and implementation of the new standard; (iv) **implementation**—the requirements of the new standard are implemented by financial statement preparers; and (v) **enforcement**.¹⁴⁸

194. The Indonesian standard-setting process meets international norms regarding the first three phases. It is prescribed in DSAK rules and has eight broad stages:

- (i) *Issue Identification*: The IAI National Congress, which meets every four years, issues resolutions on DSAK's strategic work program. In addition, DSAK monitors and considers pronouncements made by IASB and other standard setters, and reviews direct submissions by other parties.
- (ii) *Preliminary Consideration*: DSAK discusses the identified issues and, where necessary, commissions and conducts studies of issues before they are included in the DSAK work program.
- (iii) *Preparation of Accounting Discussion Paper*: For each accepted topic, a DSAK project committee is established to prepare a Topic Outline and an Accounting Discussion Paper, which describes and critically examines the topic.

¹⁴⁷ Zeff, Stephen. 1987. Setting Accounting Standards: Some Lessons from the US Experience. *Accountant's Magazine*. December. p. 27.

¹⁴⁸ For further discussion, see: Narayan, Francis B., Ted Godden, Barry Reid, and Maria Rosa Ortega. 2000. *Financial Management and Governance Issues in Selected Developing Member Countries: A Study of Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan, and Viet Nam*. Asian Development Bank. pp. 24-26.

- (iv) *Preparation of Exposure Draft (ED)*: Following consideration of the Accounting Discussion Paper, DSAK develops a preliminary Exposure Draft (ED) on the topic. The ED must be entirely consistent with the IAS Framework. The preliminary ED is circulated to interested parties (including practitioners, academics, industry associations and other interested parties) for their comments. DSAK considers comments and refines the ED.
- (v) *Publication of ED*: The ED is published in *Media Akuntansi* (the IAI journal) and distributed to relevant parties at least one month before public hearings begin.
- (vi) *Public Hearings*: Public hearings are held at which interested parties can express their views and opinions on the ED. In considering these views and opinions, DSAK consults further with government agencies, other relevant organizations and individuals before finalizing the PSAK.
- (vii) *PSAK Preparation*: Where necessary, DSAK amends the ED to reflect consultations.
- (viii) *Approval and Promulgation*: DSAK approves the PSAK for promulgation. The approved PSAK is published in *Media Akuntansi* and on the IAI website.

4. Indonesian Financial Accounting Standards (PSAKs)

195. Appendix 7 lists the 57 existing PSAKs at 30 June 2002. PSAKs were developed and refined under the World Bank-sponsored *Accountancy Development Projects*.¹⁴⁹ ADB has also supported PSAK improvements.¹⁵⁰ In 1994, IAI agreed that PSAKs should be IAS-compliant. To this end, DSAK contends that every PSAK is consistent with the IAS Framework.

¹⁴⁹ Accountancy Development Projects:

- World Bank Loan 3801-IND: *Accountancy Development Project II* (1995–2000), for \$25 million approved on 22 September 1994.
- World Bank *Accountancy Development Project I* (1988–1994), for \$113 million, approved on 17 May 1988.

¹⁵⁰ See for instance, Deloitte Touche Tohmatsu. 2000 May. Indonesian Accounting Standards (PSAKs): Recommended Changes in Selected PSAKs for Improving Conformity with the International Accounting Standards. Report prepared for the Financial Governance Reforms Support Project (Capital Markets Component). ADB TA No. 1620-INO.

196. PSAKs are principle-based rather than the U.S. rule-based alternative.¹⁵¹ Moreover, some PSAKs are more advanced than either IAS or U.S. GAAP. For instance, PSAK 53 *Accounting for Stock-based Compensation* is compulsory, whereas its U.S. counterpart (SFAS 123) is optional (due to lobbying pressure). IASB is only now addressing this contentious issue.

197. In many countries, small and medium scale-enterprises (SMEs) are required to comply with IAS-based accounting standards. In Indonesia's case, all limited liability (PT) companies must prepare their financial statements in accordance with IAS-based PSAKs.¹⁵² Some exemptions are given, for instance only publicly-listed companies must apply PSAK 56 *Earnings per Share*.

198. However, like U.S. GAAP, IAS is intended for financial reporting by publicly listed companies. Some IAS accounting and disclosure requirements may be inappropriate for SMEs—which may lack the capacity to correctly apply the provisions of certain standards—hence compliance costs may outweigh benefits. Although international initiatives are underway to address this issue, this is likely to take some years to resolve.¹⁵³ In the meantime, a number of countries including Canada, Fiji Islands, New Zealand, United Kingdom and the U.S. have formalized full or partial exemptions from accounting standards for certain entities, usually smaller or closely-held entities (*differential reporting*).¹⁵⁴

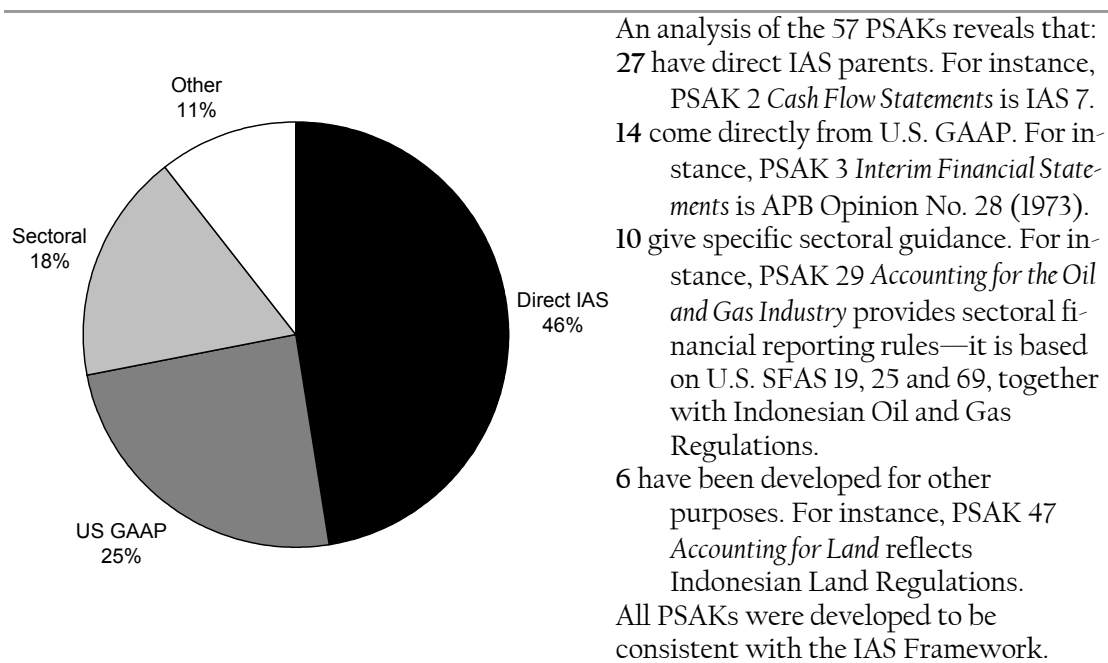
¹⁵¹ In the principle-based system, standards provide general principles. In contrast, rules-based standards attempt to cover every business situation. Rules substitute for professional judgment – a criticism of the rules-based approach is that legal form is emphasized over economic substance (see p. 119 for further discussion).

¹⁵² *Law on Limited Liability Companies (No.1) 1995* (PT Law).

¹⁵³ For a detailed discussion, see, Narayan, Francis B., S. Lakshman Athukorala, Barry Reid and Ma. Rosa Ortega. 2002. *Accounting and Auditing Practices in Selected Developing Member Countries: A Study of Azerbaijan, Fiji Islands, Marshall Islands, Philippines and Sri Lanka*. ADB: Manila.

¹⁵⁴ Refer FASB Statement No. 126 *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities*; United Kingdom Accounting Standards Board *Financial Reporting Standard for Smaller Entities (FRSSE)*; Institute of Chartered Accountants of New Zealand *Framework for Differential Reporting*; and Canadian Accounting Standards Board Exposure Draft (July 2001), *Differential Reporting*.

Figure 9. PSAK Analysis



Source: Information provided by an analysis of extant Indonesian PSAKs at 31 June 2002.

5. Conformity with International Accounting Standards (IAS)

Introduction

199. In the past decade, significant government, World Bank and ADB resources have been committed to ensuring that PSAKs are IAS-compliant. Millions of dollars have been spent. To this end, all PSAKs are developed with reference to the IAS Framework. Nevertheless a recent study contends that “[Indonesian] accounting standards are not yet up to international norms and are enforced weakly.”¹⁵⁵

200. Chapter II reviews weak disclosure enforcement mechanisms and proposes corrective improvements. However, the contention that PSAKs do not meet international norms is overstated. The following subsections describe the development of PSAKs and examine differences between IASs and PSAKs.

¹⁵⁵ Department of Foreign Affairs and Trade (DFAT). 2002. *Changing Corporate Asia, What Business Needs to Know: Volume 1. Main Report*. Economic Analytical Unit (EAU), DFAT, Australia. pp. xxxi-xxxii.

PSAKs: Attempting to Create the Best of All Worlds

201. In 1994, IAI decided to move away from U.S. GAAP and adopt IAS. Several factors drove this decision. First, U.S. GAAP is fragmented and complex. It comprises several accounting research bulletins, 31 APB opinions, over 140 FASB statements, and scores of interpretations and technical bulletins, statements of position, and accounting guides issued by AICPA, as well as other relevant professional literature. Among other things, translating and keeping abreast of this material is challenging. Second, U.S. GAAP is inextricably intertwined with U.S. laws and legal precedents—factors not easily transferred to another country. Third, U.S. GAAP is rules-based rather than principle-based (see page 102). Fourth, IAS has been developed in a consistent manner and is less complex to apply (see Box 7). In July 2002, 34 IASs were supplemented by 31 SIC (Standing Interpretations Committee) Interpretations (see Appendix 8 and Appendix 9).

Box 7. Detailed Standards¹⁵⁶

The International Accounting Standards Committee (IASC) has stated that it has no intention of trying to duplicate [U.S. GAAP], and indeed, subscribes to a philosophy of providing general guidance rather than detailed standards addressing every nuance of business practice. There are many who believe that the troubles experienced by accountants in recent years, particularly the explosion of litigation against them, can be traced to the attempt (doomed to fail, some would argue) to establish specific guidance for a vast array of transactions and events.

202. In 2002, more than half of the OECD member countries have either directly adopted, or are in the process of directly adopting, IAS. The G8, IOSCO and the BIS now endorse it. With a few exceptions, most countries are in the process of making their accounting standards IAS-compliant.

203. Things were very different in the early 1990s—IAS coverage was narrow and few countries accepted its usage—some considered IAS an endangered species. It was in this environment that PSAKs were initially developed.

204. Government's 1994-2000 accountancy development strategy emphasized using IAS as the primary reference for Indonesian

¹⁵⁶ Epstein, Barry J. and Abbas Ali Mirza. 2001. *IAS 2001: Interpretation and Application*. John Wiley & Sons: New York.

accounting standards.¹⁵⁷ TA from the *Accountancy Development Project II* was designed to: (i) formulate 40 accounting and 16 auditing standards; (ii) process them through draft exposure, public hearing, adoption by the IAI's professional committees and final production; (iii) support MOF's efforts to train key personnel to eventually lead the IAI; and (iv) develop and begin executing a CPE program for IAI members.¹⁵⁸

205. Accordingly, the IAS Framework provided the PSAK foundation. First, existing IASs were translated and directly adopted (e.g., IAS 24 *Related Party Disclosures*, 1984). IASs that were irrelevant to Indonesian conditions were not adopted (e.g., IAS 29 *Financial Reporting in Hyper-inflationary Economies*, 1989). Second, IAS was compared with U.S. GAAP and, where significant gaps were identified, U.S. standards were directly adopted. For instance, there was no IAS on intangible assets—this gap was plugged by APB Opinion No. 17 (1970) *Intangible Assets* (In 2002, DSAK replaced the U.S. standard with IAS 38 *Intangible Assets*, 1997). Third, Uniform Accounting Plans influenced standards development; PSAKs were developed for specific sectors.¹⁵⁹ In some cases, these PSAKs were based on U.S. GAAP. In all cases, they were developed in line with the IAS Framework (e.g., PSAK 37 *Accounting for Toll Roads*, 1997). Fourth, standards were developed to reflect the accounting requirements of Indonesian legislation (e.g., PSAK 40 *Accounting for Changes in the Equity of Subsidiaries or Associates*, 1997, reflects Indonesian Corporation Regulations).

206. In summary, PSAKs are an amalgam of three accounting systems: IAS, U.S. GAAP and Uniform Accounting Plans. They represent an attempt to combine the best aspects of each system, within an overarching IAS Framework.

IAS-PSAK Differences

207. In addition to the earlier-mentioned report (see page 103), three recent studies have examined IAS-PSAK differences (see Table 24). Most differences are due to PSAKs being out-of-step with IAS issuances. Some are due to regulatory conflicts, for instance, tax regulations drive occasional revaluations. This study identifies necessary changes to fully realign IAS-based PSAKs with their IAS counterparts (see Appendix 12).

¹⁵⁷ World Bank. 1994 July 29. *Indonesia Second Accountancy Development Project*. Staff Appraisal Report No. 12883-IND. World Bank: Washington D.C. p. 3.

¹⁵⁸ *Ibid.* p. 8.

¹⁵⁹ Table 14 describes Uniform Accounting Plans (see page 55).

208. Despite these differences, it would be difficult to conclude that Indonesian accounting standards are not yet up to international norms. Indeed Indonesian accounting standards compare well with those of most other countries in the region.

Table 24. Comparative Studies of IAS and PSAKs

| | |
|---|--|
| Deloitte Touche Tohmatsu (May 2000) ¹⁶⁰ | <p>This ADB-commissioned study identified four sources of IAS-PSAK difference: (i) local standards cover certain topics that IAS does not; (ii) some IASs are irrelevant to Indonesia, for instance IAS 29; (iii) IASs have been revised but their PSAK comparators have not; and (iv) Indonesian regulations may restrict IAS usage in some areas (e.g., leasing). The report recommended changes to eight PSAKs. In response:</p> <ul style="list-style-type: none"> ▪ Some of the standards have been revised (PSAK 19 <i>Intangible Assets</i> and PSAK 31 <i>Accounting for Banking</i>) ▪ Others are currently being revised (PSAK 16 <i>Fixed Assets and Other Assets</i> and PSAK 30 <i>Accounting for Leases</i>); and ▪ Some recommendations have not been implemented (PSAK 7 <i>Related Party Disclosures</i>, PSAK 8 <i>Contingencies and Events Occurring after the Balance Sheet Date</i>, PSAK 10 <i>Transactions in Foreign Currencies</i> and PSAK 13 <i>Accounting for Investments</i>). |
| Nobes (October 2001) ¹⁶¹ | <p>This study identifies differences between country accounting standards and IAS. Twenty IAS-PSAK differences are identified. Of these differences:</p> <ul style="list-style-type: none"> ▪ Three have already been addressed through PSAK revisions ▪ Two are due to practical Indonesian problems (e.g., there are no specific rules regarding the fair values of financial assets and liabilities, as these rules would be difficult to apply given Indonesian interest rate fluctuations) ▪ Two are due to regulation-standard conflicts (revaluations and leases) ▪ Two are minor (inventory valuation) ▪ Nine are caused by timing delays in PSAK issuances, and ▪ Two are due to differences between ISAKs and SICs. |

¹⁶⁰ Deloitte Touche Tohmatsu. 2000 May. *Indonesian Accounting Standards (PSAKs): Recommended Changes in Selected PSAKs for Improving Conformity with the International Accounting Standards*. Report prepared for the Financial Governance Reforms Support Project (Capital Markets Component). ADB TA No. 1620-INO.

| | |
|--|---|
| PricewaterhouseCoopers (August 2001) ¹⁶² | This comprehensive study compares Indonesian GAAP with IAS, U.S. GAAP and UK GAAP. It identifies a number of differences, most notably: (i) regulation-driven revaluations; (ii) lease classification approaches; and (iii) employee benefit treatments. ¹⁶³ |
|--|---|

The Danger of Being Different: PSAK Structure Problems

209. When the PSAK structure was designed, few countries had adopted IAS. The situation is very different today. First, IAS has become a true international standard. Second, investors strongly support international harmonization.¹⁶⁴ However, although PSAKs provide a robust set of accounting standards, they are not directly comparable to IAS. This potentially causes misunderstandings, thereby reducing investor confidence.

210. Moreover, the PSAK structure, comprising IAS, U.S. GAAP and sector-specific standards, is maintenance intensive. Consequently, there will be a tendency for PSAKs to remain out-of-step with IAS. Finally, even countries with strong accounting academia, well-resourced standard-setting bodies and an active constituency of financial statement users have opted for direct IAS adoption—the complex structural design of PSAKs may not be suited to Indonesian conditions.

¹⁶¹ Nobes, Christopher W. (Ed.). 2001 October. *GAAP 2001: A Survey of National Accounting Rules Benchmarked against International Accounting Standards*: Jointly published by Andersen, BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG, PricewaterhouseCoopers.

¹⁶² PricewaterhouseCoopers. 2001 August. *Indonesian GAAP: Similarities and Differences Among IAS, Indonesian GAAP, US GAAP and UK GAAP*. Assurance & Business Advisory Services.

¹⁶³ IAS 17 classifies a lease as a finance lease if it meets the following criteria: (i) ownership is transferred at the end of the lease; (ii) the lease contains a bargain purchase option; (iii) the lease is for a major part of the asset's useful life; and (iv) the present value of the minimum lease payments is greater than or substantially equal to the asset's fair value. Conversely, PSAK 30 lists the following as preconditions for a lease to be classified as a finance lease: (i) the lease has a purchase option at a price that has been agreed by the lessor and lessee prior to the lease commencement; (ii) the present value of minimum lease payments is greater than or equal to fair value of the asset; and (iii) the lease term is for a minimum of two years. (Source: Foo, See Liang. 1997. "Indonesia" in *Financial Reporting in the Pacific Asia Region*, edited by Ronald Ma. Singapore: World Scientific Publishing. p. 355).

¹⁶⁴ McKinsey & Company. 2002 July. Global Investor Opinion Survey: Key Findings.

6. Legal Status of PSAKs

211. DSAK has no legal status as a standard-setting body. However, *Bapepam* requires listed companies to comply with PSAKs and the *Law on Limited Companies (No. 1) 1995* requires limited companies to prepare their financial statements in accordance with PSAKs. The Directorate General of Taxation (DGoT) and BI also require that companies under their jurisdiction use PSAKs.

7. Taxation Reporting Requirements

212. The DGoT administers Indonesian income tax laws, excepting those that apply to the oil and gas industry. Tax regulations require Indonesian businesses to maintain and preserve detailed accounting records for at least ten years.

213. IAI has made ongoing efforts to ensure that the DGoT is involved in the development of PSAKs. Moreover, government supported these efforts with the release of a 1979 taxation policy that gave tax incentives to companies that submitted audited financial reports.¹⁶⁵

214. Indonesian tax regulations limit accounting policy choices (for taxation purposes)—they specify doubtful debts treatments, depreciation rates and leasing approaches. Nevertheless, few additional accounting requirements are imposed by taxation requirements.¹⁶⁶

8. Public Sector Accounting Standards

215. The MOF State Financial Accounting Agency (*Badan Akuntansi Keuangan Negara, BAKUN*) is responsible for government accounting arrangements. Indonesia has not yet established a set of public sector accounting standards. Public sector report preparation is largely based on the *Indische Comptabiliteitswet 1925* (a treasury law enacted by the Dutch colonial authorities) and PSAKs, some of which may not be suitable for public sector reporting.

216. Work is currently underway to implement the IMF system of Government Finance Statistics (GFS) in central government. GFS mandates accounting bases and budgeting and reporting classifications. In an effort to provide legislative support for public sector financial

¹⁶⁵ Bachtiar, Emil. 2001 August. The Professionalization of Accounting in Indonesia. Paper presented to the Second International Accounting History Conference, Osaka, August 2001.

¹⁶⁶ Tearney, Michael G. 2001. An Evaluation of Disclosure of Financial Information by Public Companies in Indonesia. Unpublished Paper. Von Allmen School of Accountancy, Gatton College of Business and Economics, University of Kentucky.

management reforms, the Government submitted three bills to parliament in September 2000 (covering state finances, state treasury, and state audit). The draft state treasury law effectively assigns accounting-standard setting authority to the Minister of Finance (Article 2(2)).

217. Furthermore, in April 2001, the MOF established the Financial Management Reform Committee (KPMK) to guide the financial management reform process and to coordinate with Parliament on the three bills being considered. Part of this work will involve the development of public sector accounting standards—BAKUN has indicated an intention to move government organizations to a modified accrual basis of accounting in 2003. ADB is supporting the process of accounting standard development and implementation.¹⁶⁷ IAI plans to establish a Board to develop public sector accounting standards.

Part Two. Auditing Standards

9. Introduction

218. Indonesian generally accepted auditing standards (*Standar Profesi Akuntan Publik*, SPAPs) form part of the *Professional Standards for Public Accountants*.¹⁶⁸ The Professional Standards comprise auditing standards, attestation standards, accounting and review standards, consulting services standards, quality control standards and the code of professional conduct.

219. Since 1994, IAI has been committed to raising professional standards to international levels. Most are based upon the U.S. AICPA-issued Statements on Auditing Standards (SASs). The decision to adopt SASs was based upon considerations of the quality of the SASs and their coverage of most areas of professional practice. However, IAI refers to International Standards on Auditing (ISAs) in areas where SASs have not been issued. Together with the revised accounting standards, SPAPs were issued on 1 August 1994.

¹⁶⁷ ADB TA 3764-INO: *Supporting Country Financial Accountability*, for \$300,000, approved on 12 November 2001.

¹⁶⁸ Indonesian Institute of Accountants (IAI). 2001. *Professional Standards for Public Accountants*. IAI: Jakarta.

220. In 2000, IAI prepared a report on Indonesian Corporate Governance.¹⁶⁹ Although concluding that the Indonesian accounting profession was satisfied with its professional standards, the report identified three SPAP-related challenges. First, in spite of mandatory CPE, there were indications that practitioners had not kept abreast with new pronouncements. The report suggested that IAI could improve CPE programs and develop more learning tools. Second, the report found that academic curricula sometimes did not reflect SPAP developments. Moreover, since U.S. auditing texts are used heavily, some lecturers and students are more familiar with U.S. auditing standards. Third, the report concluded that practitioners sometimes face difficulties implementing certain standards.

10. Auditing Standard Setting

221. Table 25 traces the evolution of Indonesian audit standard-setting bodies. The Public Accountants Professional Standards Board (*Dewan Standar Profesional Akuntan Publik, DSPAP*) promulgates SPAPs. It comprises seven auditing practitioners and is part of the Public Accountants' Compartment (IAI-KAP).¹⁷⁰

Table 25. Evolution of Audit Standard Setting Bodies

| | |
|--------------|--|
| 1973–1994 | Accountant Examination Norm Committee (<i>Komite Norma Pemeriksan Akuntan, KNPA</i>). |
| 1994–1999 | Public Accountants Professional Standards Committee (<i>Komite Standar Profesional Akuntan Publik, KSPAP</i>). |
| 1999 to date | Public Accountants Professional Standards Board (DSPAP). |
| 1999 to date | Public Accountants Professional Standards Advisory Council (DKSPAP). |

222. The Public Accountants Professional Standards Advisory Council (*Dewan Konsultatif Standar Profesional Akuntan Publik, DKSPAP*) was established to advise DSPAP on issues to be addressed by professional standards and to raise funds to support standard-setting activities.

223. In accordance with IAI-KAP rules,¹⁷¹ DSPAP follows a formalized 'due process' procedure to identify, develop and revise SPAPs. First,

¹⁶⁹ Kurniawan, Dudi M. and Nur Indriantoro. 2000. Corporate Governance in Indonesia. Paper Presented to the Second Asian Roundtable on Corporate Governance. Hong Kong, China. 31 May – 2 June 2000.

¹⁷⁰ *Ibid.* p. 20.

¹⁷¹ IAI-KAP Rule No. 01/TK/IAI-KAP/XI/2001 *DSPAP Due Process for SPAP Standard Setting* (21 November 2001).

DKSPAP and DSPAP identify topics that might require professional standards. A risk analysis is undertaken of these topics. A Task Force, comprising DSPAP members and other competent people, is established to analyze chosen topics, identify potential issues and develop an ED. Once DSPAP is satisfied with the ED, it is mailed to regulatory bodies (e.g., BI, *Bapepam* and DJLK), state audit agencies (BPK and BPKP), academics, practitioners and other interested parties. The ED is also published in *Media Akuntansi*, announced in the media and posted on the IAI website. A minimum period of 60 days is allowed for written comments. Having analyzed these comments, DSPAP organizes public hearings. Following DSPAP's review and consideration of received comments, the ED is approved and promulgated as an SPAP.

224. The 2001 *Academic Paper*¹⁷² envisages an independent professional standard-setting board. This proposal aligns with international trends, for instance, the recent establishment of the International Auditing and Assurance Standards Board (IAASB) in place of the IFAC International Auditing Practices Committee (IAPC).

11. Indonesian Auditing Standards (SPAPs)

225. Appendix 10 lists the SPAPs that were effective at 30 June 2002—SPAPs were last revised and reissued in 2001. IAI publishes SPAPs in *Professional Standards for Public Accountants*.¹⁷³

226. SPAPs comprise a mixture of U.S. generally accepted auditing standards (GAAS) and International Standards on Auditing (ISAs).

12. Comparison with International Standards on Auditing (ISAs)

227. In 2002, the IAASB replaced the IAPC. IAASB is an independent standard-setting body under IFAC auspices. Its key pronouncements are ISAs and International Auditing Practice Statements (IAPs)(see Appendix 11). ISAs and IAPs are designed for adoption as national auditing standards.

228. Although no in-depth comparison has been made between Indonesian SPAPs and either AICPA or IAASB pronouncements, it seems reasonable to assume that SPAPs are broadly comparable to these

¹⁷² Ministry of Finance (MOF). 2001. *Academic Draft: Draft of Public Accountant Law*. MOF: Jakarta.

¹⁷³ Indonesian Institute of Accountants (IAI). 2001. *Professional Standards for Public Accountants*. IAI: Jakarta.

pronouncements, given their parentage (IAASB pronouncements were initially based upon U.S. GAAS). Certainly, no evidence suggested otherwise.

“The quality of international auditing standards is very close to U.S. GAAS ... but gaps do exist (e.g., in the addressing of claims arising out of litigation. U.S. GAAS has a whole statement on the topic, whereas international standards have just a paragraph or two). ... In some areas, such as illegal acts, international standards are more rigorous than GAAS.”¹⁷⁴

13. Public Sector Auditing Standards

229. The Supreme Audit Board (*Badan Pemeriksa Keuangan, BPK*) promulgates government auditing standards and requires their usage by external and internal government auditors. These auditing standards were last updated and distributed in 1995, based upon the Government Auditing Standards (1994) of the U.S. Government Accounting Office (GAO).

230. A draft law on state audit has been submitted to parliament (see page 108). Although Article 3(5) of the draft law requires that audits be performed based on generally accepted auditing standards, these are not defined. However, government has requested that ADB consider providing technical assistance to facilitate improvements in state auditing, including procedures, standards and their legal basis.

14. Issue Synopsis: Accounting and Auditing Standards

231. This part of the study concludes that—although Indonesian private sector¹⁷⁵ accounting and auditing standards generally meet international benchmarks—accounting standards could be improved to: (i) raise the overall credibility of Indonesian financial disclosure; (ii) reduce business compliance costs, particularly for SMEs; (iii) reduce standard-setting resource requirements; and (iv) improve access to guidance and training materials.

232. However, these potential efforts should be considered in light of more important priorities; such as improving compliance with these accounting and auditing standards by strengthening auditing practices and professional arrangements.

¹⁷⁴ Craig, James L. Jr., Douglas R. Carmichael and Dan M. Guy. 2000 June. Are International Auditing Standards Ready to Replace U.S. GAAS? *The CPA Journal*.

¹⁷⁵ Authors' Note: In contrast to other country DSAs, this study is limited to the private sector. Public sector arrangements and challenges are described for completeness.

233. The proposed restructuring of accounting and auditing standard-setting bodies (the new PA Law) is in line with international trends, would improve independence and would give stronger legal support to accounting and auditing standards. Nevertheless, Chapter VIII—*Issues and Recommendations*—identifies and describes constraints and proposes corrective actions. These include the following issues regarding accounting and auditing standards:

- The PSAK structure reflects a variety of influences under an IAS umbrella. But, this structure potentially undermines investor confidence and may not suit Indonesian conditions. Moreover, it reduces access to high-quality training and guidance materials.
- The financial statements of most SMEs must comply with PSAKs, as Indonesia does not have a differential reporting regime. This imposes unnecessary compliance costs and potentially undermines the quality of SME financial statements.
- As with PSAKs, SPAPs comprise a mixture of U.S. and international pronouncements. Although there are potential ways to strengthen SPAPs, such as by directly adopting IAASB pronouncements, any such changes should be low priority.
- A recent IAI report identified concerns regarding practitioner and academic familiarity with SPAPs (see page 109). It suggests that practitioners and academics be educated on SPAPs and ongoing developments, through continuing education and other initiatives.

V. Issues and Recommendations

This chapter presents the issues and recommendations that are associated with gaps or weaknesses in accounting and auditing arrangements. The study concludes that Indonesian private sector accounting and auditing practices and standards are largely consistent with international best practice. Moreover, Indonesian professional accountancy qualifications compare very favorably with regional and international norms. These conclusions are contrary to popular perception.

234. Nevertheless, Indonesia faces significant issues. First, the weak judicial environment negates many of the incentives and sanctions that support strong and reliable financial reports. Second, in comparison to other countries, Indonesia has relatively few professionally-qualified accountants, particularly outside the main urban centers. Third, the accuracy of financial statements depends largely on the reliability of asset and liability valuations. However, Indonesia's valuation profession is only just beginning to develop in line with regional and international norms.

235. In response, this study recommends continued development of standards and practices, and that support is given to facilitate the development, enactment and implementation of the PA law. It also recommends measures to strengthen the valuation profession.

236. However, this study presents no magic solution for addressing the apparent shortage of accountants, particularly in non-urban areas. While some supply-side recommendations are made regarding education and training, the real issue appears to be demand. Nevertheless, anecdotal evidence suggests that two factors are creating stronger demand for accountants. First, increased awareness of corporate governance is driving demand for accountancy services, and second, decentralization activities are increasing demand for accountants, particularly outside the main urban centers.

1. Support PA Law Implementation

237. When enacted, the draft PA Law will bring significant changes in accountancy arrangements. These changes should be implemented in a practical, realistic and consistent manner. It is **recommended** that: (i) a project to develop a PA Law implementation strategy and plan be developed; and (ii) implementation of this plan be supported.

2. Develop Accountancy Qualifications

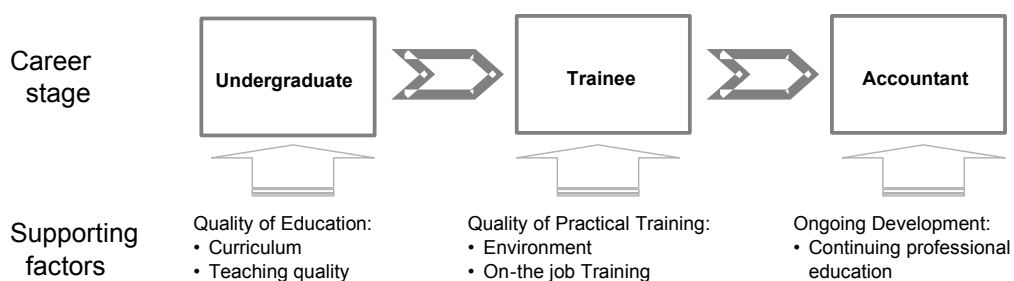
238. The BAP qualification for PAs meets international guidelines. The Accountant Title does not. It is common practice to have a range of accountancy qualifications that meet varying market needs, for instance management accountants and accounting technicians. The establishment of additional accountancy qualifications would provide a transitional route for aspiring public accountants and professional representation for other accountants. It would also improve their societal status, and improve their knowledge and competence. Furthermore, this initiative would strengthen IAI's status.

239. IAI-KAP is undertaking preliminary work on establishing management accountant qualifications. IAI has long considered introducing an Accountant Technician qualification. It is **recommended** that IAI's efforts to develop and implement qualifications for management accountants and accounting technicians be supported.

3. Provide Training to Lecturers and Professors

240. There is no specific advanced training provided for the continuing education of accounting lecturers and professors. In order to develop competent accounting graduates, the trainers themselves must be thoroughly conversant with modern-day practices and trends. The quality of undergraduate teachers is a key factor in developing competent accountants (Figure 10 refers).

Figure 10: Developing Competent Accountants



241. In 2002, ADB supported a very successful training regional program for accounting academics in selected DMCs. It is **recommended** that this training program be supported for Indonesian accounting academics.

4. Decentralize the USAP

242. The USAP is currently offered twice a year in Jakarta and Surabaya. Few aspiring accountants from outside these centers have access to the

USAP. It is recommended that the USAP be offered more widely throughout Indonesia.

5. Strengthen CPE Training and Monitoring

243. As with the USAP, CPE courses are highly centralized. It is recommended that support be provided to strengthen CPE training courses and to deliver these throughout Indonesia.

6. Strengthen the Valuation Profession

244. Reliable valuations are very important for: (i) financial statement reliance; (ii) lending; and (iii) local government property taxes. However, the Indonesian valuation profession is weak. DPAJP considers it essential that professional certification, training and quality assurance be strengthened.

245. It is recommended that support be provided to: (i) review the status of the valuation profession in comparison to international norms and practices; (ii) develop a strategy and plan for strengthening the profession throughout Indonesia, including development of the university curriculum, establishment of specialized qualifications, and training for lecturers and professors; (iii) develop supporting legislation and regulations; (iv) implement the strategy and plan.

7. Support the Application of Valuation Standards

246. Indonesia recently adopted international valuation standards (SPIs). The next challenge is to train valuers in their application. It is recommended that support be provided to train valuers in the application of the new valuation standards.

8. Consider Improvements to PSAKs

247. The PSAK structure—comprising IAS, U.S. GAAP and sector-specific standards—is maintenance intensive and may not be suited to Indonesian conditions. Consequently, there will be a tendency for PSAKs to be out-of-step with IAS. The structure also limits access to guidance and training materials, potentially undermines investor confidence and imposes unnecessary compliance costs on SMEs (because there is no differential reporting regime).

248. It is suggested that: (i) changes are made to PSAKs to improve their conformity with IAS (see Appendix I2); and (ii) the suggestions to simplify the PSAK structure are considered for adoption (These include fully aligning PSAKs with IAS, reducing regulatory conflicts and intro-

ducing differential reporting for SMEs). The special Chapter Appendix suggests how the PSAK structure might be simplified in a step-by-step manner (see pages 119-132).

9. Support Indonesian Involvement in UNCTAD-ISAR

249. ISAR examines accounting and auditing issues that are of special relevance to developing and transitional economies. In particular, ISAR has formed an *ad hoc* Consultative Group of Experts on Accounting by Small and Medium Sized Enterprises (SME-CG) to recommend an IAS-based financial accounting and reporting framework for SMEs. The preliminary SME-CG proposals were considered by ISAR at its September 2001 meeting.¹⁷⁶ SME-CG will present its revised proposals to ISAR's nineteenth session in late 2002. Indonesia was not represented at ISAR's eighteenth session in September 2001, however the issues being examined and the proposals being developed are directly relevant to Indonesia's situation.¹⁷⁷

250. It is **suggested** that assistance be provided to support: (i) Indonesian involvement in ISAR; and (ii) dissemination of ISAR materials within Indonesia.

10. Further Develop Auditing Training and Monitoring

251. A recent IAI report identified concerns that audit practitioners and accounting academics were not completely familiar with SPAPs. The report suggested that practitioners and academics be educated on SPAPs and ongoing developments, through continuing education and other initiatives (see page 109). Workshop participants and interviewees agreed that, although continuing education was available, it could be improved and be made more attractive through enhanced monitoring of CPE. It is **recommended** that assistance be provided to further develop training programs to practitioners and academics on SPAPs and to monitor attendance.

11. Gradually Adopt International Auditing Pronouncements

252. Indonesian auditing standards comprise a mixture of U.S. and international pronouncements. Efficiency gains could be made by fully

¹⁷⁶ UNCTAD ISAR. 2001 July 16. *Accounting by Small and Medium-Sized Enterprises: Report by the Ad Hoc Consultative Group of Experts on Accounting by Small and Medium-Sized Enterprises*. Report No. TD/B/COM.2/ISAR/12.

¹⁷⁷ Representatives of seven ADB DMCs attended: Bangladesh, People's Republic of China, India, Philippines, Sri Lanka, Thailand and Tonga.

adopting international auditing pronouncements. However, in comparison to other potential actions, this should be accorded lower priority. It is **recommended** that assistance be provided to support Indonesia's full adoption of IAASB pronouncements over time, as resources and capacity allow.

Chapter Appendix: Suggestions for Improving PSAKs

1. Introduction

253. Beginning in the early 1990s, significant efforts have raised PSAKs to international levels. This study concludes that, although these efforts were successful, environmental changes have overtaken them. First, there is now overwhelming support for one global accounting standard, although consensus has yet to be reached on the basis for these standards (see Box 8 and Figure 11).

254. This chapter appendix suggests how the PSAK structure might be improved to: (i) raise the credibility of Indonesian financial disclosure; (ii) reduce business compliance costs, particularly for SMEs; (iii) reduce standard-setting resource requirements; and (iv) enhance access to guidance and training materials. An implementation approach is also suggested.

Box 8. Will U.S. GAAP Converge with IAS?

On 30 July 2002, the Public Company Accounting Reform and Investor Protection (Sarbanes-Oxley) Act was signed into U.S. law. Among other things (see p. 44), it requires the SEC to examine the adoption of principles-based accounting. SEC must report its findings by July 2003 on: (i) the current use of principles-based accounting in the U.S.; (ii) the time required to adopt principles-based accounting; (iii) the feasibility of and proposed methods for implementing a principles-based system; and (iv) an economic analysis of the implementation of principles-based accounting.

The new law also permits SEC to look to a private-sector accounting standard-setter, such as FASB, provided that the standard-setter: "considers, in adopting accounting principles, ... the extent to which international convergence on high quality accounting standards is necessary or appropriate in the public interest and for the protection of investors."¹⁷⁸

Moreover, in a November 2002 speech, the FASB Chair stated that "... the growth of cross-border investing and capital flows and a growing endorsement of international standards in many parts of the world mean that, on the one hand, the U.S. cannot go it alone in terms of development of accounting standards and, on the other hand, the development of international standards across the major capital markets of the world requires that the U.S. be a very active participant in the process, for there can be no truly international accounting standards if the largest capital market in the world, the U.S., is not part of their development. Accordingly, we have been dedicating significant resources at various levels to this effort... Since there are literally hundreds of differences between U.S. GAAP and international standards, realistically, this effort will still be ongoing, well, beyond 2005 when Europe adopts international standards en masse. But we need to set this process in motion now if we are to get to the Promised Land.

... For the FASB, this is a major area of activity that is logistically challenging and that necessitates increases in both our people and monetary resources, but we need to do it. I think the trick is to do it in a way that does not significantly delay or dilute our efforts to improve U.S. standards and that, by working with our international colleagues, results in better standards that can be applied both here and across the major capital markets of the world."¹⁷⁹

255. Second, a country may have high-quality national accounting standards, but slight differences from international benchmarks will be identified; investors dislike deviations.

256. The PSAK structure blends IAS, U.S. GAAP, sector-specific standards and Indonesia-specific standards within an IAS framework (see pages 103-108). It was conceptually sound when developed in the

¹⁷⁸ Source: Deloitte Touche Tohmatsu. 2002 July 30. www.iasplus.com

¹⁷⁹ Herz, Robert H. 2002. Remarks on Current Financial Reporting Issues to the Financial Executives International (FEI) Conference. New York. 4 November. Speech.

early 1990s. Moreover, the PSAK structure merges the beneficial aspects of principle-based IASs, rules-based U.S. GAAP and sectoral guidance. Nevertheless, it differs from the two accepted international benchmarks: IAS and U.S. GAAP. Furthermore, maintaining the PSAK structure requires constant monitoring of both systems. Without very significant resources being devoted to standard setting on an ongoing basis, PSAKs will tend to differ from their international parents.

2. Suggested Improvements

Introduction

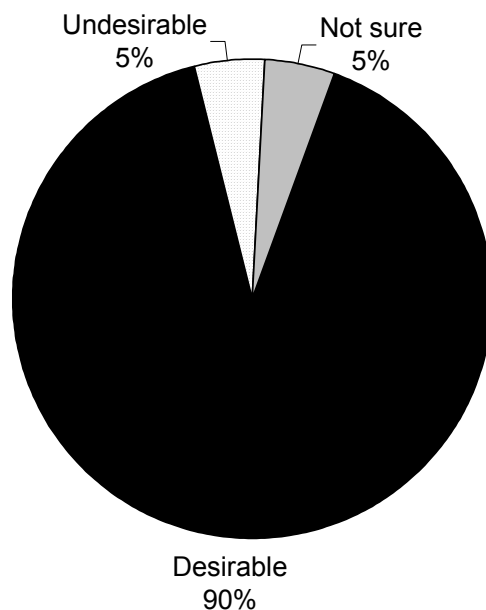
257. This study concludes that PSAKs generally meet international standards, but identifies shortcomings:

- Indirect IAS adoption allows negative perceptions to prevail. It also impedes access to high-quality training and guidance materials.
- Certain regulatory requirements conflict with IAS (e.g., lease classifications).
- Indonesian PSAKs are based upon IAS and U.S. GAAP, standards that have been developed on a one-size-fits-all basis. For instance, IAS 19 (*Employee Benefits*) requires actuarial valuations of certain employee benefits. These valuations must be conducted whether the reporting organization is a corporation that is listed on the Frankfurt Stock Exchange or a small, unlisted manufacturing organization in Karachi. Many countries have implemented differential reporting regimes to reduce SME compliance costs and implementation difficulties.

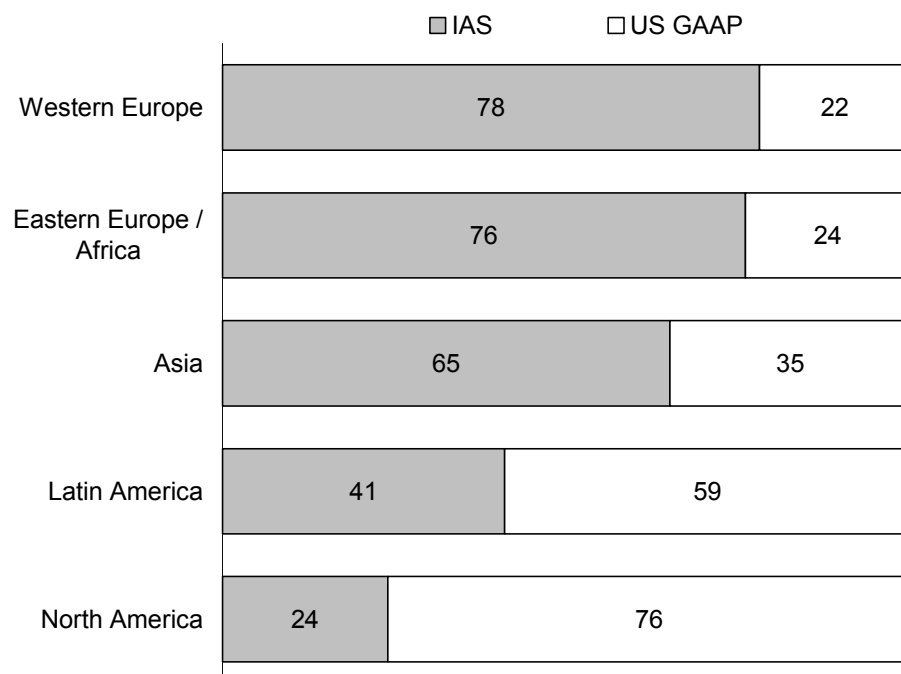
258. This study suggests the following changes to address these issues: (i) directly adopt IAS; (ii) remove regulatory conflicts; (iii) introduce differential reporting; (iv) relegate non-IAS PSAKs to guidance status; and (v) endorse standards and standard-setting arrangements.

Figure 11. McKinsey Institutional Investor Survey (July 2002)

To what extent is a single global accounting standard desirable?



If an existing standard were chosen as a global one, which one would you prefer?



Source: McKinsey & Company. 2002 July. *Global Investor Opinion Survey: Key Findings*.

Directly Adopt IAS

259. The basis for Indonesian financial reporting has evolved substantially in the past decade. In particular, there has been a move away from an early version of U.S. GAAP to IAS—PSAKs are now largely IAS-compliant. However, IAS will continue to evolve, particularly in the near future, as IASB undertakes its *Improvements Project*.¹⁸⁰ If PSAKs are to remain consistent with IASs, this will require substantial efforts on the part of the Financial Accounting Standards Board (DSAK).

260. Meanwhile, there is an increasing international trend for direct IAS adoption. Countries who have taken, or who are taking, this path include Australia,¹⁸¹ Pakistan, Philippines and the European Union member countries. The direct adoption of IASs would: (i) reduce standard setting costs and efforts; (ii) improve the credibility of Indonesian financial reporting; and (iii) enhance access to training, guidance and checklist materials. For instance, Deloitte Touche Tohmatsu publishes an excellent set of IAS-compliant model financial statements, which are cross-referenced to IAS. A disclosure checklist is also available.¹⁸²

261. Where an IAS does not address a certain country-specific issue, there is a case for promulgating a national accounting standard. For instance, Papua New Guinea uses IAS directly but has released a national accounting standard on plantation accounting. Many direct IAS adopters have a national accounting standard on Value Added Tax. Likewise, there is a case for an Indonesian standard on Shariah banking.

262. Directly adopting IAS involves two challenges. First, IAS offers a range of accounting policy choices to accommodate diverse international views (for instance some countries adamantly support asset revaluation;

¹⁸⁰ The main objectives of IASB's *Improvements Project* are to reduce or eliminate alternatives, redundancies and conflicts within existing IASs and to make other improvements to them. This includes dealing with some convergence issues and incorporating related consensus statements issued by the Standards Interpretation Committee (SIC) into the relevant IASs, where appropriate. The timetable is to finalize the standards by the end of 2002, spurred in large part by European commitment to comply with IASB standards from 2005.

¹⁸¹ Subject to the Australian Government's support at the appropriate time for any necessary amendments of the Corporations Act, this will mean that, from 1 January 2005, IASB standards will be applicable to reporting entities under the Act. After that date, audit reports will refer to companies' compliance with IASB standards. Australian Financial Reporting Council (FRC). 2002 July 3. Adoption of International Accounting Standards by 2005. *Bulletin of the Financial Reporting Council*. 2002/4.

¹⁸² See www.iasplus.com.

others are fervently opposed). Although available choices have been significantly reduced since 1996, IASs are still criticized for being too flexible. For instance, IAS 2 (*Inventories*) allows several valuation methods. Many countries who have adopted, or who are adopting, IAS limit choices to improve the consistency and comparability of financial reporting. In many cases, accounting choices are limited to those allowed for taxation purposes (e.g., LIFO inventory valuations are commonly disallowed).

263. Second, IASB promulgations are in English. To avoid conflicts arising from translation differences, officially sanctioned translations would be necessary. DSAK is best placed in this regard. Fortunately, significant lead times are usually given between IASB pronouncements and their effective implementation date.

Remove Regulatory Conflicts

264. Certain Indonesian legislation prescribes accounting treatments that conflict with IAS. First, tax-free revaluations of property, plant and equipment are not allowed unless expressly approved by a special Finance Minister Decree (e.g., in 1971, 1979 and 1986). For accounting purposes, companies may record revaluations without being taxed on the revalued amounts since the profit is deemed unrealized. However, depreciation charges for tax purposes must be based on the original cost, or on an earlier authorized revaluation. Revaluations not authorized by government decree must be noted in the auditor's report.¹⁸³ Among other things, Indonesian revaluation practices differ from the IAS 16 (*Property, Plant and Equipment*) requirement that asset valuations be kept up to date, once the practice has been adopted.¹⁸⁴ Second, Indonesian Corporate Regulations specify the accounting treatments for certain equity and reserve items. Third, classification criteria for finance and operating leases, per MOF regulations, differ from that the IAS 17 (*Leases*) criteria.¹⁸⁵

¹⁸³ Diga, Joselito and Hadori Yunus. 1997. "Accounting in Indonesia" in *Accounting in the Asia-Pacific Region*, edited by Nabil Baydoun, Akira Nishimura and Roger Willet. John Wiley: Singapore. pp. 284.

¹⁸⁴ Source: Nobes, Christopher W. (Ed.). 2001 October. *GAAP 2001: A Survey of National Accounting Rules Benchmarked against International Accounting Standards*: Jointly published by Andersen, BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG, PricewaterhouseCoopers.

¹⁸⁵ IAS 17 classifies a lease as a finance lease if it meets the following criteria: (i) ownership is transferred at the end of the lease; (ii) the lease contains a bargain

265. Two options exist to address these conflicts. First, the regulations that create inconsistencies could be either amended or withdrawn. Second, the new PA Law could stipulate that financial statements must be prepared in accordance with PSAKs. Laws rank higher than regulations and decrees in the Indonesian legal hierarchy. Consequently, this suggestion would nullify conflicts between PSAKs and regulations.

Introduce Differential Reporting

266. PSAKs are IAS-based. IAS has been developed on a one-size-fits-all basis. Many countries have implemented differential reporting regimes to reduce compliance costs for smaller, non-publicly accountable organizations. Although some PSAK exemptions are given, these could be dramatically increased (for instance only publicly-listed companies must apply PSAK 56 *Earnings per Share*).

267. There are two common options for implementing a differential reporting regime: (i) each complex standard can contain text constraining its application (see Box 9); and (ii) organizations may be centrally classified for financial reporting purposes (see Box 10).

Box 9. Fijian Application of Differential Reporting: Only Larger, Publicly Accountable Entities Must Apply the More Complex Accounting Standards¹⁸⁶

Fiji Accounting Standard (FAS) 14 Segment Reporting

“Application of the FAS is mandatory for all reporting entities that are publicly accountable and for reporting entities that are large. An entity is considered publicly accountable if it has any debt or equity instruments on public issue or has the coercive power to tax, rate or levy to obtain public funds. An entity is considered to be large if it meets any two of the following criteria: (i) its revenue for the accounting period exceeds F\$2.5 million; (ii) its total assets as at balance date exceed F\$1.5 million; or (iii) it employs more than twenty people.”¹⁸⁷

purchase option; (iii) the lease is for a major part of the asset’s useful life; and (iv) the present value of the minimum lease payments is greater than or substantially equal to the asset’s fair value. Conversely, PSAK 30 lists the following as preconditions for a lease to be classified as a finance lease: (i) the lease has a purchase option at a price that has been agreed by the lessor and lessee prior to the lease commencement; (ii) the present value of minimum lease payments is greater than or equal to fair value of the asset; and (iii) the lease term is for a minimum of two years. (Source: Foo, See Liang. 1997. “Indonesia” in *Financial Reporting in the Pacific Asia Region*, edited by Ronald Ma. Singapore: World Scientific Publishing. p. 355).

¹⁸⁶ ADB. 2002. *Accounting and Auditing Practices in the Republic of the Fiji Islands*. Manila. p. 65.

Box 10. Sri Lankan Definition of Specified Business Enterprises (SBEs)¹⁸⁸

The following have been defined as SBEs by the [Accounting and Auditing Standards] Act [1995] and the regulations made under the Act.¹⁸⁹

- Companies licensed under the *Banking Act (No. 30) 1988*.
- Companies authorized under the *Control of Insurance Act (No. 25) 1962* to conduct insurance business.
- Companies carrying on leasing businesses.
- Factoring companies.
- Companies registered under the *Finance Companies Act (No. 78) 1988*.
- Companies licensed under the *Securities Act (No. 36) 1987* to operate unit trusts.
- Fund Management Companies.
- Companies licensed under the *Securities Act (No.36) 1987* to conduct business as stockbrokers or stock dealers.
- Companies licensed under the *Securities Act (No. 36) 1987* to operate a Stock Exchange.
- Companies listed in a stock Exchange licensed under the *Securities Act (No. 36) 1987*.
- Other Companies, which: have a turnover exceeding SLRs 500 Million; at the previous financial year-end had shareholders' equity exceeding SLRs 100 Million; at the previous financial year-end had gross assets in excess of SLRs 300 Million; at the previous financial year-end had liabilities to banks and other financial institutions exceeding SLRs 100 Million; or have a staff exceeding 1,000 employees.
- Public Corporations engaged in the sale of goods or the provision of services.
- A group of companies, any one of which falls within any of the above categories. For this purpose, a group of companies" means a holding company and its subsidiaries, the accounts of which have to be consolidated under Section 147 of the *Companies Act (No. 17) 1982*.

268. Two factors influence options for introducing differential reporting. First, embedding differential reporting requirements in each PSAK (e.g., Fiji) would require all PSAKs to be changed whenever the differential criteria changed. Second, prescribing reporting requirements in a central

¹⁸⁷ Fiji Institute of Accountants (FIA). 2002. *Fiji Accounting Standards: FAS 14 Segment Reporting*. FIA: Suva.

¹⁸⁸ ADB. 2002. *Accounting and Auditing Practices in Sri Lanka*. Manila. p. 26.

¹⁸⁹ Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB). 2001. *Information of Importance to Companies, Public Corporations, Directors, Managers, Secretaries and other Officers, and Auditors*. SLAASMB: Colombo.

law (e.g., Sri Lanka) would reduce flexibility to change classifications (because of difficulties in amending existing laws, see page 91).

269. An alternative approach—which is suited to Indonesian circumstances—is to classify entities for reporting purposes in one accounting standard, to which all other standards are cross-referenced.

Relegate Non-IAS PSAKs to Guidance Status

270. At July 2002, 27 of the existing 57 PSAKs had direct IAS parents. Although consistent with IAS, the other 30 PSAKs were based on U.S. GAAP, provided sector-specific rules or addressed particular Indonesian issues. The 30 non-IAS PSAKs create potential conflicts with IAS, particularly as IAS changes over time. Moreover, they adversely influence perceptions of Indonesian accounting standards. In any case, assuming direct IAS adoption, high quality, sector-specific IAS-based model financial statements are available for guidance purposes. It is suggested that a PSAK structural framework be designed with five levels: (i) IASB-PSAKs; (ii) Indonesia-specific PSAKs; (iii) IASB interpretations (SICs); (iv) Indonesia-specific interpretations (ISAKs); and (v) sector and issue-specific guidance.

Endorse Standards and Standard-Setting Arrangements

271. To varying extents, *Bapepam*, BI and DGoT require PSAK usage. It is suggested that the draft PA Law directly requires PSAK use for financial reporting purposes and requires PSAKs to be IAS-compliant.

272. Furthermore, DSAK's standard-setting arrangements meet international norms and are formalized in rules. The 2001 *Academic Paper*¹⁹⁰ envisages an independent accounting standard-setting board operating under DAI's oversight. The proposed arrangement is consistent with international norms and would strengthen DSAK independence.

3. A Possible Implementation Approach

273. There are many ways to implement these suggested changes—resource availability is the major constraint—this section proposes a three-step implementation approach.

¹⁹⁰ MOF. 2001. *Academic Draft: Draft of Public Accountant Law*. MOF: Jakarta.

Step 1: **One Year:** Counter Negative Perceptions and Strengthen Legal Basis

Counter Negative Perceptions

274. An immediate priority is to counter negative perceptions about PSAKs. To this end, DSAK could make a clear media statement explaining the background to PSAKs, particularly their relative merits and international support for their development. Such a statement might emphasize ongoing efforts to ensure IAS compliance.

Strengthen Legal Backing for PSAKs and Remove Regulatory Conflicts

275. The draft PA Law presents an opportunity to reinforce PSAKs and address regulatory conflicts. The introduction of the following articles into the draft PA Law would achieve this objective:

- The DSAK-promulgated PSAKs must be completely consistent with the International Accounting Standards and the International Financial Reporting Standards promulgated by the International Accounting Standards Board.
- All financial statements must be prepared in accordance with PSAKs.¹⁹¹
- Where laws or regulations prescribe accounting treatments that conflict with PSAKs, the PSAK treatment shall prevail in the core financial statements and the regulated treatment shall be disclosed by way of a note to the financial statements.

Step 2: **Two Years:** Eliminate IAS Differences and Design New Arrangements

Eliminate Existing IAS Differences

276. Gaps have developed between IAS and PSAKs, largely due to implementation-timing differences. Appendix 12 suggests changes to align IAS-based PSAKs with their IAS equivalents.

Design a New PSAK Structural Framework and Classify Existing PSAKs

277. It is suggested that a PSAK five-level structural framework be designed (see Table 26). Table 26 also suggests how existing PSAKs and ISAKs might be classified.

¹⁹¹ This would enable government financial accounting standards to be called PSAKs,

Table 26. Suggested PSAK Structural Framework

| Level | Description | Possible Classification of Existing Materials ¹⁹² |
|---|--|---|
| 1: IASB-PSAKs | Direct IAS translations. | PSAKs 1, 2, 3, 4, 5, 7, 8, 10, 11, 12, 14, 16, 18, 19, 22, 23, 24, 25, 26, 30, 34, 46, 48, 55, 56, 57 and 58. |
| 2: Indonesia-specific PSAKs | PSAKs that address specific situations (e.g. Shariah Banking). | PSAKs 27, 39, 45 and 59. |
| 3: IASB interpretations (SICs) | Direct translations of Interpretations issued by the IASB SIC. | SICs 1, 2, 3, 5-25 and 27-33. |
| 4: Indonesia-specific interpretations (ISAKs) | Interpretations that address Indonesia-specific situations. | ISAKs 1-4. |
| 5: Sector and issue-specific guidance | Guidance on the accounting treatment of certain items and disclosures for certain industries or sectors. | PSAKs 6, 21, 28, 29, 31, 32, 33, 35, 36, 37, 38, 40, 41, 42, 43, 44, 47, 49, 50, 51, 52, 53 and 54. |

Design Entity Classifications and Prepare Consultation Document

278. The first step in developing a differential reporting regime is to develop an entity classification system. The following illustrative classifications are suggested:

- *Group A: Publicly Accountable or Large Entities:* An entity is considered publicly accountable if it has debt or equity instruments on public issue or has the coercive power to tax, rate or levy to obtain public funds. An entity is considered large if it meets two of the following criteria: (i) its revenue for the accounting period exceeds Rp 20 billion (U.S.\$2.2 million); (ii) its total assets at balance date exceed Rp 10 billion (U.S.\$1.1 million); and (iii) it employs more than 200 people.
- *Group B: Medium Entities:* An entity is considered a medium entity if it is not a Group A entity and it meets two of the following criteria: (i) its revenue for the accounting period exceeds Rp 5 billion (U.S.\$560,000); (ii) its total assets at balance date exceed Rp 2.5 billion (U.S.\$280,000); and (iii) it employs more than 30 people.

¹⁹² Note: The IAS equivalents of PSAKs 13, 15 and 17 have been withdrawn.

- *Group C: Small Entities*: Entities that are not classified as Group A or Group B entities.

Identify Differential Reporting Exemptions

279. Countries have varying differential reporting exemptions.¹⁹³ Appendix 8 identifies IASs to which differential reporting exemptions might apply. These exemptions should be reviewed for appropriateness in the Indonesian context.

Identify Option Exclusions

280. IASs include benchmark and alternative treatments (see Appendix 8). It would be necessary to identify the preferred or mandated treatments for Indonesian purposes.

Design PSAK Cover Sheet

281. Under this suggested approach, each PSAK would comprise a cover sheet (see Box 11).

Box 11. Suggested PSAK Cover Sheet: PSAK 2 Inventories (*Persediaan*)

1. International Accounting Standard (IAS)

- PSAK 2 is based on IAS 2 Inventories.

2. Option Exclusion

- IAS 2 has two benchmark treatments for cost flow assumptions (FIFO and weighted average), and one allowed alternative treatment (LIFO). In keeping with Indonesian tax regulations, LIFO is not permitted.

3. Changes to Meet Indonesian Conditions or Requirements

- No changes are made to IAS 2.

4. Differential Reporting

| | Group A | Group B | Group C |
|--|---------|---------|---------|
| All provisions | ✓ | | |
| All provisions, except paragraphs x.10-x.11 | | ✓ | |
| All provisions, except paragraphs x.10-x.11 and xx.8 | | | ✓ |

¹⁹³ Refer FASB Statement No. 126 *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities*; United Kingdom Accounting Standards Board *Financial Reporting Standard for Smaller Entities (FRSSE)*; Institute of Chartered Accountants of New Zealand *Framework for Differential Reporting*; and Canadian Accounting Standards Board Exposure Draft (July 2001), *Differential Reporting*.

5. Revisions

- PSAK 2 was last revised on xx.x.200X.

6. Effective Date

- This PSAK is effective for financial reports of Group A and Group B entities for the financial year beginning 1 January 200X.
- This PSAK is effective for financial reports of Group C entities for the financial year beginning 1 January 200Y.

7. Approval

- DSAK approved PSAK 2 on x July 200X.

Redesign Revised Standard-Setting Approach

282. This suggested approach has implications for standard-setting processes, which would have to be reviewed and redesigned as necessary.

Design Socialization Plan

283. These changes would have to be supported by a socialization campaign for: (i) financial statement preparers; (ii) DGoT; (iii) investors and lenders; (iv) regulatory agencies; (v) international agencies; (vi) related professional associations (e.g., MAPPI); and (vii) public accountants.

Step 3: Three Years: Prepare and Release Revised PSAKs

Renumber Existing PSAKs to Match IASs

284. Ease of reference (e.g., to training materials and disclosure checklists) is greatly improved if national accounting standards numbers and paragraph numbering match those of their parent IAS. For instance, IASB publishes IAS implementation materials (IAS 39 *Implementation Guidance: Questions and Answers*¹⁹⁴).

Reissue Standards in the New Framework

285. The revised standards would have to be released before their required implementation for financial reporting.

¹⁹⁴ IASB. 2001 July. *IAS 39 Implementation Guidance: Questions and Answers*. IASB: London. URL www.iasb.org.uk/docs/ias39igc/igc1_5.pdf.

Implement Socialization Plan

286. Although dependent on the socialization plan, this would likely involve developing informative and training materials, designing training programs, and implementing the programs.

References

- Abdoelkadir, K. K. 1982. The Perception of Accountants and Accounting Students on the Accounting Profession in Indonesia. Unpublished PhD Dissertation. Texas A & M University.
- ADB. 2002 June. Progress Report on the Release of Third Tranche: Financial Governance Reforms Sector Development Program (Loan 1618-INO) to Indonesia. Board Paper: Manila.
- ADB. 2002, *Asian Development Outlook 2002*, 14th Edition. Manila.
- ADB. 2002. *Accounting and Auditing Practices in Selected Developing Member Countries: A Study of Azerbaijan, Fiji Islands, Marshall Islands, Philippines and Sri Lanka*. Manila.
- ADB. 2002. *Accounting and Auditing Practices in Sri Lanka*. Manila.
- ADB. 2002. *Accounting and Auditing Practices in the Philippines*. Manila.
- ADB. 2002. *Accounting and Auditing Practices in the Republic of the Marshall Islands*. Manila.
- ADB. 2002. *Accounting and Auditing Practices in the Republic of the Fiji Islands*. Manila.
- ADB. 2001. *Country Assistance Plan: Indonesia 2001-2003*. Manila.
- ADB. 2001. *Growth and Change in Asia and the Pacific: Key Indicators 2001*. Volume XXXII. Manila. ADB. 2002. *Asian Development Outlook 2002*. Manila.
- ADB. 2001. *Key Indicators of Developing Asian and Pacific Countries*. Volume XXXII. Manila.
- ADB 1998. Report and Recommendation of the President to the Board of Directors on the Proposed Loans to the Republic of Indonesia for Financial Governance Reforms: Sector Development Program (FGRSDP) and a Proposed Equity Investment in a Secondary Mortgage Facility. Manila.
- AFA. 2002 May 5. Minutes of 74th AFA Council Meeting. www.mia.org.my
- Akuntansi. 1989 January. *Lambat tapi Pasti* (Slowly but Surely): An Interview with Drs. Hendra Darmawan. Magazine Article.
- Allen, Franklin and Douglas Gale. 2000 January. Bubbles and Crises. *Economic Journal*. 110. pp. 236-55.
- Armstrong, Mikael and Katerina Hellström. 1998 April. *A Case Study of the Czech Republic*. Stockholm School of Economics: Paper presented at 21st EAA Congress: Accounting in Times of Transition. Antwerp.

- Australian Financial Reporting Council (FRC). 2002 July 3. Adoption of International Accounting Standards by 2005. *Bulletin of the Financial Reporting Council*. 2002/4.
- Bachtiar, Emil. 2001. The Professionalization of Accounting in Indonesia. Paper Presented to the Second Accounting History International Conference, Osaka, 8-10 August 2001.
- Benston G. 1985. The Market for Public Accounting Services: Demand, Supply and Regulation 4. *Journal of Accounting and Public Policy* 33.
- BusinessWeek. 2000 September 25. Accounting Wars: Powerful Auditor-Consultants are the Targets of Arthur Levitt's Crusade. Magazine Article.
- Canadian Accounting Standards Board Exposure Draft (July 2001), *Differential Reporting*.
- CAPA. 1998. *Guide on the Essential Components of a Professional Accountancy Body*.
- Chow C. 1982. The Demand for External Auditing: Size, Debt and Ownership Influences. *The Accounting Review* April 272.
- Craig, James L. Jr., Douglas R. Carmichael and Dan M. Guy. 2000 June. Are International Auditing Standards Ready to Replace U.S. GAAS? *The CPA Journal*.
- Deloitte Touche Tohmatsu Emerging Markets Ltd. 2000 May. Indonesian Accounting Standards (PSAK): Recommended Changes in Selected PSAKs for Improving Conformity with the International Accounting Standards. Report Prepared for the Financial Governance Reforms Support Project: Capital Markets Component ADB TA No. 1620-INO.
- Deloitte Touche Tohmatsu. 2002 July 30. www.iasplus.com
- Department of Foreign Affairs and Trade (DFAT). 2002. *Changing Corporate Asia, What Business Needs to Know: Volume 1. Main Report*. Economic Analytical Unit (EAU), DFAT, Australia.
- Diga, Joselito and Hadori Yunus. 1997. "Accounting in Indonesia" in *Accounting in the Asia-Pacific Region*, edited by Nabil Baydoun, Akira Nishimura and Roger Willet. John Wiley: Singapore.
- Epstein, Barry J. and Abbas Ali Mirza. 2001. *IAS 2001: Interpretation and Application*. John Wiley & Sons: New York.
- FASB Statement No. 126 *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities*

REFERENCES

- Favere-Marchesi, Michael. 2000. Audit Quality in ASEAN. *The International Journal of Accounting*. Vol 35(1). pp. 121-149.
- Fiji Institute of Accountants (FIA). 2002. *Fiji Accounting Standards: FAS 14 Segment Reporting*. FIA: Suva.
- Flint D. 1988. *Philosophy and Principles of Auditing: An Introduction*, Macmillian, London. p. 20.
- Foo, See Liang. 1997. "Indonesia" in *Financial Reporting in the Pacific Asia Region*, edited by Ronald Ma. Singapore: World Scientific Publishing. pp. 347-364.
- Grady, Paul. 1965. Inventory of Generally Accepted Accounting Principles for Business Enterprises, *Accounting Research Study No. 7*. American Institute of Public Accountants.
- Hadibroto, Suhadji. 1962. A Comparative Study of American and Dutch Accountancy and their Impact on the Profession in Indonesia. Unpublished PhD Dissertation, Lembaga Pencerbit Fakultas Ekonomi, Universitas Indonesia, Jakarta.
- Herz, Robert H. 2002. Remarks on Current Financial Reporting Issues to the Financial Executives International (FEI) Conference. New York. 4 November. Speech.
- IAI. 2001. *IAI Financial Statements for the Year Ended 30 June 2001*. Jakarta.
- IAI. 2001. *Professional Standards for Public Accountants*. Jakarta.
- IASB. 2001 July. *IAS 39 Implementation Guidance: Questions and Answers*. IASB: London. URL www.iasb.org.uk/docs/ias39igc/igcl_5.pdf.
- IFAC. 2002 July 16. *IFAC Requests Comments on International Education Standards for Professional Accountants*. Media Release. New York. www.ifac.org
- IFAC. 1999 August. *Assuring the Quality of Professional Services*. New York.
- IFAC. 1998 May. *International Education Guideline (IEG) 2: Continuing Profession Education*. New York.
- IFAC. 1998 January. *Statement of Policy of Council: Implementation and Enforcement of Ethical Requirements*. New York.
- IFAC. 1996. *Code of Ethics for Professional Accountants*. New York.
- IFAC. 1995 June. *Statement of Policy of Council: Recognition of Professional Accountancy Qualifications*. New York.
- IMF. 2002. *Indonesia: Letter of Intent*. 2 April.
- IMF. 2000. *Experimental Reports on Observance of Standards and Codes (ROSCs)*. www.imf.org/external/np/rosc

- Institute of Chartered Accountants of New Zealand *Framework for Differential Reporting*.
- Jensen, M, & Meckling W. 1976. Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Accounting and Economics* 305 October.
- KPSPI. 2002. March. Indonesian Valuation Standards (*Standar Penilaian Indonesia, SPI*). KPSPI: Jakarta.
- Kurniawan, Dudi M. and Nur Indriantoro. 2000. Corporate Governance in Indonesia. Paper Presented to the Second Asian Roundtable on Corporate Governance. Hong Kong, China. 31 May - 2 June 2000.
- Kwik K. 1994. *Analisis Ekonomi Politik Indonesia*. Jakarta: Gramedia Pustaka Utama.
- La Porta, Rafael, Florencio López-de-Silanes, Andrei Shleifer and Robert W. Vishny. 1998. Law and Finance. *Journal of Political Economy*. Vol. 106(6). pp. 1113-1155.
- McKinsey & Company. 2002 July. *Global Investor Opinion Survey: Key Findings*.
- MOF. 2001. *Academic Draft: Draft of Public Accountant Law*. Jakarta.
- Narayan, Francis B. 2000 May 15. Back-to-Office Report of Mission to Laos, Viet Nam, Cambodia and Indonesia. ADB: Manila.
- Narayan, Francis B., Ted Godden, Barry Reid and Ma. Rosa P. Ortega. 2000. *Financial Management and Governance Issues in Selected Developing Member Countries: A Study of Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan, and Viet Nam*. ADB: Manila.
- Narayan, Francis, B. and Barry Reid. 2000. *Financial Management and Governance Issues in the People's Republic of China*. ADB: Manila.
- Nguyen-Hong, Duc. 2000 August. *Restrictions on Trade in Professional Services*. Staff Research Paper. Australian Productivity Commission: Commonwealth of Australia.
- Nobes, Christopher and Robert Parker. 1995. *Comparative International Accounting*: Fourth Edition: Prentice Hall.
- Nobes, Christopher W. (Ed.). 2001 October. *GAAP 2001: A Survey of National Accounting Rules Benchmarked against International Accounting Standards*: Jointly published by Andersen, BDO, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton, KPMG, PricewaterhouseCoopers.

REFERENCES

- Palmrose, Zoe-Vonna. 1988. An Analysis of Auditor Litigation and Audit Service Quality. *The Accounting Review*. 63. pp. 55-73.
- Parliament of the Commonwealth of Australia. 2002. Joint Standing Committee on Public Accounts and Audit: Report 397: Review of Independent Auditing by Registered Company Auditors. 18 September. p. 93.
- Pomerleano, Michael (Lead Financial Specialist, World Bank). 2002 April. Back to the Basics: Critical Financial Sector Professions Required in the Aftermath of an Asset Bubble. *The Appraisal Journal*. pp. 173-181.
- PricewaterhouseCoopers and Singapore Stock Exchange. 1999. 1999 Survey of Institutional Investors.
- PricewaterhouseCoopers. 2001 August. Consultancy Prepared for the Economic Analysis Unit (EAU). Reported in Economic Analytical Unit (EAU). 2002. *Changing Corporate Asia, What Business Needs to Know: Volume 1*. Main Report. Department of Foreign Affairs and Trade: Australia.
- PricewaterhouseCoopers. 2001 August. *Indonesian GAAP: Similarities and Differences Among IAS, Indonesian GAAP, US GAAP and UK GAAP*. Assurance & Business Advisory Services.
- Rosser, Andrew. 1999 July. *The Political Economy of Accounting Reform in Developing Countries: The Case of Indonesia*. Murdoch University: Working Paper No. 93.
- Saudagaran, Shahrokh M. and Joselito G. Diga. 2000. The Institutional Environment of Financial Reporting in ASEAN. *International Journal of Accounting*. Vol 35(1). pp. 1-26.
- Siddik, A. F. and H. L. Jensen. 1984. *The Evolution of Accounting in Indonesia*. The Academy of Accounting Historians.
- Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB). 2001. *Information of Importance to Companies, Public Corporations, Directors, Managers, Secretaries and other Officers, and Auditors*. Colombo.
- Tearney, Michael G. 2001. An Evaluation of Disclosure of Financial Information by Public Companies in Indonesia. Unpublished Paper. Von Allmen School of Accountancy, Gatton College of Business and Economics, University of Kentucky.
- The Economist. 2001 June 23. *Andersen's Fairy Tales: A \$7 million fine from the SEC again raises doubts about the independence of auditors*.

- The Jakarta Post. 2002 July 11. *Indonesia is No Stranger to Accounting Scams: Expert*. Interview with Professor Wahyudi Prakarsa from the University of Indonesia. Newspaper Article. p. 13.
- The Jakarta Post. 2002 July 13. *Japanese Investors Urge RI to Improve Business Climate*. Newspaper Article.
- The Jakarta Post. 2002 July 13. *Strong Sanctions Against Bad Accountants a Must*. Newspaper Article.
- The Jakarta Post. 2002 July 16. *Accountants' Accountability*. Newspaper Editorial. p. 6.
- The Jakarta Post. 2002 July 17. *House Leaders Ask for More Funds for Passage of Bills*. Newspaper Article. p. 1.
- The Jakarta Post. 2002 July 22. *Class Action Suit Against Crooked Accountants Urged*. Newspaper Article. p. 1.
- The Jakarta Post. 2002 July 5. *Government Drafts New Bill on Accountancy Profession*. Interview with Mirza Mochtar, Director of Public Accounting and Appraisal Services at the Ministry of Finance. Newspaper Article.
- UN. 1997. *Statistical Yearbook 1997*. New York.
- UNCTAD ISAR. 2001 July 16. *Accounting by Small and Medium-Sized Enterprises: Report by the Ad Hoc Consultative Group of Experts on Accounting by Small and Medium-Sized Enterprises*. Report No. TD/B/COM.2/ISAR/12.
- UNCTAD. 1999. *International Accounting and Reporting Issues: 1999 Review*. United Nations.
- United Kingdom Accounting Standards Board *Financial Reporting Standard for Smaller Entities (FRSSE)*.
- World Bank. 1994. *Indonesia: Sustaining Development*. Washington.
- World Bank. 1994. *Staff Appraisal Report: Indonesia: Second Accountancy Development Project*, unpublished report, 29 July.
- World Bank. 2001. *Indonesia: The Imperative for Reform: Brief for the Consultative Group on Indonesia*,. Report No. 23093-IND. Washington. 2 November.
- Yong, Li. 1999. *The Reform, Regulation and Opening-up of China's Accounting Market. Contemporary Issues in China Accounting and Finance: Policy and Practice*. Oxford University Press.
- Yunus, H. 1990. *History of Accounting in Developing Nations: The Case of Indonesia*. Tim Koordinasi Pengembangan Akuntansi, Jakarta.

REFERENCES

- Zeff, Stephen. 1987. Setting Accounting Standards: Some Lessons from the US Experience. *Accountant's Magazine*. December.
- Zhuang, Juzhong, David Edwards, David Webb and Ma. Virginita Capulong. 2000. *Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines and Thailand*. ADB: Manila.

Appendixes

| | | |
|--------------|---|-----|
| Appendix 1. | Useful Internet Sites..... | 142 |
| Appendix 2. | Interviewees..... | 148 |
| Appendix 3. | Relevant Extracts from the Bank Indonesia Law | 155 |
| Appendix 4. | International Standards and Guidelines on Professional Arrangements | 158 |
| Appendix 5. | Proposed International Education Standards | 166 |
| Appendix 6. | Synopsis of the 2001 Academic Paper | 168 |
| Appendix 7. | Indonesian Financial Accounting Standards (PSAKs) .. | 177 |
| Appendix 8. | International Accounting Standards (IAS) | 184 |
| Appendix 9. | IAS Interpretations (SICs)..... | 188 |
| Appendix 10. | Indonesian Auditing Standards (SPAPs)..... | 190 |
| Appendix 11. | International Standards on Auditing..... | 194 |
| Appendix 12. | PSAK Changes Required for Full IAS Compliance | 196 |
| Appendix 13. | Accountant Title Law (No. 34) 1954..... | 200 |
| Appendix 14. | Relevant Extracts from the Capital Market Law 1995. | 204 |
| Appendix 15. | Bapepam Rules for Registration of Public Accountants | 207 |
| Appendix 16. | Bapepam Requirement for Auditors to Report Violations..... | 209 |
| Appendix 17. | Bapepam Annual Report Requirements (Extracts)..... | 210 |
| Appendix 18. | Bapepam Immediate Disclosure of Information..... | 213 |
| Appendix 19. | Bapepam Periodic Financial Statements (Extracts) | 214 |
| Appendix 20. | Bapepam Comfort Letters (Extracts) | 216 |
| Appendix 21. | Bapepam Management Representation Letters..... | 219 |
| Appendix 22. | 2002 Ministerial Decree Regarding PA Services..... | 221 |

Appendix 1. Useful Internet Sites

287. The authors found the following websites very useful.

General Information on Indonesia

| | | |
|--|--|--|
| Business Indonesia | | www.bisnis.com/pls/portal30/harian |
| CIA World Factbook 2001 | | www.cia.gov/cia/publications/factbook |
| Indonesia Business Directory | | www.indonext.com |
| Indonesia Government Directory | | http://www.ri.go.id/direktori_1.htm |
| Indonesia Interactive Directory | | www.i2.co.id/directory |
| Indonesia Investment Online (BKPM) | | www.bkpm.go.id |
| Indonesian Business Online | | www.ibonweb.com |
| Indonesian Government Online | | www.indonesia.go.id |
| Jendela Indonesia | | www.ji-indonesia.com |
| Pusdata Online Indonesia (Regulations) | | http://www.dprin.go.id/regulasi/english/ |
| The Jakarta Post | | www.thejakartapost.com |

Regulatory and Standard-Setting Bodies *Indonesia*

| | | |
|---|----------------|--|
| Bapepam (Capital Market Supervisory Agency) | <i>Bapepam</i> | www.bapepam.go.id |
| Ministry of Trade and Industry | <i>DPRIN</i> | www.dprin.go.id |
| Bank Indonesia | <i>BI</i> | www.bi.go.id |
| Ministry of Finance | <i>MOF</i> | www.depkeu.go.id |
| Supreme Audit Board | <i>BPK</i> | www.bpk.go.id |

Regional and International

| | | |
|---|-------------|--|
| International Valuation Standards Committee | <i>IVSC</i> | www.ivsc.org |
| International Accounting Standards Board | <i>IASB</i> | www.iasc.org.uk |
| International Federation of Accountants | <i>IFAC</i> | www.ifac.org |
| U.S. Financial Accounting Standards Board | <i>FASB</i> | www.fasb.org |
| Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting of the UNCTAD | <i>ISAR</i> | www.unctad.org/isar/ |

APPENDIXES

| | | |
|--|-----------------|---|
| U.S. Government Accounting Standards Board | <i>GASB</i> | www.gasb.org |
| International Auditing and Assurance Standards Board | <i>IAASB</i> | www.ifac.org/IAASB/ |
| International Organization of Supreme Audit Institutions | <i>INTOSAI</i> | www.intosai.org |
| Government Organizations | | |
| Indonesia Government Directory | ... | http://www.ri.go.id/direktori_1.htm |
| Indonesian Government Online | ... | www.indonesia.go.id |
| Audit and Development Supervising Agency | <i>BPKP</i> | www.bpkp.go.id |
| Bank Indonesia | <i>BI</i> | www.bi.go.id |
| Bapepam (Capital Market Supervisory Agency) | <i>Bapepam</i> | www.bapepam.go.id |
| College for State Accountancy | <i>STAN</i> | http://www.bppk.depkeu.go.id/STAN/STANHomePage/index.htm |
| Directorate General for Financial Institutions | <i>DJLK</i> | www.djlk.depkeu.go.id |
| Directorate General for Taxation | <i>DJP</i> | www.pajak.go.id |
| Directorate General of Higher Education | <i>DIKTI</i> | www.dikti.org |
| Financial Education and Training Board | <i>BPPK</i> | www.bppk.depkeu.go.id |
| Financial Management Reform Committee | <i>KPMK</i> | ... |
| Indonesian Bank Restructuring Agency | <i>IBRA</i> | www.bppn.go.id |
| Investment Coordinating Board | <i>BKPM</i> | www.bkpm.go.id |
| Ministry of Finance | <i>MOF</i> | www.depkeu.go.id |
| Ministry of Trade and Industry | <i>DPRIN</i> | www.dprin.go.id |
| National Accreditation Board | <i>BAN</i> | www.ban-pt.net |
| National Civil Service Agency | <i>BKN</i> | www.bkn.go.id |
| National Development Planning Agency | <i>Bappenas</i> | www.bappenas.go.id |
| State Financial Accounting Agency | <i>BAKUN</i> | www.bakun.go.id |
| Supreme Audit Board | <i>BPKP</i> | www.bpk.go.id |
| Professional Organizations and Bodies | | |
| <i>Indonesia</i> | | |
| Association of Indonesian Securities Companies | <i>APEI</i> | www.apei.or.id |

ACCOUNTING AND AUDITING PRACTICES IN INDONESIA

| | | |
|---|---------|---|
| Association of Publicly Listed Companies | AEI | www.aei-online.or.id |
| Association of State-owned Enterprise (SOE) Internal Auditors | FKSPI | ... |
| Forum for Corporate Governance in Indonesia | FCGI | www.fcgi.or.id |
| IAI Public Accountants Compartment | IAI-KAP | http://www.akuntanpublik.org |
| IIA – Indonesia Chapter | IIA | www.theiia.org |
| Indonesian Financial Executives Association | IFEA | www.ifea.or.id |
| Indonesian Institute of Accountants | IAI | www.akuntan-iai.or.id |
| Indonesian Society for Transparency | MTI | www.transparansi.or.id |
| Indonesian Society of Appraisers | MAPPI | www.mappi.or.id |
| Internal Auditor Education Foundation | YPIA | ... |
| Internal Auditor Education Foundation | YPIA | ... |
| Jakarta Initiative Task Force | JITF | www.jitf.or.id |
| National Committee on Good Corporate Governance | NCCG | ... |
| <i>Regional and International</i> | | |
| American Institute of Certified Public Accountants | AICPA | www.aicpa.org |
| ASEAN Federation of Accountants | AFA | www.afa-central.com |
| Asian Organization of Supreme Audit Institutions | ASOSAI | www.asosai.org |
| Association of Accounting Technicians | AAT | www.aat.co.uk |
| Association of Chartered Certified Accountants | ACCA | www.accaglobal.com |
| Canadian Institute of Chartered Accountants | CICA | www.cica.ca |
| Chartered Institute of Management Accountants | CIMA | www.cimaglobal.com |
| Confederation of Asian and Pacific Accountants | CAPA | www.capa.com.my |
| CPA Australia | ... | www.cpaonline.com.au |
| Hong Kong Society of Accountants | HKSA | www.hksa.org.hk |
| Institute of Certified Accountants and Auditors of Thailand | ICAAT | ... |

APPENDIXES

| | | |
|---|---------|---|
| Institute of Certified Public Accountants of Singapore | ICPAS | www.icpas.org.sg |
| Institute of Chartered Accountants in Australia | ICAA | www.icaa.org.au |
| Institute of Chartered Accountants of New Zealand | ICANZ | www.icanz.co.nz |
| Institute of Internal Auditors | IIA | www.theiia.org |
| Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting of the UNCTAD | ... | www.unctad.org/isar/ |
| International Federation of Accountants | IFAC | www.ifac.org |
| International Organization of Supreme Audit Institutions | INTOSAI | www.intosai.org |
| Japanese Institute of CPAs | JICPA | www.jicpa.or.jp |
| Korean Institute of Certified Public Accountants | KICPA | http://kicpa.or.kr |
| Malaysian Institute of Accountants | MIA | www.mia.org.my |
| Malaysian Institute of Certified Public Accountants | MICPA | www.micpa.com.my |
| Philippine Institute of Certified Public Accountants | PICPA | www.picpa.org.ph |
| South Asian Federation of Accountants | SAFA | www.citechco.net/safa/ |
| Vietnam Accounting Association | VAA | ... |
| Educational Institutions and Providers | | |
| Bina Nusantara University | ... | www.binus.ac.id |
| College for State Accountancy | STAN | http://www.bppk.depkeu.go.id/STAN/STANHomePage/index.htm |
| Directorate General of Higher Education | DIKTI | www.dikti.org |
| Financial Education and Training Board | BPPK | www.bppk.depkeu.go.id |
| Gadjah Mada University | ... | www.ugm.ac.id |
| Mercu Buana University | ... | www.mercubuana.ac.id |
| Ministry of National Education | DPN | ... |
| Perbanas Business School | ... | www.stieperbanas.ac.id |
| University of Indonesia | ... | www.ui.ac.id |
| University of Indonesia, Economics Faculty | ... | www.feui.org |

| | | |
|--|----------------|--|
| University of Indonesia, Post-graduate Management School | ... | www.mmui.edu |
| University of Pakuan, Economics Faculty | ... | www.feunpak.web.id |
| International and Regional Organizations | | |
| Asia Pacific Economic Council | <i>APEC</i> | www.apecsec.org.sg |
| Association of South East Asian Nations | <i>ASEAN</i> | www.aseansec.org |
| Bank for International Settlements | <i>BIS</i> | www.bis.org |
| Financial Action Task Force on Money Laundering (OECD) | <i>FATF</i> | www1.oecd.org/fatf/ |
| International Federation of Accountants | <i>IFAC</i> | www.Ifac.org |
| International Organization of Securities Commissions | <i>IOSCO</i> | www.iosco.org |
| International Organization of Supreme Audit Institutions | <i>INTOSAI</i> | www.intosai.org |
| Organization for Economic Cooperation and Development | <i>OECD</i> | www.oecd.org |
| World Trade Organization | <i>WTO</i> | www.wto.org |
| Accounting Firms | | |
| KPMG Indonesia Siddharta, Siddharta, and Harsono and PT Siddharta Consulting | ... | www.aspac.kpmg.com/about/indonesia_office.html |
| Drs RB Tanubrata & Rekan (BDO Member firm) | ... | www.tanubrataco.co.id |
| Drs. Hadi Sutanto & Rekan (PricewaterhouseCoopers member firm) | ... | www.pwcglobal.com |
| Ernst & Young, Hanadi, Sarwoko & Sandjaja | ... | www.eyi.co.id |
| Hans Tuanakotta & Mustofa, HTM (Deloitte Touche Tohmatsu member firm) | ... | www.deloitteap.com |
| Kanaka, Puradiredja & Rekan (DFK International member firm) | ... | www.kanaka.co.id |
| Wisma Grant Thornton | ... | www.grant-thornton.co.id |
| Finance Sector Organizations | | |
| Jakarta Stock Exchange | <i>JSX</i> | www.jsx.co.id |
| Surabaya Stock Exchange | <i>SSX</i> | www.bes.co.id |
| Forum for Corporate Governance in Indonesia | <i>FCGI</i> | www.fcgi.or.id |

Development Organizations***Multilateral***

| | | |
|------------------------------------|-------------|--|
| Asian Development Bank | <i>ADB</i> | www.adb.org |
| International Monetary Fund | <i>IMF</i> | www.imf.org |
| Islamic Development Bank | <i>IsDB</i> | www.isdb.org |
| United Nations Development Program | <i>UNDP</i> | www.un.or.id/undp |
| World Bank | ... | www.worldbank.org |

Bilateral

| | | |
|--|---------------|---|
| Australian Agency for International Development | <i>AusAID</i> | www.ausaid.gov.au |
| Danish International Development Agency | <i>DANIDA</i> | www.um.dk/danida |
| <i>Gesellschaft für Technische Zusammenarbeit</i> (German Technical Cooperation) | <i>GTZ</i> | www.gtz.de |
| Japan Bank for International Cooperation | <i>JBIC</i> | www.jbic.go.jp |
| Japan International Cooperation Agency | <i>JICA</i> | www.jica.go.jp |
| New Zealand Agency for International Development | <i>NZAID</i> | www.nzaid.govt.nz |
| Royal Netherlands Embassy | ... | http://www.neth-embassy-jakarta.org/html/development_cooperation.cfm |
| Swedish International Development Agency | <i>SIDA</i> | www.sida.se |
| United Kingdom Department for International Development | <i>DFID</i> | www.dfid.gov.uk |
| United States Agency for International Development | <i>USAID</i> | www.usaid.gov |

Appendix 2. Interviewees

Aspects of accounting and auditing arrangements were discussed with the following people.

| | | |
|--------------------|--|---|
| Mulia P. Nasution | Chair | Financial Management Reform Committee, MOF |
| Mirza Mochtar | Director of Accounting and Appraisal Services | Directorate General for the Supervision of Accountants and Appraisers (DJLK), Ministry of Finance |
| Ferdinand D. Purba | Head, Sub-directorate of Public Accountant Examinations | DJLK |
| Basri Edward | Officer | DJLK |
| Suhartiningsih | Head of Section, Sub-directorate of Public Accountant Examinations | DJLK |
| Agus Suparto | Head of Section, Sub-directorate of Public Accountant Examinations | DJLK |
| Y. Ronny Agandhi | Head of Section, Sub-directorate of Public Appraiser Examinations | DJLK |
| Yudi Irmawan | Staff | DPAJP |
| Firmansyah | Staff | BAKUN |
| Ridwan Nasution | Officer | DJLK |

APPENDIXES

| | | |
|----------------------|---------------------------------------|--|
| Anis Baridwan | Director | Accounting Standards and Disclosure Bureau, <i>Bapepam</i> |
| Novira Indrianingrum | Head | Accounting Standard I Sub Division, Accounting Standards and Disclosure Bureau, <i>Bapepam</i> |
| Stephen Orr | Advisor | Ministry of Finance |
| Wimbo Santoso | Official | Bank Indonesia (BI) |
| Thomas A. Timberg | Small Scale Credit Advisor | Bank Indonesia (BI), USAID |
| Eiko Wismulyadi | Official | BAPPENAS |
| Adil Tobing | Official | PNM |
| Ahmadi Hadibroto | President | Indonesia Accounting Institute (IAI) |
| | Partner | Siddharta Siddharta & Harsono (Member firm of KPMG) |
| Istini T. Siddharta | Chair | Financial Accounting Standards Board (DSAK) |
| Siddharta Utama | Head of Accountancy Department Member | University of Indonesia DSAK |
| M. Jusuf Wibisana | Member | DSAK |
| Ali Darwin | Member | DSAK |
| Franky Setiawan | Technical Staff | DSAK |

| | | |
|-------------------------------|-------------------------|--|
| Ludovicus Sensi Wondabio | Chair | Public Accountants Professional Standards Board (DSPAP) |
| | Partner | Hans Tuanakotta & Mustofa, HTM (Member firm of Deloitte Touche Tohmatsu) |
| Tia Adityasih | Secretary | DSPAP |
| Wawat Sutanto | Member Managing Partner | DSPAP Drs RB Tanubrata & Rekan (BDO Member firm) |
| I. Komala Widjaja | Member Partner | DSPAP Prasetio, Utomo & Co |
| Liauwshe Jin | Member | Public Accountants Professional Standards Board (DSPAP) |
| | Manager, Assurance | Siddharta Siddharta & Harsono (Member firm of KPMG) |
| Dyohan Pinnarwan | Member | Public Accountants Professional Standards Board (DSPAP) |
| Mohammed Hanief Arie Setianto | Executive Director | Indonesia Accounting Institute (IAI) |
| Professor Wahyudi Prakarsa | Accounting Department | University of Indonesia |
| Mas Achmad Danniri | President Director | Jakarta Stock Exchange (JSX) |
| Salel Pyasin | Staff | JSX |
| Hamoti Riza | Staff | JSX |

APPENDIXES

| | | |
|---------------------|--|--|
| Anton Natakoesoemah | President Director | Surabaya Stock Exchange |
| Eddie M. Gunadi | Chair | Institute of Internal Auditors (IIA) – Indonesia Chapter |
| | Acting Chair | Forum for Corporate Governance in Indonesia (FCGI) |
| | Chair | Indonesian Institute of Accountants – Management Accountants Compartment (IAI-KAM) |
| Don Johnston | Advisor | HIID |
| V. J. H. Boentaran | Partner | Drs. Hadi Sutanto & Rekan (Member firm of PricewaterhouseCoopers) |
| Chris Cooper | Technical Advisor | Drs. Hadi Sutanto & Rekan (Member firm of PricewaterhouseCoopers) |
| Hans Koopmans | Technical Advisor | Drs. Hadi Sutanto & Rekan (Member firm of PricewaterhouseCoopers) |
| Lucy Suhenda | Director, Transaction Services | Drs. Hadi Sutanto & Rekan (Member firm of PricewaterhouseCoopers) |
| Dudi M. Kurniawan | Senior Manager, Assurance and Business Advisory Services | Drs. Hadi Sutanto & Rekan (Member firm of PricewaterhouseCoopers) |

| | | |
|------------------------|---|--|
| Amien Sunaryadi | Manager, Financial Advisory Services | Drs. Hadi Sutanto & Rekan (Member firm of Pricewater- houseCoopers) |
| Elizabeth Goodbody | Technical Advisor | PT. Pricewaterhouse- Coopers FAS |
| Eddy Rintis | Senior Manager, Assurance and Business Advisory Services | Drs. Hadi Sutanto & Rekan (Member firm of Pricewater- houseCoopers) |
| Myrnie Zachraini | Director, Assurance and Business Advisory Services | Drs. Hadi Sutanto & Rekan (Member firm of Pricewater- houseCoopers) |
| M. Harri Santoso | Official | Investment Coordinating Board (BKPM) |
| M. Z. Abidin | Secretary, Committee on Good Corporate Governance (TIM) | Audit and Development Supervising Agency (BPKP) |
| Sudirman Said | Chair | Indonesian Society for Transparency (MTI) |
| Suhartono | Partner | Kanaka, Puradiredja & Rekan (Member firm of DFK International) |
| Muhadi Prabowo | Senior Manager | Kanaka, Puradiredja & Rekan (Member firm of DFK International) |
| Frank W. Van Gelder | Senior Manager, Financial Advisory Services | Pannell Kerr Forster Consulting Pte Ltd |

APPENDIXES

| | | |
|-------------------------|---|---|
| Bernie Carmody | Consultant | ADB Corporate Governance Reform Project |
| Rusdi Daryono | Partner | Prasetio, Utomo & Co. (Arthur Andersen) |
| Bella A. Lusano | Partner | Prasetio, Utomo & Co. (Andersen) |
| Michael W. Ryan | Principal Financial Sector Specialist | ADB, Indonesia Resident Mission |
| Staffan Synnerstrom | Senior Governance Advisor | ADB, Indonesia Resident Mission |
| Farzana Ahmed | Head, Financial Management and Disbursements Unit | ADB, Indonesia Resident Mission |
| Hari Purnomo | Project Officer, Financial Sector and SMEs | ADB, Indonesia Resident Mission |
| Sujan Emma Yang | Senior Financial Management Specialist | ADB |
| Klaus-Pieter Kriegsmann | Senior Financial Sector Specialist | ADB |
| Julie Rogers | Senior Financial Sector Specialist | ADB |
| Rita O'Sullivan | Counsel | ADB |
| Edgard R. Rodriguez | Economist | ADB |
| Howard C. Edmonds | Lead Bank Supervision Advisor | International Monetary Fund (IMF) |

| | | |
|-------------------|--|--|
| Lanna W. Lubis | Activity Manager, Financial Institutions | United States Agency for International Development (USAID), Office of the Economic Growth |
| Rajiv Sondhi | Senior Financial Management Specialist | World Bank |
| Unggul Suprayitno | Operations Officer | World Bank |
| Norio Usui | Consultant | Japan Bank for International Cooperation (JBIC) Decentralization Study |

Appendix 3. Relevant Extracts from the Bank Indonesia Law

A Law of the Republic of Indonesia Regarding Bank Indonesia (No. 23)
Enacted on 17 May 1999

| | |
|---|--|
| Chapter I – General Provisions | (1) Bank Indonesia shall conduct an examination on a Bank, both periodically and at any time it deems necessary. |
| Chapter II – Status, Domicile And Capital | |
| Chapter III – Objectives and Tasks | (2) The examination as referred to in paragraph (1) shall, if deemed necessary, also be conducted on the Bank's holding company, subsidiary company, related parties, affiliated parties and debtor. |
| Chapter IV – Prescribing and Implementing Monetary Policy | |
| Chapter V – Regulating and Safeguarding the Smoothness or the Payment System | (3) The Bank and such parties as referred to in paragraph (2) shall provide to the examiner: (a) the required information and data; (b) an opportunity to examine the whole books, documents, and physical instruments related to the Bank's activities; and (c) other necessary things. |
| Chapter VI – Regulation and Supervision of Banks | |
| Article 24 | Article 30 |
| Bank Indonesia shall, in implementing the task as referred to in Article 8(c) prescribe regulations, grant and revoke license of an institutional and certain business activities of a Bank, implement Banking supervision and impose sanction on a Bank in accordance with the prevailing regulations. | (1) Bank Indonesia may assign other parties, for and on behalf of Bank Indonesia, to exercise the examination as referred to in Articles 29(1) and 29(2). |
| Article 27 | (2) Other parties who exercise the examination as referred to in paragraph (1), shall keep confidential the information and data obtained in such examination. |
| Banking supervision conducted by Bank Indonesia as referred to in Article 24 shall be a direct and an indirect supervision. | (3) Requirements which should be fulfilled by other parties assigned by Bank Indonesia as referred to in paragraph (1) shall be prescribed by Bank Indonesia Regulation. |
| Article 28 | Article 34 |
| (1) Bank Indonesia shall oblige a Bank to submit reports, information and explanation in accordance with the procedure prescribed by Bank Indonesia. | (1) The banking supervision tasks will be conducted by an independent supervisory board of financial services sector, which shall be established by an Act. |
| (2) The obligation as referred to in paragraph (1) shall, if deemed necessary, also be imposed on a Bank's holding company, subsidiary company, related parties and affiliated parties. | (2) The establishment of such supervisory entity as referred to in paragraph (1) will be taken place not later than December 31, 2002. |
| Article 29 | |

Article 35

As long as the supervisory entity as referred to in Article 34 has not been established, the banking regulation and supervision task shall be conducted by Bank Indonesia.

Chapter VII – Board of Governors

Chapter VIII – Relationship With Government

Chapter IX – International Relations

Chapter X – Accountability and Budget

Article 59

The Supreme Audit Board may conduct special examination on Bank Indonesia at the request of the House of Representatives if deemed necessary.

Article 61

(1) Bank Indonesia shall, at the latest 30 (thirty) days after the expiration of a fiscal year, complete the compiling of the annual financial report of Bank Indonesia.

(2) Bank Indonesia shall, at the latest 7 (seven) days after the report as referred to in paragraph (1) has been compiled, submit the report to the Supreme Audit Board which will examine the report.

(3) The Supreme Audit Board shall, at the latest 90 (ninety) days since the examination as referred in paragraph (2), submit the report to the House of Representatives.

(4) Bank Indonesia shall publicize the annual financial report of Bank Indonesia to the public through mass media.

Chapter XI – Criminal Provisions and Administrative Sanctions

Article 72

(1) Without prejudice to the criminal provision as referred to in Article 65, Article 66, Article 67, Article 68, Article 69, Article 70, and Article 71, the Board of Governors may impose an administrative

sanction on Bank Indonesia's employees and other parties who do not perform his/her obligation in accordance with this Act.

(2) The administrative sanction as referred to in paragraph (1) may be in the form of: (a) a fine; (b) a warning; (c) a revocation or an annulment of a business license by a competent institution if the violation is conducted by an entity; or (d) an imposition of a disciplinary sanction if such violation is conducted by a business entity.

(3) Further provision on the administrative sanction shall be prescribed by Bank Indonesia Regulation or the Board of Governors Regulation.

Chapter XII – Transitional Provisions

Chapter XIII – Final Provisions

Appendix 4. International Standards and Guidelines on Professional Arrangements

1. Overview

288. The IFAC Board created a Compliance Committee in May 2000. The Committee is one of several initiatives designed to strengthen IFAC and the international profession. Its primary responsibilities are: (i) monitoring the relevance, sufficiency, and efficacy of IFAC membership obligations; (ii) monitoring member body compliance with these obligations; (iii) recommending actions to the IFAC Board and Council in respect of membership obligations; (iv) reviewing the investigative and disciplinary processes of member bodies, and reporting and making recommendations on these to the IFAC Board and Council; (v) considering how member bodies might best be encouraged, or if necessary, required to comply more closely with such obligations; (vi) devising schemes to assist member bodies to comply more closely and to considering whether additional powers are required to enforce compliance with membership obligations; and (vii) implementing agreed policy in this area. The Compliance Committee will also work closely with members of the Transnational Audit Committee (TAC) in its monitoring of the members of the IFAC Forum of Firms (FOF) once these entities are fully established.

289. As an IFAC member body, the IFAC Compliance Committee will monitor the IAI. Table 27 sets out relevant international guidelines with respect to the accountancy profession. IFAC has also established a *Money Laundering Task Force*. The task force has obtained information from around the world on what other professional bodies are doing and is currently analyzing these activities. This is a first step in determining its scope of activities. Included in the work of the task force will be consideration of whether standards will be developed to help member bodies and their members to address money laundering and related issues.

Table 27. International Guidelines for the Accountancy Profession

| | |
|---|---|
| World Trade Organization (WTO): General Agreement on Trade in Services (GATS) | The criteria for recognizing professional qualifications may not exceed what is necessary to ensure the quality of service. Each country is expected to have a methodology for comparing professional qualifications and this must be applied in a fair and consistent manner to all applicants. |
| Confederation of Asian and Pacific Accountants (CAPA) | CAPA's Guide on the Essential Components of a Professional Accountancy Body ¹⁹⁵ covers: (i) Admission / Advancement Standards; (ii) Full Membership Requirements; (iii) Continuing Professional Education (CPE); (iv) Technical Standards; (v) Quality Assurance / Peer Review Program; (vi) Registration as Accountant/Auditor; (vii) Disciplinary Rules; (viii) Management and Administrative Structures; (ix) Governance; and (x) External Affiliations / Memberships. ¹⁹⁶ |

¹⁹⁵ Confederation of Asian and Pacific Accountants (CAPA). 1998. *Guide on the Essential Components of a Professional Accountancy Body*.

¹⁹⁶ Further details are provided in: Narayan, Francis B., Ted Godden, Barry Reid, and Maria Rosa Ortega. 2000. *Financial Management and Governance Issues in Selected Developing Member Countries: A Study of Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan, and Viet Nam*. ADB: Manila. p. 27.

| | |
|--|--|
| International Federation of Accountants (IFAC) | <p>IFAC pronouncements cover several areas:</p> <ul style="list-style-type: none"> • Education Guidelines and Standards. IFAC's Education Committee issues International Education Standards (IESs) and International Education Guidelines (IEGs). The IESs are intended to establish the essential elements on which education and training programs, both pre-qualification and post-qualification, for all accountants should be founded. The IEGs promote good practice and or provide good advice. They are based on careful study of the best practices and most effective methods for dealing with the issues being addressed. • Code of Ethics for Professional Accountants. This is intended to serve as a model on which to base national ethical guidance. It sets standards of conduct for professional accountants and states the fundamental principles that should be observed by professional accountants in order to achieve common objectives. • Statement of Policy of Council: Implementation and Enforcement of Ethical Requirements.¹⁹⁷ This statement sets expectations and provides guidance on disciplinary action, including punishment and publicity. • Assuring the Quality of Professional Services. This statement sets expectations on quality control policies and procedures for member bodies and professional firms.¹⁹⁸ |
| Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) of the UNCTAD | <p>In February 1999, UNCTAD issued a report on accounting education and qualifications.¹⁹⁹ The report provides a useful set of benchmarks in respect of these issues, in particular:</p> <ul style="list-style-type: none"> • Guideline for a Global Accounting Curriculum and Other Qualification Requirements, including (i) requirements for the qualifications of professional accountants; and (ii) a guideline for national systems for the qualifications of professional qualifications. • Global Curriculum for the Professional Education of Professional Accountants (including: (i) organizational and business knowledge; (ii) information technology; and (iii) accounting and accounting-related knowledge. |

¹⁹⁷ IFAC. 1998 January. Statement of Policy of Council: Implementation and Enforcement of Ethical Requirements. New York.

¹⁹⁸ IFAC. 1999 August. *Assuring the Quality of Professional Services*. New York

¹⁹⁹ UNCTAD. 1999. International Accounting and Reporting Issues: 1999 Review. United Nations.

290. Furthermore, ISAR has initiated a project to assess the competence of accountants. The objective of the project is to rate professional accounting qualifications from around the world and, in doing so, create impetus for improvements and support international skill transferability.²⁰⁰

2. Qualification Requirements

Introduction

291. International Education Standards (IESs) address pre-qualification education of professional accountants and continuing professional development. In mid- 2002, the IFAC Education Committee released exposure drafts of seven standards and one guideline for public comment. The overall goal of the proposed standards is to support efforts to produce competent professional accountants.²⁰¹ The exposure drafts are summarized in Appendix 5.

Education

292. IFAC and ISAR have published guidelines on education requirements. The IFAC guidelines, such as IEG 9, provide an overview as to what is expected. The ISAR guidelines are more useful in a practical sense as they suggest a detailed curriculum structure and contents.²⁰²

Experience

293. With regards to practical experience, international guidelines state that:

An appropriate period of relevant experience in performing the work of professional accountants must be a component of a pre-qualification program. The period of experience may vary due to differences in the environment in which professional accountants offer their services. However, this period should be long enough to permit prospective accountants to demonstrate they have gained the knowledge, skills,

²⁰⁰ Narayan, Francis B., Ted Godden, Barry Reid, and Maria Rosa Ortega. 2000. Financial Management and Governance Issues in Selected Developing Member Countries: A Study of Cambodia, People's Republic of China, Mongolia, Pakistan, Papua New Guinea, Uzbekistan, and Viet Nam. ADB: Manila. p 29.

²⁰¹ IFAC. 2002 July 16. *IFAC Requests Comments on International Education Standards for Professional Accountants*. Media Release. IFAC: New York. www.ifac.org

²⁰² UNCTAD. 1999. International Accounting and Reporting Issues: 1999 Review. United Nations.

and professional values sufficient for performing with professional competence and for continuing to grow throughout their careers. This objective cannot normally be met in a period of less than three years.

Paragraph 49 – IEG 9.

294. Moreover, IFAC recommends that practical experience requirements must be considered when professional bodies seek mutual recognition of qualifications.²⁰³

Continuing Professional Education (CPE)

295. IFAC and ISAR recommend a minimum of 30 hours CPE per year, or a minimum of 90 hours in every three-year period, of structured learning activity.²⁰⁴

3. Quality Control and Assurance

“In the case of professional accountants in public practice, the implementation of appropriate quality control policies and procedures is the responsibility of each firm of practicing accountants. The task of encouraging and assisting firms of practicing accountants to maintain and improve the quality of professional services is primarily that of the member bodies in each country. IFAC believes that the member bodies have the responsibility to take appropriate steps to achieve that objective in the legal, social, business, and regulatory environment prevailing within their countries.”

– IFAC (At

296. In relation to quality control and assurance, IFAC suggests that:²⁰⁶

- Member bodies should adopt or develop quality control standards and relevant guidance that require firms of practicing accountants to establish the quality control policies and procedures necessary to provide reasonable assurance of conforming with professional standards in performing services. The nature and extent of a firm’s quality control policies and procedures depend on a number of factors, such as the size and nature of its practice, its geographic dispersion, its organization, and appropriate cost/benefit considerations. Accordingly, the policies and procedures adopted

²⁰³ IFAC. 1995 June. *Statement of Policy of Council: Recognition of Professional Accountancy Qualifications*. New York. Paragraph 22-25.

²⁰⁴ IFAC. 1998 May. *International Education Guideline (IEG) 2: Continuing Profession Education*. New York.

²⁰⁵ IFAC. 1999 August. *Assuring the Quality of Professional Services*. New York.

²⁰⁶ *Ibid.*

by individual firms will vary, as will the manner in which the policies and procedures themselves and compliance with them are documented.

- Member bodies should develop quality review programs designed to evaluate whether firms of practicing accountants have established appropriate quality control policies and procedures and are complying with those policies.
- Member bodies should establish quality review programs designed to evaluate whether firms of practicing accountants have complied with relevant professional standards for assurance engagements.
- Member bodies should require firms of practicing accountants to make appropriate improvements in their quality control policies and procedures, or in their compliance with those policies and procedures, when the need for such improvement is identified. Where firms fail to comply with relevant professional standards, the member body should take appropriate corrective action. Member bodies should also take such educational or disciplinary measures as indicated by the circumstances.

297. As a basic condition, IFAC emphasizes that implementation of an adequate self-regulatory program cannot be effected until firms of practicing accountants in a country are bound by an appropriate code of ethics and also by adequate standards governing accounting principles and engagements to provide professional services. The IFAC Code of Ethics for Professional Accountants, its International Standards on Auditing, and the International Accounting Standards (IASs) issued by the International Accounting Standards Board (IASB) all provide guidance for such standards.

Box 12. Professional Quality Assurance in the People's Republic of China

The People's Republic of China provides one example of how a quality assurance program can be implemented.²⁰⁷ From July 1997 to March 1999, China conducted a nationwide rectification campaign of the accounting market. The campaign had four stages:

- **Self-inspection.** In the six months to December 1997, around 6,700 accounting firms conducted self-inspections. The self-inspections covered around 50 percent of their 1996–1997 activities. Just under 1.5 million business reports were inspected; of these, 26 percent were considered to be either defective or in need of correction.
- **Focus Groups and Field Inspections.** In January 1998, local CPA Institutes established working groups. In the following six months, these working groups conducted field inspections of 5,800 firms.
- **Inspection Reviews.** From July to the end of October 1998, 192 people selected by the Chinese Institute of Certified Public Accountants (CICPA) reviewed the inspections conducted in stages I and II. The reviews focused on 405 accounting firms.
- **Reexamination.** From November 1998 to March 1999, CICPA reexamined the qualifications and status of qualified accountants and accounting firms.

As a consequence of the campaign almost 12,700 individual CPAs were either forced to withdraw from the profession or were disciplined (25 percent of CPAs). Many of these were older members who had not passed the uniform accounting examination, and around 580 accounting firms withdrew from the profession or had their licenses cancelled. Warnings and punishments were issued to a further 2,000 accounting firms (43 percent of firms).

CICPA judged the campaign to be a success based on the following evidence.²⁰⁸ First, during the period of the campaign, 6,300 newly qualified accountants joined the profession. The net effect was to substantially improve the profession's age structure and knowledge. Second, to address problems that were identified in the inspections, 85 percent of accounting firms substantially improved their internal-management practices; improved professional rules; implemented or improved quality-control systems; increased training; and in doing so, effectively eliminated the problems that had been identified. Third, in 1998, the level of "non-clean" audit opinions given on listed companies rose dramatically (to around 12 percent of audit reports) which (arguably) indicated improved professional quality and ethics. Fourth, the credibility of CPAs in the eyes of the public, as measured by a media survey, climbed from 45 percent in 1996, to 81 percent in June 1998.

²⁰⁷ Narayan, Francis, B. and Barry Reid. 2000. *Financial Management and Governance Issues in the People's Republic of China*. ADB: Manila. pp. 35-39.

²⁰⁸ Yong, Li. 1999. The Reform, Regulation and Opening-up of China's Accounting Market. *Contemporary Issues in China Accounting and Finance: Policy and Practice*. Oxford University Press. p. 282–283 .

Appendix 5. Proposed International Education Standards²⁰⁹

298. The deadline for public comments on these documents is 31 December 2002.

1. International Education Standards (IEGs) for Professional Accountants

Entry Requirements. Prescribes entry requirements for candidates beginning the qualifying process for becoming professional accountants.

Content of Professional Education Programs. Prescribes the professional education candidates require to qualify as professional accountants.

Professional Skills and General Education. Prescribes the personal and professional skills candidates must have to qualify as professional accountants.

Professional Values and Ethics. Prescribes the professional values and ethics that professional accountants need to acquire during their programs of education and practical experience. The aim of this standard is to ensure that candidates for membership of an IFAC member body are equipped with the appropriate professional values and ethics to function as professional accountants.

Experience Requirements. Prescribes the practical experience and training IFAC member bodies should require their members to obtain to qualify as professional accountants. The aim of this standard is to ensure that candidates for members of an IFAC member body have acquired the practical experience considered appropriate at the time of qualification to function as competent professional accountants.

Assessment of Professional Competence. Prescribes the requirement for a process of assessment of a candidate's professional competence before admission to the profession.

Continuing Professional Education and Development. Prescribes that member bodies establish a continuing professional education and development (or CPD) requirement for all accountants. This is an important aspect of serving the public interest and fosters values of continuous learning and greater professional competence

²⁰⁹ IFAC. 2002 July 16. *IFAC Requests Comments on International Education Standards for Professional Accountants*. Media Release. New York. www.ifac.org

among professional accountants to better meet client and employer needs.

2. International Education Guideline (IEG) for Professional Accountants

Continuing Professional Education and Development. Provides guidance to assist member bodies in establishing a requirement for an effective program of continuing professional education and development (or CPD) for members, as prescribed in the proposed International Education Standard Continuing Professional Education and Development.

Appendix 6. Synopsis of the 2001 Academic Paper²¹⁰

299. As described on page 90, in 2001, the MOF released an *Academic Paper* that examined issues to be covered by the new PA Law. The following table summarizes the description, analysis and proposals that the *Academic Paper* presents.

| Situation and Issues | Proposals |
|---|--|
| <p>Legal Definition of PA</p> <p>Indonesian PAs are accountants that hold the MOF PA permit.²¹¹ To gain this, they must first pass the IAI-administered PA Certification Examination, which allows them to use the title Certified Public Accountant (BAP). With the exception of Singapore, the comparator countries do not explicitly define PAs in law.</p> <p>Only those who hold MOF-issued PA permits may be called PAs. However, the community often considers the following two groups as being public accountants:</p> <ul style="list-style-type: none"> ▪ All professional staff employed by KAPs, and ▪ All those holding BAP titles, even if they are not registered with MOF. | <p>Clarify position by limiting the use of the PA title to those who have a permit from the Finance Minister to practice as a PA.</p> |
| <p>PA Permits (Licenses)</p> <p>Holders of PA permits may not practice without first obtaining a MOF-issued License to Practice.</p> | <p>PA Permits should only be issued to those who: (i) are domiciled in Indonesia; (ii) hold PA certificates issued by the professional association; (iii) are registered with professional association; (iv) possess practical experience; and (v) do not have any criminal convictions.</p> |

²¹⁰ Table based on: MOF. 2001. *Academic Draft: Draft of Public Accountant Law*. MOF: Jakarta.

²¹¹ Finance Minister Decree on Public Accountant Services (No. 43/KMK.017/1997).

APPENDIXES

| Situation and Issues | Proposals |
|---|--|
| <p>Although government has authority to license PAs, it has effectively delegated this authority to IAI. The <i>Academic Paper</i> considers who should license public accountancy practice. Three options are reviewed:</p> <ul style="list-style-type: none"> ▪ <i>Government</i>: The <i>Academic Paper</i> contends that the existing situation of government licensing works well and is appropriate given the government's responsibility to protect public interests. ▪ <i>Professional Association (IAI)</i>: Although noting that IAI is authorized to regulate its members, the <i>Academic Paper</i> argues that, without separation of functions, there is an absence of independence. ▪ <i>New Independent Institution</i>: The <i>Academic Paper</i> considers that, excepting practical implementation problems, this is probably the "ideal option". | <p>The government should be the designated licenser.</p> |
| <p>Permits are currently valid for life, or until revoked. PA permits are revoked if PAs: (i) fail to resolve sanctions within allowed timeframes; (ii) die; (iii) resign; (iv) are discharged from IAI or IAI-KAP; or (v) breach relevant laws or regulations.²¹² The <i>Academic Paper</i> weighs two options:</p> <ul style="list-style-type: none"> ▪ <i>Life Validity (Status Quo)</i>: Would reduce KAP compliance costs, but require more intensive government monitoring of KAPs. ▪ <i>Required Renewal</i>: Would facilitate monitoring of KAP practices. | <p>The <i>status quo</i> should be maintained (i.e., permits remain valid for life).</p> |

²¹² Finance Minister Decree on Public Accountant Services (No. 43/KMK.017/1997).

| Situation and Issues | Proposals |
|---|--|
| <p>Licensing fees do not currently apply. By charging fees, the <i>Academic Paper</i> identifies advantages for government revenues. Conversely, it contends that this would adversely affect the profession's future development.</p> | <p>The <i>status quo</i> should be maintained (i.e., licensing fees are not charged).</p> |
| <p>PA Certification</p> <p>The IAI currently administers the PA certification examination, which allows use of the BAP title. The <i>Academic Paper</i> recognizes the importance of certification in establishing technical ability and providing a measure of competence. It notes that the certification examination meet international standards as reflected by: (i) quality of the questions; (ii) organization of the examinations; and (iii) abilities of those involved in the process.</p> <p>The <i>Academic Paper</i> questions who should regulate the curriculum and determine the examination materials. With the exception of ROK, professional associations administer certification exams in the comparator countries. Three options are considered. First, giving the association full authority would minimize government efforts. Second, the government could review and approve association materials. Third, an independent board might be established to conduct certification process.</p> | <p>Although no proposal is made about who should conduct PA certification, the <i>Academic Paper</i> proposes that the draft PA Law: (i) give clear backing to the certification process; and (ii) provide strong sanctions for breaches of certification process.</p> |

APPENDIXES

| Situation and Issues | Proposals |
|--|--|
| <p>PA and KAP Services</p> <p>PAs and KAPs are currently allowed to provide audit, attestation, review, consulting, taxation and other accounting-related services. The comparator countries vary in their restrictions on allowable services. The <i>Academic Paper</i> contends that although non-PAs may provide taxation and financial services, the provision of attestation services should be restricted to PAs and KAPs. Moreover, it identifies potential independence issues regarding service provision.</p> | <p>Only PAs and KAPs should be allowed to provide attestation services, but must maintain their independence when doing so.</p> <p>Further service regulation would best be provided through, for instance, a Finance Minister Decree.</p> |
| <p>PA and KAP Obligations</p> <p>The <i>Academic Paper</i> contends that there should be “a clear [distinction] between the obligations of PAs as individuals, and the obligations of KAPs as business entities” in the draft law, thus providing a strong legal basis for monitoring and development – legally backed quality control mechanisms over KAP activities are seen as essential. These mechanisms might involve either peer or quality reviews (by the government or an “authorized institution”).</p> | <p>The following obligations should be regulated: (i) PAs must comply with applicable legislation when providing services; (ii) PAs must conform with PSAKs, SPAPs and the Code of Ethics; (iii) independence must be maintained; (iv) capability must be improved through education and training; (v) adequate working papers must be maintained; (vi) client confidentiality must be protected; (vii) legal breaches by clients must be reported; (viii) PAs and KAPs must meet appropriately judged financial claims – partners are jointly liable; (ix) KAP must implement SPM; (x) KAPs must maintain the profession’s reputation; and (xi) KAPs must provide periodic written reports to the Finance Minister, on their finances and activities.</p> |

| Situation and Issues | Proposals |
|---|---|
| <p>PA and KAP Prohibitions</p> <p>The Finance Minister Decree currently prohibits PAs from working in more than one KAP and from undertaking work that might impair their independence. The comparator countries all regulated against impairment of independence and prohibited non-PAs from providing PA services.</p> | <p>The following prohibitions should be regulated: (i) PAs may not work in more than one KAP; (ii) PAs and KAPs may not provide services although their permits are suspended; (iii) PAs may not accept gifts that may undermine their professional integrity; (iv) contingency fees are prohibited; (v) PAs may not hold concurrent positions that impairs their independence; (vi) PAs and KAPs may not commit frauds or destroy records; (vii) non-PAs may not use the PA designation; (viii) non-KAP organizations may not use the KAP designation; (ix) non-PAs may not provide attestation services; and (x) PAs may not provide audit services for the same client more than four consecutive times.</p> |
| <p>PA and KAP Responsibilities</p> <p>The responsibilities of PAs and KAPs are not currently legally defined. The <i>Academic Paper</i> contends that explicit regulation of these responsibilities will improve public protection and encourage higher professional standards.</p> <p>The <i>Academic Paper</i> considers the scope of these responsibilities, the period for which action can be taken for breaches, financial liability for breaches and due process.</p> | <p>The following approaches are proposed:</p> <ul style="list-style-type: none"> ▪ Professional and financial responsibilities should be regulated. ▪ With the exception of criminal actions, actions for breaches of responsibilities should be limited by time (e.g., seven years). ▪ There should be unlimited liability for civil actions. |

| Situation and Issues | Proposals |
|--|--|
| <p>PA and KAP Sanctions</p> <p>The following sanctions can currently be applied: warning, suspension (maximum two years) and revocation. The comparator countries allowed for warnings, reprimands, suspensions, revocation, fines and imprisonment.</p> | <p>The following sanctions are proposed:</p> <ul style="list-style-type: none"> ▪ Administrative sanctions (warnings, permit suspension, permit revocation and penalties). ▪ Criminal sanctions (imprisonment and penalties). ▪ Civil sanctions (compensations and penalties). <p>It is proposed that, in contrast to existing arrangements:</p> <ul style="list-style-type: none"> ▪ Sanctions should not have to be applied in a step-by-step manner. ▪ Where KAP assets are insufficient to meet civil sanctions or administrative penalties, the KAP partner(s) be jointly and fully accountable. |
| <p>Business Entity Form of KAPs</p> <p>KAPs may currently be established in the form of sole proprietorships or partnerships. PAs holding academic positions may only operate in partnerships. The comparator countries allowed a variety of forms, including limited liability partnerships and corporations. ROK regulates minimum capital requirements.</p> <p>The <i>Academic Paper</i> contends that three factors should be considered in relation to the form of KAPs: protection of public interests, protection of PAs and KAPs, and maintenance of independence. It considers that, because a KAP is a society of professionals and not a collection of capital, the limited liability company (PT) form is unsuitable.</p> | <p>KAPs should be in the form of general partnerships or sole proprietorships.</p> |

| Situation and Issues | Proposals |
|--|--|
| <p>Establishment of KAPs PAs can establish KAPs The Finance Minister Decree regulates KAP establishment and the opening of branch offices. A permit is required to establish a KAP.</p> <p>The <i>Academic Paper</i> contends that the Finance Minister should issue permits, but recognizes that an independent institution might also undertake this function.</p> | <p>The following arrangements are proposed: (i) KAP must be established and led by PAs; (ii) KAP must be domiciled in Indonesia; (iii) KAP should have articles of association; (iv) KAP should have a minimum paid-in capital level.</p> <p>The KAP establishment process for foreign accountants will also be described, based on reciprocity.</p> |
| <p>Foreign Public Accountants (APAs) and Foreign KAPs The <i>Academic Paper</i> states that WTO-GATS and APEC initiatives have “closed the possibility of the government to refuse the practicing of foreign public accountants or the establishment of foreign KAP in Indonesia.” To this end, the <i>Academic Paper</i> contends that the draft law must be support liberalization, based on mutual recognition.</p> | <p>The draft law must be consistent with WTO-GATS and APEC commitments. APAs must be domiciled in Indonesia, and hold membership of the Indonesian association and their own association (based on mutual recognition).</p> |
| <p>PA and KAP Development and Oversight The <i>Academic Paper</i> contends that, as the PA and KAP licensing authority, the government should also have development and oversight authority. However, it contends that the professional association may also be involved in PA and KAP development and oversight.</p> | <p>It is proposed that the draft law specify that the government have primary responsibility for oversight and development.</p> |

| Situation and Issues | Proposals |
|---|---|
| <p>Professional Association (APAP)</p> <p>IAI is currently recognized as the APAP. The <i>Academic Paper</i> examines four possible alternatives for professional arrangements:</p> <ul style="list-style-type: none"> ▪ <i>Unified IAI Retains Functions (status quo)</i>. The IAI membership comprises public accountants, management accountants, academic accountants and public sector accountants. The PA Compartment, being the most active, tends to dominate IAI. IAI issues accounting standards (PSAKs) and auditing standards (SPAPs), and issues the PA certifications (BAP). The <i>Academic Paper</i> contends that the advantages of maintaining the <i>status quo</i> include: (i) efficiency, in that IAI represents all accountants; (ii) positive public perceptions; and (iii) reducing government activities. Conversely, it identifies the following weaknesses: (i) a unified professional body reduces flexibility through excessive bureaucracy; and (ii) IAI's monopoly over the accountancy profession may potentially lead to biased or non-objective decisions. ▪ <i>Professional Specialization (U.S. Approach)</i>. In the U.S., each professional specialization has its own organization. An independent institution sets accounting standards. The Uniform Accounting Act regulates public accountants. Although recognizing the strengths of this arrangement, the <i>Academic Paper</i> essentially concludes that it is unsuitable to Indonesia circumstances. | <p>The <i>Academic Paper</i> proposes alternative four. That is the establishment of independent professional associations under the coordination of a new organization: the Indonesian Accounting Board (DAI). DAI would also be responsible for standard setting, certification and discipline.</p> |

| Situation and Issues | Proposals |
|---|-----------|
| <ul style="list-style-type: none"> ▪ <i>Modification of Existing IAI Arrangements.</i> This approach would involve direct election of the chairs of the SAK Board, DSPAP (professional standards), Judiciary Body for PAs (BP2AP) and the Honorary Council. The <i>Academic Paper</i> contends that this would support independence and objectivity, and improve representation. In particular, it argues that it would make institutions, such as the BP2AP, that are “currently considered less functional”, more effective. However, it contends that the weaknesses identified in the first alternative would remain. ▪ <i>Independent Organizations under a Unifying Board.</i> This approach would involve each compartment standing alone as a fully independent professional association. The compartments would be coordinated under the DAI. DAI’s functions might include: setting accounting standards (PSAKs) for the public and private sectors, certification; licensure, professional judicature; and setting professional standards. The <i>Academic Paper</i> identifies this approach as the “win-win solution” and envisages a self-funding organization. It contends that this approach would support independence, representation and efficiency. The possibility of poor coordination is identified as a weakness. | |

Appendix 7. Indonesian Financial Accounting Standards (PSAKs)²¹³

300. The following table identifies the 57 PSAKs that were effective at 30 June 2002, and identifies their parentage (where applicable).²¹⁴

| PSAK | Parentage | Issued | Effective |
|--|--|-----------|-----------|
| 1. Presentation of Financial Statements (<i>Penyajian Laporan Keuangan</i>) | IAS 1 (1997) | 4-9-1998 | 1-1-1999 |
| 2. Cash Flow Statements (<i>Laporan Arus Kas</i>) | IAS 7 (1992) | 7-9-1994 | 1-1-1995 |
| 3. Interim Financial Statements (<i>Laporan Keuangan Interim</i>) | APB Opinion No. 28 (1973): Interim Financial Statements | 7-9-1994 | 1-1-1995 |
| 4. Consolidated Financial Statements (<i>Laporan Keuangan Konsolidasi</i>) | IAS 27 (1989) | 7-9-1994 | 1-1-1995 |
| 5. Segment Reporting (<i>Pelaporan Segmen</i>) | IAS 14 (1997) | 6-10-2000 | 1-1-2002 |
| 6. Accounting and Reporting by Development-Stage Enterprises (<i>Akuntansi dan Pelaporan bagi Perusahaan dalam Tahap Pengembangan</i>) | SFAS 7 (1975): Accounting and Reporting by Development Stage Enterprises | 7-9-1994 | 1-1-1995 |
| 7. Related Party Disclosures (<i>Pengungkapan Pihak-pihak yang Mempunyai Hubungan Istimewa</i>) | IAS 24 (1984): Related Party Disclosures | 7-9-1994 | 1-1-1995 |
| 8. Contingencies and Events Occurring after the Balance Sheet Date (<i>Kontinjensi dan Peristiwa Setelah Tanggal Neraca</i>) | IAS 10 (1978) | 7-9-1994 | 1-1-1995 |
| 9. Withdrawn | Superseded by PSAK 1 (IAS 1) in 1998 | ... | ... |

²¹³ This appendix is referred to on page 101.

²¹⁴ Source: Information provided by DSAK (22 July 2002).

ACCOUNTING AND AUDITING PRACTICES IN INDONESIA

| PSAK | Parentage | Issued | Effective |
|--|--|------------|-----------|
| 10. Transactions in Foreign Currencies (<i>Transaksi dalam Mata Uang Asing</i>) | IAS 21 (1993): The Effects of Changes in Foreign Exchange Rates | 7-9-1994 | 1-1-1995 |
| 11. Translation of Financial Statements in Foreign Currencies (<i>Penjabaran Laporan Keuangan dalam Mata Uang Asing</i>) | IAS 21 (1993): The Effects of Changes in Foreign Exchange Rates | 7-9-1994 | 1-1-1995 |
| 12. Financial Reporting of Interests in Jointly Controlled Operations and Assets (<i>Pelaporan Keuangan Mengenai Bagian Partisipasi dalam Pengendalian Bersama Operasi dan Aset</i>) | IAS 31 (1990): Financial Reporting of Interests in Joint Ventures | 7-9-1994 | 1-1-1995 |
| 13. Accounting for Investments (<i>Akuntansi untuk Investasi</i>) | IAS 25 (1986) | 7-9-1994 | 1-1-1995 |
| 14. Inventories (<i>Persediaan</i>) | IAS 2 (1993) | 7-9-1994 | 1-1-1995 |
| 15. Accounting for Investments in Associates (<i>Akuntansi untuk Investasi dalam Perusahaan Asosiasi</i>) | IAS 28 (1989) | 7-9-1994 | 1-1-1995 |
| 16. Fixed Assets and Other Assets (<i>Aktiva Tetap dan Aktiva Lain-lain</i>) | IAS 16 (1993) | 7-9-1994 | 1-1-1995 |
| 17. Depreciation Accounting (<i>Akuntansi Penyusutan</i>) | IAS 4 (1976) | 7-9-1994 | 1-1-1995 |
| 18. Accounting by Pension Plans (<i>Akuntansi Dana Pensiun</i>) | IAS 26 (1987): Accounting and Reporting by Retirement Benefit Plans Regulations for Pension Plans in Indonesia (especially UU No.: 11/1992) | 7-9-1994 | 1-1-1995 |
| 19. Intangible Assets (<i>Aktiva Tidak Berwujud</i>) | IAS 38 (1998) | 13-10-2000 | 1-1-2001 |
| 20. <i>Withdrawn</i> | Superseded by PSAK 19 (IAS 38) in 2000 | ... | ... |

APPENDIXES

| PSAK | Parentage | Issued | Effective |
|--|---|-----------|-----------|
| 21. Accounting for Equity (<i>Akuntansi Ekuitas</i>) | Indonesian Corporation Regulations. | 7-9-1994 | 1-1-1995 |
| 22. Accounting for Business Combinations (<i>Akuntansi Penggabungan Usaha</i>) | IAS 22 (1993) | 7-9-1994 | 1-1-1995 |
| 23. Revenue (<i>Pendapatan</i>) | IAS 18 (1993) | 7-9-1994 | 1-1-1995 |
| 24. Accounting for Retirement Benefit Costs (<i>Akuntansi Biaya Manfaat Pensiun</i>) | IAS 19 (1993): Retirement Benefit Costs | 7-9-1994 | 1-1-1995 |
| 25. Net profit or Loss for The Period, Fundamental Errors and Changes in Accounting Policies (<i>Laba atau Rugi Bersih untuk Periode Berjalan, Kesalahan Mendasar dan Perubahan Kebijakan Akuntansi</i>) | IAS 8 (1993) | 7-9-1994 | 1-1-1995 |
| 26. Borrowing Costs (<i>Biaya Pinjaman</i>) | IAS 23 (1993) | 14-1-1997 | 1-1-1997 |
| 27. Accounting for Cooperation (<i>Akuntansi Perkoperasian</i>) | Regulations for Cooperation in Indonesia. | 4-9-1998 | 1-1-1999 |
| 28. Accounting for Casualty Insurance (<i>Akuntansi Asuransi Kerugian</i>) | Framework for the Preparation and Presentation of Financial Statements Harmonized with IAS in general FASB Statement of Standard (SFAS 60; 91; 97; 113; 114; 115; 120) Regulations for Insurance in Indonesia | 26-4-1996 | 1-1-1996 |
| 29. Accounting for Oil and Gas Industry (<i>Akuntansi Minyak dan Gas Bumi</i>) | FASB Statement of Standard (SFAS 19; 25; 69) Regulations for Oil and Gas in Indonesia | 7-9-1994 | 31-3-1991 |

ACCOUNTING AND AUDITING PRACTICES IN INDONESIA

| PSAK | Parentage | Issued | Effective |
|---|--|-----------|-----------|
| 30. Accounting for Leases (<i>Akuntansi Sewa Guna Usaha</i>) | SFAS 13 (1976): Accounting for Leases Indonesia Leasing Regulations | 7-9-1994 | 1-1-1991 |
| 31. Accounting for the Banking Industry (<i>Akuntansi Perbankan</i>) | IAS 30 (1990): Disclosures in the Financial Statements of Banks and Similar Financial Institutions Banks for International Settlements (BIS) Indonesian Banking Regulations | 31-3-2000 | 1-1-2001 |
| 32. Accounting for Forestry Enterprises (<i>Akuntansi Pengusahaan Hutan</i>) | Indonesian Forestry Regulations | 7-9-1994 | 1-1-1995 |
| 33. Accounting for The General Mining Industry (<i>Akuntansi Pertambangan Umum</i>) | Indonesian General Mining Regulations | 7-9-1994 | 1-1-1995 |
| 34. Accounting for Construction Contracts (<i>Akuntansi Kontrak Konstruksi</i>) | IAS 11 (1993) | 7-9-1994 | 1-1-1995 |
| 35. Accounting for Revenues from Telecommunication Services (<i>Akuntansi Pendapatan Jasa Telekomunikasi</i>) | Indonesian Telecommunication Regulations | 7-9-1994 | 1-1-1995 |
| 36. Accounting for Life Insurance (<i>Akuntansi Asuransi Jiwa</i>) | Framework for the Preparation and Presentation of Financial Statements Harmonized with IAS in general FASB Statement of Standard (SFAS 60; 81; 91; 97; 113; 114; 115; 120) Indonesian Life Insurance Regulations | 26-4-1996 | 1-1-1996 |
| 37. Accounting for Toll Roads (<i>Akuntansi Penyelenggaraan Jalan Tol</i>) | Indonesian Regulations for the Management of Toll Roads | 22-4-1997 | 1-1-1997 |

APPENDIXES

| PSAK | Parentage | Issued | Effective |
|--|--|------------|--|
| 38. Accounting for Restructuring Under Common Control Entities (<i>Akuntansi Restrukturisasi Entitas Sepengendali</i>) | FASB Statement of Standard | 5-9-1997 | 1-10-1997 |
| 39. Accounting for Operational Cooperation (<i>Akuntansi Kerjasama Operasi</i>) | Regulations for Operational Cooperation in Indonesia | 8-12-1997 | 1-1-1998 |
| 40. Accounting for Changes in Equity of Subsidiaries/Associates (<i>Akuntansi Perubahan Ekuitas Anak Perusahaan/Perusahaan Asosiasi</i>) | Indonesian Corporation Regulations | 8-12-1997 | 1-1-1998 |
| 41. Accounting for Warrants (<i>Akuntansi Waran</i>) | APB Opinion 14 (1969): Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants <i>Bapepam</i> Regulations | 8-12-1997 | 1-1-1998 |
| 42. Accounting for Securities Enterprises (<i>Akuntansi Perusahaan Efek</i>) | SFAS 102 <i>Bapepam</i> Regulations | 23-12-1997 | 1-1-1998 |
| 43. Accounting for Factoring (<i>Akuntansi Anjak Piutang</i>) | SFAS 77 (1983): Reporting by Transferors for Transfers of Receivables with Recourse Regulations for Factoring Industry in Indonesia | 23-12-1997 | 1-1-1998 |
| 44. Accounting for Development of Real Estate (<i>Akuntansi Aktivitas Pengembangan Real Estat</i>) | SFAS 66: Accounting for Sales of Real Estate | 23-12-1997 | 1-1-1998 |
| 45. Financial Reporting in Not for Profit Organizations (<i>Pelaporan Keuangan Organisasi Nirlaba</i>) | SFAS 117: Financial Statements of Not-For-Profit Organizations | 23-12-1997 | 1-1-2000 |
| 46. Accounting for Income Taxes (<i>Akuntansi Pajak Penghasilan</i>) | IAS 12 (1996) | 23-12-1997 | 1-1-1999 (listed) 1-1-2001 (unlisted) |

ACCOUNTING AND AUDITING PRACTICES IN INDONESIA

| PSAK | Parentage | Issued | Effective |
|--|---|------------|------------|
| 47. Accounting for Land (<i>Akuntansi Tanah</i>) | Regulations for Land in Indonesia | 15-7-1998 | 1-1-1999 |
| 48. Impairment of Assets (<i>Penurunan Nilai Aktiva</i>) | SFAS 121: Accounting for the Impairment of Long Life Assets and for Long Life Assets to be Disposed | 15-7-1998 | 1-1-2000 |
| 49. Accounting for Mutual Funds (<i>Akuntansi Reksadana</i>) | Indonesian Mutual Fund Regulations | 15-7-1998 | 1-1-1999 |
| 50. Accounting for Certain Investments in Securities (<i>Akuntansi Investasi Efek Tertentu</i>) | SFAS 115: Accounting for Certain Investments in Debt and Equity Securities | 15-7-1998 | 1-1-1999 |
| 51. Accounting for Quasi-Reorganizations (<i>Akuntansi Kuasi Reorganisasi</i>) | ARB 43 Chapter 7: Capital Accounts Section A: Quasi Reorganizations or Corporate Readjustment | 15-7-1998 | 1-1-1998 |
| 52. Accounting for Reporting Currencies (<i>Akuntansi Mata Uang Pelaporan</i>) | SFAS 52: Foreign Currency Translation | 21-8-1998 | 1-1-2000 |
| 53. Accounting for Stock Based Compensation (<i>Akuntansi Kompensasi Berbasis Saham</i>) | SFAS 123: Accounting for Stock Based Compensation | 4-9-1998 | 1-10-1998 |
| 54. Accounting for Troubled Debts and Receivables Restructuring (<i>Akuntansi Restrukturisasi Hutang Piutang Bermasalah</i>) | SFAS 15: Accounting by Debtors and Creditors for Troubled Debts Restructuring | 14-9-1998 | 14-9-1998 |
| 55. Accounting for Derivative Instruments and Hedging Activities (<i>Akuntansi Instrumen Derivatif dan Aktivitas Lindung Nilai</i>) | SFAS 133 (revised): Accounting for Derivative Instruments and Hedging Activities | 10-9-1999 | 1-1-2001 |
| 56. Earnings Per Share (<i>Laba Per Saham</i>) | IAS 33 (1997) | 10-12-1999 | 31-12-2000 |

APPENDIXES

| PSAK | Parentage | Issued | Effective |
|--|--|-----------|-----------|
| 57. Provisions, Contingent Liabilities and Contingent Assets (<i>Kewajiban Diestimasi, Kewajiban Kontinjensi, dan Aktiva Kontinjensi</i>) | IAS 37 (1998) | 3-11-2000 | 1-1-2001 |
| 58. Discontinuing Operations (<i>Operasi dalam Penghentian</i>) | IAS 35 (1998) | 3-11-2000 | 1-1-2002 |
| 59. Accounting for Shariah Banking (<i>Akuntansi Perbankan Syariah</i>) | Accounting, Auditing and Governance Standards for Islamic Institutions (1420 H/1999) (<i>yang diterbitkan oleh</i> Accounting and Auditing Organization for Islamic Institutions <i>Himpunan Fatwa Dewan Syariah Nasional untuk Lembaga Keuangan Syariah</i> (Edisi I, 2000) <i>dan Opini DSN</i> | 1-5-2002 | 1-1-2003 |

301. DSAK has also issued the following Financial Accounting Standard Interpretations (*Interpretasi Standar Akuntansi Keuangan, ISAKs*):

- ISAK No. 1: Interpretation of paragraph 23 of PSAK No. 21 regarding the determination of the market price of stock dividends.
- ISAK No. 2: Interpretation of the presentation of receivables to stock buyers.
- ISAK No. 3: Interpretation about the accounting treatment for donations or aid.
- ISAK No. 4: Interpretation to paragraph 32 of PSAK 10, regarding alternative permitted treatments for foreign currency gains or losses.

Appendix 8. International Accounting Standards (IAS)²¹⁵

302. The following IAS analysis was valid at 20 July 2002.

| No. | Title | Revised | Effective | Abridged ²¹⁶ | Options ²¹⁷ |
|-----|---|---------|-----------|-------------------------|---|
| ... | Preface to International Financial Reporting Standards (IFRSs) | 2002 | ... | ... | ... |
| 1 | Presentation of Financial Statements | 1997 | ... | ✓ | ... |
| 2 | Inventories | 1993 | ... | ✓ | FIFO and weighted-average cost flow (LIFO as alternative) |
| 3 | Consolidated Financial Statements. Originally issued 1976, effective 1 Jan 1977. No longer effective. Superseded in 1989 by IAS 27 and IAS 28. | ... | ... | ... | ... |
| 4 | Depreciation Accounting. Withdrawn in 1999, replaced by IAS 16, 22 and 38, all of which were issued or revised in 1998. | ... | ... | ... | ... |
| 5 | Information to Be Disclosed in Financial Statements. Originally issued October 1976, effective 1 January 1997. No longer effective. Superseded by IAS 1 in 1997. | ... | ... | ... | ... |
| 6 | Accounting Responses to Changing Prices. Superseded by IAS 15. | ... | ... | ... | ... |
| 7 | Cash Flow Statements | 1992 | ... | ✓ | ... |

²¹⁵ This appendix is referred to on p. 104 and p. 130.

²¹⁶ Abridged IAS for SME Accounting and Reporting recommended by the UNCTAD ISAR:

- UNCTAD ISAR. 2001 July 16. *Accounting by Small and Medium-Sized Enterprises: Report by the Ad Hoc Consultative Group of Experts on Accounting by Small and Medium-Sized Enterprises*. Report No. TD/B/COM.2/ISAR/12. p. 7.

²¹⁷ Identifies key options for accounting treatments.

APPENDIXES

| No. | Title | Revised | Effective | Abridged ²¹⁶ | Options ²¹⁷ |
|-----|--|---------|-----------|-------------------------|--|
| 8 | Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies | 1993 | ... | ✓ | Alternative treatments for the correction of fundamental errors |
| 9 | Accounting for Research and Development Activities. Superseded by IAS 38 effective 1 July 1999. | ... | ... | ... | ... |
| 10 | Events After the Balance Sheet Date | 1999 | Jan 2000 | ✓ | ... |
| 11 | Construction Contracts | 1993 | ... | ... | ... |
| 12 | Income Taxes | 2000 | Jan 2001 | ✓ | ... |
| 13 | Presentation of Current Assets and Current Liabilities. Superseded by IAS 1. | ... | ... | ... | ... |
| 14 | Segment Reporting | 1997 | ... | ... | ... |
| 15 | Information Reflecting the Effects of Changing Prices | 1981 | ... | ... | ... |
| 16 | Property, Plant and Equipment | 1998 | ... | ✓ | Historical cost (Revaluation as alternative) |
| 17 | Leases | 1997 | ... | ✓ | ... |
| 18 | Revenue | 1993 | ... | ✓ | ... |
| 19 | Employee Benefits | 2002 | May 2002 | ... | Accrued benefit valuation method (Projected benefit method as alternative) |
| 20 | Accounting for Government Grants and Disclosure of Government Assistance | 1983 | ... | ✓ | ... |
| 21 | The Effects of Changes in Foreign Exchange Rates | 1993 | ... | ✓ | Some choices |

ACCOUNTING AND AUDITING PRACTICES IN INDONESIA

| No. | Title | Revised | Effective | Abridged ²¹⁶ | Options ²¹⁷ |
|-----|---|---------|-----------|-------------------------|--|
| 22 | Business Combinations | 1998 | Jul 1999 | ... | Allowed alternatives: (i) acquisition accounting on either Purchase Method or Pooling-of-Interests method basis; and (ii) measurement of minority interest and accounting for negative goodwill. |
| 23 | Borrowing Costs | 1993 | ... | ✓ | Expensing (capitalization as alternative) |
| 24 | Related Party Disclosures | 1984 | ... | ✓ | ... |
| 25 | Accounting for Investments. Superseded by IAS 39 and IAS 40 effective 2001. | ... | ... | ... | ... |
| 26 | Accounting and Reporting by Retirement Benefit Plans | 1987 | ... | ... | ... |
| 27 | Consolidated Financial Statements and Accounting for Investments in Subsidiaries | 1989 | ... | ... | ... |
| 28 | Accounting for Investments in Associates | 2000 | ... | ... | ... |
| 29 | Financial Reporting in Hyperinflationary Economies | 1989 | ... | ... | ... |
| 30 | Disclosures in the Financial Statements of Banks and Similar Financial Institutions | 1990 | ... | ... | ... |
| 31 | Financial Reporting of Interests In Joint Ventures | 2000 | ... | ... | ... |
| 32 | Financial Instruments: Disclosures and Presentation | 1998 | ... | ... | ... |
| 33 | Earnings Per Share | 1997 | ... | ... | ... |
| 34 | Interim Financial Reporting | 1998 | ... | ... | ... |
| 35 | Discontinuing Operations | 1998 | ... | ... | ... |
| 36 | Impairment of Assets | 1998 | Jul 1999 | ✓ | ... |

APPENDIXES

| No. | Title | Revised | Effective | Abridged ²¹⁶ | Options ²¹⁷ |
|-----|--|---------|-----------|-------------------------|------------------------|
| 37 | Provisions, Contingent Liabilities and Contingent Assets | 1998 | ... | ... | ... |
| 38 | Intangible Assets | 1997 | ... | ✓ | ... |
| 39 | Financial Instruments: Recognition and Measurement | 2000 | Jan 2001 | ... | ... |
| 40 | Investment Property | 2000 | Jan 2001 | ... | ... |
| 41 | Agriculture | 2001 | Jan 2003 | ... | ... |

Appendix 9. IAS Interpretations (SICs)²¹⁸

303. As of 20 July 2002, the IASB Standing Interpretations Committee (SIC) had issued the following SICs.

| | |
|--------|---|
| SIC 1 | Consistency - Different Cost Formulas for Inventories |
| SIC 2 | Consistency - Capitalization of Borrowing Costs |
| SIC 3 | Elimination of Unrealized Profits and Losses on Transactions with Associates |
| SIC 5 | Classification of Financial Instruments - Contingent Settlement Provisions |
| SIC 6 | Costs of Modifying Existing Software |
| SIC 7 | Introduction of the Euro |
| SIC 8 | First-Time Application of IASs as the Primary Basis of Accounting |
| SIC 9 | Business Combinations - Classification either as Acquisitions or Unitings of Interests |
| SIC 10 | Government Assistance - No Specific Relation to Operating Activities |
| SIC 11 | Foreign Exchange - Capitalization of Losses Resulting from Severe Currency Devaluations |
| SIC 12 | Consolidation - Special Purpose Entities |
| SIC 13 | Jointly Controlled Entities - Non-Monetary Contributions by Venturers |
| SIC 14 | Property, Plant and Equipment - Compensation for the Impairment or Loss of Items |
| SIC 15 | Operating Leases - Incentives |
| SIC 16 | Share Capital - Reacquired Own Equity Instruments (Treasury Shares) |
| SIC 17 | Equity - Costs of an Equity Transaction |
| SIC 18 | Consistency - Alternative Methods |
| SIC 19 | Reporting Currency - Measurement and Presentation of Financial Statements under IAS 21 and IAS 29 |
| SIC 20 | Equity Accounting Method - Recognition of Losses |
| SIC 21 | Income Taxes - Recovery of Revalued Non-Depreciable Assets |
| SIC 22 | Business Combinations - Subsequent Adjustment of Fair Values and Goodwill Initially Reported |
| SIC 23 | Property, Plant and Equipment - Major Inspection or Overhaul Costs |
| SIC 24 | Earnings Per Share - Financial Instruments that May Be Settled in Shares |
| SIC 25 | Income Taxes - Changes in the Tax Status of an Enterprise or its Shareholders |
| SIC 27 | Evaluating the Substance of Transactions in the Legal Form of a Lease |
| SIC 28 | Business Combinations - 'Date of Exchange' and Fair Value of Equity Instruments |
| SIC 29 | Disclosure - Service Concession Arrangements |
| SIC 30 | Reporting Currency - Translation from Measurement Currency to Presentation Currency |
| SIC 31 | Revenue - Barter Transactions Involving Advertising Services |

²¹⁸ This appendix is referred to on p. 104

APPENDIXES

- SIC 32 Intangible Assets - Web Site Costs
- SIC 33 Consolidation and Equity Method - Potential Voting Rights and Allocation of Ownership Interests

Appendix 10. Indonesian Auditing Standards (SPAPs)²¹⁹

304. The following SPAPs were effective at 30 June 2002 – SPAPs were revised and reissued in 2001.²²⁰

| Section | Title | Effective Date |
|---------|---|------------------------|
| 100 | <i>Statements of Auditing Standards – Introduction</i> | |
| 110 | Responsibilities and Functions of Independent Auditor | 1 August 2001 |
| 150 | Auditing Standards | 1 August 2001 |
| 161 | The Relationship Between Auditing Standard and Quality Control Standard | 1 August 2001 |
| 200 | <i>General Standards</i> | |
| 201 | The Nature of General Standard | 1 August 2001 |
| 210 | Training and Proficiency of Independent Auditors | 1 August 2001 |
| 220 | Independence | 1 August 2001 |
| 230 | The Careful and Accurate Use of Professional Skills in Conducting an Audit Work | 1 August 2001 |
| 300 | <i>Standards of Field Work</i> | |
| 310 | The Appointment of Independent Auditor | 1 August 2001 |
| 311 | Planning and Supervision | 1 August 2001 |
| 312 | Audit Risk and Materiality in Conducting an Audit | 1 August 2001 |
| 313 | Substantive Tests before Balance Sheet Date | 1 August 2001 |
| 314 | Assessing Risk and Internal Control – Computerized Information Systems Consideration and Characteristic | 1 August 2001 |
| 315 | Communication between Predecessor and Successor Auditors | 1 August 2001 |
| 316 | Consideration of Fraud in a Financial Statement Audit | 31 December 1999 |
| 317 | Illegal Acts by Client | 1 August 2001 |
| 318 | Knowledge of Client's Business | 31 December 1999 |
| 319 | Consideration of the Internal Control in a Financial Statement Audit | 1 August 2001 |
| 320 | Audit Engagement Letter | 1 August 2001 |
| 9320 | Submission of Audited Financial Report and Company Profile through Public Accountant | 1998 Financial Reports |
| 322 | The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements | 1 August 2001 |
| 323 | The First Year Audit Engagement – Beginning Balance | 1 August 2001 |
| 324 | Reports for Transaction Processing Conducted by Service Organization | 1 August 2001 |

²¹⁹ This appendix is referred to on p. III.

²²⁰ Source: IAI. 2001. *Professional Standards for Public Accountants*. Jakarta.

APPENDIXES

| Section | Title | Effective Date |
|---------|---|------------------|
| 325 | Communication of Internal Control Related Matters Found in an Audit | 1 August 2001 |
| 326 | Audit Evidences | 1 August 2001 |
| 327 | Computer Assisted Audit Techniques | 1 August 2001 |
| 329 | Analytical Procedures | 1 August 2001 |
| 330 | The Confirmation Process | 1 August 2001 |
| 331 | Inventories | 1 August 2001 |
| 332 | Audit of Securities Investment | 1 August 2001 |
| 333 | Management Representation | 1 August 2001 |
| 334 | Special Relationship Parties | 1 August 2001 |
| 335 | Auditing in a Computer Information Systems Environment | 1 August 2001 |
| 336 | Using the Work of a Specialist | 1 August 2001 |
| 337 | Inquiry of a Client's Lawyer Concerning Litigation, Claims and Assessments | 1 February 2000 |
| 339 | Working Papers | 1 August 2001 |
| 341 | The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern | 2 March 1998 |
| 342 | Auditing Accounting Estimates | 1 August 2001 |
| 343 | Computer Information Systems Environment – Stand-Alone Microcomputers | 1 August 1998 |
| 344 | Computer Information Systems Environment – On-Line Computer Systems | 1 August 1998 |
| 345 | Computer Information Systems Environment – Database Systems | 1 August 1998 |
| 350 | Audit Sampling | 1 August 2001 |
| 360 | Communication with Management | 31 December 1999 |
| 380 | Communication with Audit Committee | 1 August 2001 |
| 9380 | Communication between Main Auditor and Other Auditor | 1 October 1994 |
| 390 | Consideration for procedures that are not performed after the date of Audit Report. | 1 August 2001 |
| 400 | <i>The First, Second and Third Reporting Standards</i> | |
| 410 | Conformity with Generally Accepted Accounting Principles in Indonesia | 1 August 2001 |
| 411 | The Meaning of Phrases 'Present Fairly in Conformity with Generally Accepted Accounting Principles in Indonesia | 1 August 2001 |
| 420 | Consistency in applying Generally Accepted Accounting Principles in Indonesia | 1 August 2001 |
| 431 | Adequate Disclosure | 1 August 2001 |
| 435 | Audit Report for Segmented Information | 1 August 2001 |
| 500 | <i>The Fourth Reporting Standard</i> | |
| 504 | Associating Auditor's Name with Financial Report | 1 August 2001 |
| 508 | Auditor Report on Audited Financial Reports | 1 August 2001 |

ACCOUNTING AND AUDITING PRACTICES IN INDONESIA

| Section | Title | Effective Date |
|---------|---|------------------|
| 9508 | The standardized form of Audit Report in English for the companies listed at foreign capital markets | 1 June 1994 |
| | Reporting Financial Report based on Accounting for Liquidation | 1 October 1994 |
| | Referencing Management Report in Standardized Auditor Report | 1 October 1994 |
| | The Impact of Chairman of <i>Bapepam</i> Decree No. Kep-49/PM/1998 about accounting for foreign currency transaction to the Independent Auditor Report | 31 October 1999 |
| 530 | Dating Independent Auditor Report | 1 August 2001 |
| 534 | Reporting Financial Report for the use in other countries | 31 December 2000 |
| 543 | Part of audit conducting by other independent auditor | 1 August 2001 |
| 9543 | Communication between Main Auditor and Other Auditor | 1 October 1994 |
| 544 | Inconformity with Generally Accepted Accounting Principles in Indonesia | 1 August 2001 |
| 550 | Other Information in Document consisting Audited Financial Report | 1 August 2001 |
| 551 | Report of information supplement to main Financial Report in a document submitted by auditor | 1 August 2001 |
| 9551 | Auditor Report for Consolidated Financial Report and Parent Firm Only | 1 May 1996 |
| 552 | Report of summary of financial report and financial highlight | 1 August 2001 |
| 558 | Compulsory additional information | 1 August 2001 |
| 560 | Subsequent events | 1 August 2001 |
| 561 | Subsequent finding of the fact at the date of auditor report | 1 August 2001 |
| 600 | <i>Other Reports</i> | |
| 622 | Engagement to apply agreed procedures for elements, accounts or items of financial report | 1 August 2001 |
| 9622 | Special Report for General Election Campaign Fund Accountability by Political Parties according to Law No. 2/1999 about Political Parties and Law No. 3/1999 about General Election | 15 May 1999 |
| 623 | Special Report | 1 August 2001 |
| 625 | Accountant Report for applying accounting principles | 1 August 2001 |
| 634 | Letter for Underwriter or Requesting Parties | 1 August 2001 |
| 700 | <i>Special Topics</i> | |
| 710 | Special Consideration in Small Business Audit | 1 August 2001 |
| 722 | Interim Financial Information | 1 August 2001 |
| 800 | <i>Compliance Audit</i> | |
| 801 | Compliance Audit Applied for Government Entities and Other Recipient of Government Financial Aid | 31 December 1999 |
| | <i>Attestation Standards</i> | |
| 100 | Attestation Standard | 1 August 2001 |

APPENDIXES

| Section | Title | Effective Date |
|---------|--|-----------------|
| 9100 | Interpretation Attestation Standard | 1 February 1998 |
| 200 | Financial Forecasts and Projection | 1 August 2001 |
| 300 | Reporting on Pro Forma Financial Information | 1 August 2001 |
| 400 | Reporting on Entity Internal Control over Financial Reporting | 1 August 2001 |
| 500 | Compliance Attestation | 1 August 2001 |
| 600 | Engagement for Agreed Procedures | 1 August 2000 |
| 700 | Analysis and Discussion by Management | 1 August 2000 |
| | Standards for Accounting and Review Services | |
| 100 | Compilation and Review of Financial Statements | 1 October 1994 |
| 200 | Reporting on Comparative Financial Statement | 1 August 2000 |
| 300 | Compilation Report on Financial Statement Included in Certain Prescribed Forms | 1 August 2000 |
| 400 | Communication between Predecessor and Successor Accountants | 1 August 2000 |
| 500 | Reporting on Personal Financial Statement included in Written Personal Financial Plans | 1 August 2000 |

Appendix 11. International Standards on Auditing²²¹

305. The following International Standards on Auditing (ISAs) and International Auditing Practice Statements (IAPs) were in effect at 31 March 2002.

1. International Standards on Auditing (ISAs)

| | | | |
|------|--|-----|--|
| 100 | Assurance Engagements | 520 | Analytical Procedures |
| 120 | Framework of ISAs | 530 | Audit Sampling and other Selective Testing Procedures |
| 200 | Objective and General Principles Governing an Audit of Financial Statements | 540 | Audit of Accounting Estimates |
| 210 | Terms of Audit Engagements | 550 | Related Parties |
| 220 | Quality Control for Audit Work | 560 | Subsequent Events |
| 230 | Documentation | 570 | Going Concerns |
| 240 | The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements | 580 | Management Representations |
| 240A | Fraud and Error | 600 | Using the Work of Another Auditor |
| 250 | Consideration of Laws and Regulations in an Audit of Financial Statements | 610 | Considering the Work of Internal Auditing |
| 260 | Communications of Audit Matters with those Charged with Governance | 620 | Using the Work of an Expert |
| 300 | Planning | 700 | The Auditor's Report on Financial Statements |
| 310 | Knowledge of the Business | 710 | Comparatives |
| 320 | Audit Materiality | 720 | Other information in documents containing Audited Financial statements |
| 400 | Risk Assessments and Internal Control | 800 | The Auditor's Report on Special Purpose Audit Engagement |
| 401 | Auditing in a Computer Information Systems Environment | 810 | The Examination of Prospective Financial Information |
| 402 | Audit Considerations Relating to Entities Using Service Organizations | 910 | Engagements to Review Financial Statements |
| 500 | Audit Evidence | 920 | Engagements to Perform Agreed Procedures Regarding Financial Information |
| 501 | Audit Evidence: Additional Considerations for Specific Items | 930 | Engagements to Compile Financial Information |
| 505 | External Confirmations | | Glossary of Terms |
| 510 | Initial Engagements - Opening Balances | | Preface to ISAs and RSs |

²²¹ This appendix is referred to on p. III.

2. International Auditing Practice Statements (IAPSSs)

| | | | |
|------|--|------|---|
| 1000 | Inter-Bank Confirmation Procedures | 1006 | Audits of the Financial Statements of Banks |
| 1001 | Computer Information System (CIS) Environments: Standalone Microcomputer Systems | 1007 | [withdrawn] |
| 1002 | CIS Environments: Online Computer Systems | 1008 | Risk Assessments and Internal CIS Characteristics and Considerations |
| 1003 | CIS Environments: Database Systems | 1009 | Computer - Assisted Audit Techniques (CAATs) |
| 1004 | The Relationship Between Banking Supervisors and External Auditors | 1010 | The Consideration of Environmental Matters in the Audit of Financial Statements |
| 1005 | Special Consideration in Audits of Small Entities | 1011 | [withdrawn] |
| | | 1012 | Auditing Derivative Financial Instruments |
| | | 1013 | Electronic Commerce: Effect on the Audit of Financial Statements |

Appendix 12. PSAK Changes Required for Full IAS Compliance²²²

306. The following changes would make IAS-comparable PSAKs completely IAS compatible.

1. Amend, Withdraw or Replace Existing PSAKs

| PSAK | Issue | Action |
|--|---|--|
| 3. Interim Financial Statements (<i>Laporan Keuangan Interim</i>) | PSAK 3 (1994) is based upon APB Opinion No. 28 (1973): <i>Interim Financial Statements</i> . IAS 34 was subsequently issued in 1998. Only minor differences between IAS 34 and APB 28 (Wiley). | Replace PSAK 3 with IAS 34 <i>Interim Financial Statements</i> . |
| 7. Related Party Disclosures (<i>Pengungkapan Pihak-pihak yang Mempunyai Hubungan Istimewa</i>) | The wording of paragraph 18 differs from IAS 24 <i>Related Party Disclosures</i> . | Amend paragraph 18 from, "in respect of the transactions between related parties" to "irrespective of whether there have been transactions between the related parties". |
| 8. Contingencies and Events Occurring after the Balance Sheet Date (<i>Kontinjensi dan Peristiwa Setelah Tanggal Neraca</i>) | IAS 10 (1978), on which PSAK 8 is based, was superceded by revised IAS 10 <i>Events After the Balance Sheet Date</i> in 1999. Hence, there are differences (e.g., proposed dividends may be shown as liabilities before they are declared). | Replace PSAK 8 with revised IAS 10. |
| 10. Transactions in Foreign Currencies (<i>Transaksi dalam Mata Uang Asing</i>) | IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> , on which PSAK 10 is based, was amended in 2000 with the release of IAS 39. | Amend PSAK 10 to reflect the IAS 21 amendments. |

²²² This appendix is referred to on pp. 105, 117 and 128.

APPENDIXES

| PSAK | Issue | Action |
|--|---|---|
| 11. Translation of Financial Statements in Foreign Currencies (<i>Penjabaran Laporan Keuangan dalam Mata Uang Asing</i>) | Although PSAK 11 is based upon IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> , it does not include the rules for translating the financial statements of subsidiaries operating in hyperinflationary economies. This is a minor issue because, in 2002, very few countries only a handful of countries meet the IAS hyperinflation test. However, it is simple to correct. | Amend PSAK 11 to include the IAS 21 provisions regarding subsidiaries in hyperinflationary economies. |
| 12. Financial Reporting of Interests in Jointly Controlled Operations and Assets (<i>Pelaporan Keuangan Mengenai Bagian Partisipasi dalam Pengendalian Bersama Operasi dan Aset</i>) | IAS 31 (1990): <i>Financial Reporting of Interests in Joint Ventures</i> , on which PSAK 12 is based, was superseded by revised IAS 31 (2000). | Replace PSAK 31 with revised IAS 31 (2000). |
| 13. Accounting for Investments (<i>Akuntansi untuk Investasi</i>) | PSAK 13 is based upon IAS 25 <i>Accounting for Investments</i> . In 2000, IAS 25 was withdrawn and superseded by IAS 39 and IAS 40 (Effective for reporting periods from 2001). | Withdraw PSAK 13. |
| 14. Inventories (<i>Persediaan</i>) | PSAK 14 is based upon IAS 2 <i>Inventories</i> . However, PSAK 14 excludes the IAS 2 provisions requiring the FIFO or current cost of inventories to be disclosed when the LIFO method is used. Although LIFO is used infrequently in Indonesia (as it is disallowed for tax purposes), the alternation is simple. | Amend PSAK 14 so that it aligns completely with IAS 2. |
| 15. Accounting for Investments in Associates (<i>Akuntansi untuk Investasi dalam Perusahaan Asosiasi</i>) | IAS 36 (1998) foreshadowed changes in IAS 28 <i>Accounting for Investments in Associates</i> , on which PSAK 15 is based. The revised IAS 28 was released in 2000. | Replace PSAK 15 with revised IAS 28. |

ACCOUNTING AND AUDITING PRACTICES IN INDONESIA

| PSAK | Issue | Action |
|--|---|---|
| 16. Fixed Assets and Other Assets (<i>Aktiva Tetap dan Aktiva Lain-lain</i>) | <p>IAS 16 <i>Property, Plant and Equipment</i>, on which PSAK 16 is based, was superceded by revised IAS 16 in 1998.</p> <p>Moreover, property, plant and equipment is sometimes revalued based on governmental regulations, but the valuations are not required to be kept up to date (as per IAS 16).</p> | <p>Replace PSAK 16 with revised IAS 16.</p> <p>Revoke the government revaluation regulations and require that financial statements be adjusted accordingly.</p> |
| 17. Depreciation Accounting (<i>Akuntansi Penyusutan</i>) | IAS 4 <i>Depreciation Accounting</i> , on which PSAK 17 is based, was withdrawn in 1998 (It was superceded by revised IAS 16, IAS 22 and IAS 38). | Withdraw PSAK 17. |
| 19. Intangible Assets (<i>Aktiva Tidak Berwujud</i>) | <p>PSAK 19 is based upon IAS 38 <i>Intangible Assets</i> (1998).</p> <p>However, it does not include disclosure requirements and is less comprehensive.</p> | Revise PSAK 19 to make it fully compatible with IAS 38. |
| 22. Accounting for Business Combinations (<i>Akuntansi Penggabungan Usaha</i>) | IAS 22 <i>Business Combinations</i> , on which PSAK 22 is based, was superceded by revised IAS 22 in 1998. | Replace PSAK 22 with revised IAS 22. |
| 24. Accounting for Retirement Benefit Costs (<i>Akuntansi Biaya Manfaat Pensiun</i>) | <p>IAS 19 <i>Employee Benefits</i>, on which PSAK 24 is based, was superceded by revised IAS 19 (2002) with an effective date for reporting of May 2002.</p> <p>Moreover, PSAK 24 covers less ground than the very comprehensive and complex IAS 19. For instance, there are no precise requirements for the choice of actuarial method and discount rates in calculating retirement benefit obligations.</p> | Replace PSAK 24 with revised IAS 19. |

APPENDIXES

| PSAK | Issue | Action |
|---|---|---|
| 30. Accounting for Leases (<i>Akuntansi Sewa Guna Usaha</i>) | PSAK 30 is based upon SFAS 13 (1976): <i>Accounting for Leases and Indonesian Leasing Regulations</i> (issued by the MOF). Although developed in line with the IAS Framework, the classification of leases into finance and operating leases is based on different criteria according to MOF regulations. | Amend MOF Leasing Regulations. Replace PSAK 30 with IAS 17 <i>Leases</i> . |
| 48. Impairment of Assets (<i>Penurunan Nilai Aktiva</i>) | PSAK 48 is based on SFAS 121: <i>Accounting for the Impairment of Long Life Assets and for Long Life Assets to be Disposed</i> . In 1998, IASB released IAS 36 <i>Impairment of Assets</i> . | Replace PSAK 48 with IAS 36. |
| 55. Accounting for Derivative Instruments and Hedging Activities (<i>Akuntansi Instrumen Derivatif dan Aktivitas Lindung Nilai</i>) | PSAK 55 is based upon revised SFAS 133 <i>Accounting for Derivative Instruments and Hedging Activities</i> . In 1998, IASB released IAS 32 <i>Financial Instruments: Recognition and Measurement</i> . | Replace PSAK 55 with IAS 32. |
| 58. Discontinuing Operations (<i>Operasi dalam Penghentian</i>) | PSAK 58 is based upon IAS 35 <i>Discontinuing Operations</i> . However, Under PSAK 58, the initial event for disclosures relating to discontinuing operations may be different, and the disclosures less extensive. | Amend PSAK 58 to include all IAS 35 requirements and disclosures. |

2. Issue New IAS-based PSAKs

Equivalent PSAKs have not yet been issued for the following IAS topics:

IAS 15 Information Reflecting the Effects of Changing Prices

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

IAS 29 Financial Reporting in Hyper-inflationary Economies

IAS 39 Financial Instruments: Recognition and Measurement

IAS 40 Investment Property

IAS 41 Agriculture

Appendix 13. Accountant Title Law (No. 34) 1954

(Undang-undang Tentang Pemakaian Gelar “Akuntan”)

A Law of the Republic of Indonesia Enacted on 2 December 1954

The President of the Republic of Indonesia, considering that: (a) there is a need to establish provisions in order to regulate matters pertaining to the field of accountancy; and (b) the need is felt to protect the title "Accountant" by means of legislation ... hereby establishes the Statute Regarding the Use of the "Accountant Title".

Article 1

Without diminishing the provisions on regulations of official wages and salaries of various positions at the Office of State Accounting and Office of Tax Accounting, the right to use the title of "Accountant", with or without explanation or addition, may only be given to those who possess an academic degree in accountancy in accordance with and based on the provisions of law.

Article 2

By the said degree stated in Article 1 above is meant:

- a. An academic degree granted by a state university or other university founded or organized in accordance with law and recognized by the Government, as indication that the education for accountants at the said university has been completed with good results;
- b. Degree obtained after passing another examination which, according to a Committee of Experts as stipulated in Article 3 hereof, for the purpose of pursuing the work of an accountant, can be considered as equivalent of the said degree per letter a of this Article.

Article 3

(1) The Minister of Education, Instruction and Culture shall designate a Committee of Experts, which shall be vested with the

task of deliberating on whether or not an academic degree for the pursuit of accounting work can be considered as equivalent of said degree per Article 2(a).

(2) The Minister of Education, Instruction and Culture, together with the Minister of Finance, shall regulate the organizational structure and working procedures of the said Committee.

(3) The Minister of Finance shall have the right to assign other tasks to the said Committee per Paragraph 1 above in order to guarantee the adequate and proper management relating to the affairs of accountancy or, as the case may be, in order to regulate further those matters pertaining to accountancy.

(4) Every accountant possessing an academic degree shall register his name in order that it may be included in a State Register that shall be provided by the Ministry of Finance.

Article 4

The performance of the work of an accountant using the name "accounting office" accounting bureau or any other name which contains the name accountant or accountancy shall only be permitted if the head or manager position of the said office or bureau is held by a person or several persons who are accountants. *

Article 5

(1) Whosoever shall violate the provisions contained in Article 4 above shall be punished with imprisonment of two months or a maximum fine of ten thousand Rupiah.

(2) Acts inscribed in Paragraph 1 are violations.

Article 6

The Minister of Finance shall have the right to establish further regulations in order to carry out the provisions of this Statute.

Article 7

This Statute shall take effect upon its enactment, with the proviso that with respect to those who at the time of effectiveness of this Statute are practicing the profession of accountancy using the said name of "Accountant" per Article 4, the provisions of that Article and Article 5 shall take effect only on 1 April 1955.

In order that every one may know, it is hereby ordered that this Statute be enacted by publishing it in the Official State Gazette of the Republic of Indonesia.

Approved in Jakarta on 13 November 1954.

Supplement to the Official State Gazette

Memorandum of Explanation Concerning the Statute on the Use of the "Accountant" Title

During recent decades, the work of an accountant has continuously grown in importance.

This has been due to the fact that economic relationships have become more complex and difficult, competition has become more intense, and taxes have increased on the part of people in business and industry, so much so that the need has been keenly felt for the knowledge and counsel of experts in order to achieve improvements in the systems of management and the supervision of business activities, more accurate cost price calculations, and the practical application of business economic principles.

It is certain that people in business wish to employ the services of individuals who

have studied such problems based on foundations of knowledge and application, that is, the accountants.

However, the demand for the services of an accountant which has considerably grown has perhaps become the reason for many individuals to call themselves "accountants" before the general public, individuals who possess little or no adequate knowledge and experience in this field, those of the same level as what the Government has determined for those who have undergone studies at the state universities with good results.

For this reason, the Government promulgated regulations through legislation in order to protect the accountancy degree, so that for business people and others - by reason of the improper use of the title of "accountant" - there do not arise erroneous impressions or judgments concerning the knowledge and experience of people who call themselves "accountants," and whose knowledge and counsel are being sought.

Article-by-Article Explanation

Article 1

During the editorial review of the said Statute, first there emerged the question of where the limit shall be placed with regard to protection in accordance with this Statute.

Perhaps the best way was to impose prohibition regarding the pursuit of the work of an accountant on the part of those who do not possess academic degrees protected by law.

But it could be foreseen that the best way with respect to this theory would not be satisfactory in practice because it meant that there must be a clear definition of what the field of accountancy is while at the same time the violations of said rules are hard to discover.

For this reason, in the said Statute a system was selected, namely, that every

person is free to do the work that is usually discharged by accountants, but he or she is not permitted to use the title "accountant," applied in particular to those who do not possess academic degrees protected by law.

Hence, in the future the public can distinguish clearly those who properly possess academic degrees from people who have no grounding in theory and they can then take decisions themselves as to whose services they will hire.

Exceptions can only be made with respect to employees of the Office of State Accounting and the Office of Tax Accounting, which, according to prevailing rules and regulations governing wages and salaries, hold positions with the designations of "tax accountant", "assistant accountant," or any other similar designation.

Article 2

An academic degree that bestows the right to use the title "accountant" is one conferred by a state university to those who have completed the relevant courses with good results at the Faculty of Economics.

In addition, this Statute provides some possibility (window of opportunity) for those who obtained the required theoretical knowledge by other means. As to whether academic degrees obtained through other means can give sufficient guarantee or assurance regarding good fundamental knowledge and can thus be considered as an equivalent to an academic degree from a state university, or, as the case may be, an academic degree conferred by another institution on the part of universities for the pursuit of an accounting career, this will be examined thoroughly by a Committee of Experts.

Article 3

The Committee of Experts was appointed by the Minister of Education, Instruction

and Culture which, after having received the views and deliberations of the said Committee, decides whether an academic degree can be considered as an equivalent of, and regarded as of the same prestige as, a degree in accountancy obtained from a state university.

It needs no further elaboration that the right to decide whether a certain academic degree is of the same category as an academic degree conferred by a state university is the right of the Minister of Education, Instruction and Culture.

The appointment of the members of the Committee was made after a hearing and deliberations of the Minister of Finance, the Minister of Economic Affairs, and the presidents of universities.

In this Committee sat the representatives of the Ministry of Finance (Office of State Accounting and Office of Tax Accounting), the Ministry of Economic Affairs, the Ministry of Education, Instruction and Culture, universities and some members of the private sector representing companies.

In addition to deliberating on various academic degrees, the Committee on Experts also undertook to deal with other matters, particularly the drafting of the rules of discipline for accountants and the undertaking of supervision of how they carry out their work.

Only individuals whose names are contained in the State Register provided by the Ministry of Finance have the right to use the title and pursue the work of an accountant.

Article 4

Where the work of an accountant is done, whether by an independent practitioner or by a group or association not with its own name but with the name of a firm, whether using the name of individuals or not, if with this name by whatever means the word "accountant" or "accountancy" is

used, it follows that said individual or at least an individual from the said group or association must have the right to use the title of "accountant. "

Undertaking the work of an accountant under the business form of a limited liability company (NV), according to the Government, is not accurate. Not only because of the fact that the nature of the company. is improper to be used with reference to the work done by accountants which gives high importance to interpersonal relationship between the accountant concerned and his clients, but more importantly because of the confidentiality which must be kept by the accountant, hence the form of limited liability company is not quite accurate.

Article 5

Text is self-explanatory.

Article 6

If the implementation of this Statute necessitates further rules and regulations relating to the requirements in practice, among others, the authority to draft and formalize said rules and regulations is hereby given to the Minister of Finance.

Article 7

Time up until 1 April 1955 is needed as period of transition for those who are presently performing the work of accountants in order to adjust themselves to the provisions of this Statute.

Included in the Official State Gazette No.103 Year 1954.

Appendix 14. Relevant Extracts from the Capital Market Law 1995

A Law of the Republic of Indonesia
Number 8 Year 1995 concerning The Capital Market (Unofficial
Translation)

Chapter I – General Provisions

Chapter II – The Capital Market Supervisory Agency (*Bapepam*)

Article 5 ... *Bapepam* shall have authority to:

b. require the registration of Capital Market Supporting Professionals and Trust-Agents;

e. inspect and investigate any Person with respect to suspected violations of this Law or its implementing regulations;

g. inspect ... (2) Persons that, under this Law, are required to have a business or individual license, or to be approved, or to be registered as a professional;

h. authorize a Person, under powers granted to *Bapepam* in letter g to conduct an inspection;

i. publish findings of inspections;

m. set fees for the granting of licenses, approvals, registrations, and fees for inspections and examinations, and other fees related to the Capital Market.

Chapter III – Securities Exchanges, Clearing Guarantee Institutions and the Central Securities Depository

Chapter IV – Investment Funds

Chapter V – Securities Companies, Securities Company Representatives and Investment Advisors

Chapter VI – Capital Market Supporting Institutions

Chapter VII – Collective Custody and the Settlement of Exchange Transactions

Chapter VIII – Capital Market Supporting Professionals

Section One – Registration

Article 64

(1) Capital Market Supporting Professionals include:

a. Accountants;

b. Legal Consultants;

c. Appraisers;

d. Notaries; and

e. Other professionals specified in Government Regulations.

(2) The Capital Market Supporting Professionals mentioned in item (1) must register with *Bapepam* before engaging in Capital Market activities.

(3) Further requirements and procedures for the registration of Capital Market Supporting Professionals shall be stipulated in Government Regulations.

Article 65

(1) A Capital Market Supporting Professional's registration with *Bapepam* is automatically canceled when the professional's license is revoked by the issuing authority.

(2) Prior services rendered by a Capital Market Supporting Professional shall remain valid despite cancellation of the professional's registration, except for services that caused the cancellation of his registration or the revocation of his license.

(3) When the registration of a Capital Market Supporting Professional is canceled, *Bapepam* may investigate and evaluate other services rendered by this Professional with respect to the Capital Market to determine whether such services remain valid.

(4) If *Bapepam* decides that services of a Capital Market Supporting Professional, referred to item (3) are invalid, *Bapepam* may order a Company that used these services to appoint another Capital Market Supporting Professional to audit and evaluate the Company.

Section Two – Obligations

Article 66

All Capital Market Supporting Professionals must comply with codes of ethics and professional standards set by their respective professional associations as long as such standards are not in conflict with this Law and its implementing regulations.

Article 67

When engaged in Capital Market business, Capital Market Supporting Professionals must provide independent opinions and evaluations.

Article 68

Accountants that are registered with *Bapepam* and that audit financial reports of Issuers, Securities Exchanges, Clearing Guarantee Institutions, Central Securities Depository and other Persons engaged in Capital Market activities, must report in confidence to *Bapepam* within three working days of discovering the following: (a) any violation of this Law and or its implementing regulations; or (b) any matter that may jeopardize the financial condition of the institution, or the interests of its clients.

Section Three – Accounting Standards

Article 69

(1) Financial reports that are submitted to *Bapepam* must be prepared in accordance with generally accepted accounting principles.

(2) Notwithstanding the requirement in item (1), *Bapepam* may establish accounting rules with respect to the Capital Market.

Chapter IX – Issuers and Public Companies

Chapter X – Reporting and Disclosing Information

Chapter XI – Fraud, Market Manipulation and Insider Trading

Chapter XII – Formal Investigations

Chapter XIII – Criminal Investigations

Chapter XIV – Administrative Sanctions

1) *Bapepam* may impose administrative sanctions for violations of this Law and/or its implementing regulations against every Person that is licensed, approved or registered with *Bapepam*.

(2) The administrative sanctions referred to in item (1) may consist of: (a) written admonitions; (b) fines; (c) restrictions on business activity; (d) suspensions of business activity; (e) revocations of business licenses; (f) cancellations of approvals; and (g) cancellations of registrations.

(3) Further provisions regarding the administrative sanctions in items (1) and (2) shall be determined by Government Regulation.

Chapter XV – Criminal Provisions

Article 103

(1) Any Person who engages in Capital Market business activities without a license, approval, or registration required in Articles 6, 13, 18, 30, 34, 43, 50, and 64, shall be subject to imprisonment for a maximum of five years and a maximum fine of five billion rupiah.

Chapter XVI – Other Provisions

Article III

Any Person who suffers losses arising from violations of this Law and or its implementing regulations can sue for compensation, either jointly or severally

with other Persons with similar claims, against the Person or Persons responsible for such violations.

Chapter XVII – Transitional Provisions

Chapter XVIII – Closing Provisions

Appendix 15. Bapepam Rules for Registration of Public Accountants

Rule Number VIII.A.1: Registration of a Public Accountant Operating in the Capital Market

Decision of the Chairman of *Bapepam*

Number: Kep-37/PM/1996, 17 January 1996

[Superceding previous decision Kep-204/PM/1992, 13 April 1992]

1. A Public Accountant must be registered with *Bapepam* and fulfill the requirements stipulated in this rule in order to provide services in the Capital Market.

2. The requirements for a Public Accountant referred to in (1) are as follows;

a. have a Business License granted by the authorized institution;

b. not have committed a disgraceful act and or been found guilty of a criminal act in the financial sector;

c. have a good character and morals;

d. have expertise in the Capital Market and its rules and regulations, which may be fulfilled by attending training programs approved by *Bapepam*;

e. agree to attend continuing Advanced Professional Training programs regarding accounting and capital market rules;

f. agree to perform activities in accordance with the Public Accountant Professional Standards and Professional Codes of Ethics; and always be independent;

g. be prepared to inform *Bapepam* of any findings of violations of Capital Market regulations or anything that could jeopardize the financial position of a company or the interests of its clients; and

h. be a Partner in a Public Accounting Firm which meets the following requirements: (i) the Public Accounting Firm is headed by an Accountant who has a Business License from the Minister of

Finance; (ii) the Accountant shall apply at least two levels of supervisory control in conducting audits (i.e., a Partner who will sign the report and a mid-level supervisor who will supervise the auditing staff); (iii) be a member or agree to become a member of the Capital Market Accountant Forum (FAPM) of the Indonesian Institute of Accountants-Public Accounting Section; (iv) agree to be reviewed externally by the Indonesian Institute of Accountants-Public Accounting Section regarding the quality control of the Public Accounting Firm; and (v) if a Public Accounting Firm has only 1 (one) Partner it must have a written agreement with another Public Accounting Firm, that has a Partner registered with *Bapepam*, providing for the transfer of responsibilities if the Accounting Firm with only one partner is unable to fulfill its duties.

3. An application for an Accountant to be registered as a Capital Market Supporting Professional shall be submitted to *Bapepam* in four copies, by using Form VIII.A.1-1, attachment 1 of this rule.

4. The registration application referred to in item 3 of this rule, shall be accompanied by the following documents:

a. documents concerning the Accountant: (i) a curriculum vitae; (ii) a Business License from the Minister of Finance; (iii) a formal diploma in accounting; (iv) the tax registration number; (v) a certificate from a Capital Market training program approved by *Bapepam*; (vi) a statement that the Accountant has never committed a

disgraceful act and or been found guilty of a criminal act in the financial sector; (vii) a statement agreeing to attend continuing Advanced Professional Training programs relating to accounting and Capital Market rules; (viii) a statement agreeing to perform activities in accordance with Public Accountant Professional Standards and Professional Codes of Ethics; and to be independent; and (ix) a statement agreeing to inform *Bapepam* upon finding during the audit of a company any violations of Capital Market regulations or anything that could jeopardize the financial condition of the company or the interests of its clients, as stipulated in rule number X.J.1.

b. documents concerning the Public Accounting Firm: (i) the tax registration number; (ii) a Business License from the Minister of Finance; (iii) proof of membership or a statement agreeing to become a member of the Capital Market Accountant Forum (FAPM) of the Indonesian Institute of Accountants-Public Accountant Section; (iv) a written agreement with another Public Accounting Firm having a Partner registered with *Bapepam*, providing for the transfer of responsibilities from the accounting firm that has only one Partner if the firm is unable to fulfill its duties; (v) an organization chart showing that in conducting an audit, the Accountant has at least two levels of supervision (i.e., a Partner who will sign the report and a mid-level supervisor who will supervise the auditing staff); and (vi) a written

agreement to be externally reviewed by the Indonesian Institute of Accountants-Public Accountant Section regarding quality control of the Public Accounting Firm.

5. If the application referred to in item 3 of this rule is not complete, no later than 45 days after the submission of the application, *Bapepam* must give a notice to the applicant, which states that:

a. the application is not complete, using Form Number VIII.A.1-2, attachment 2 of this rule; or

b. the application is rejected, using Form Number VIII.A.1-3, attachment 3 of this rule.

6. If the application referred to in item 3 of this rule is complete, no later than 45 days after the submission of the application, *Bapepam* will issue to the applicant a Capital Market Supporting Professional certificate, using Form Number VIII.A.1-4, attachment 4 of this rule.

7. Any change with respect to data and information from the Accountant and Public Accounting Firm must be reported to *Bapepam* no later than 14 days after the change occurs.

8. If the Public Accounting Firm no longer fulfills the requirements stipulated in item 2 h of this rule, an Accountant registered with *Bapepam* as a Partner in that Public Accounting Firm may not continue to engage in Capital Market activities.

Appendix 16. Bapepam Requirement for Auditors to Report Violations

Rule Number X.J.1: Reports to *Bapepam* by Accountants

Decision of the Chairman of *Bapepam*

Number: Kep-79/PM/1996, 17 January 1996

[Superceding previous decision Kep-38/PM/1991, 17 July 1991]

1. Accountants that audit the financial statements of Issuers, Securities Exchanges, Clearing Guarantee Institutions, Central Securities Depositories and other persons engaged in Capital Market activities, must report in confidence to *Bapepam* within three workdays after discovering the following:
 - a. any violation of the Capital Market law and or its implementing regulations; and
 - b. any matter that may jeopardize the financial condition of the institution, or the interests of its clients.
2. The reports referred to in item 1 of this rule must be submitted to *Bapepam*, using Form Number X.J.1-1.
3. The reports referred to in item 1 of this rule shall remain confidential unless determined otherwise by the Chairman of *Bapepam*.

Appendix 17. Bapepam Annual Report Requirements (Extracts)

Rule Number VIII.G.2: Annual Reports

Decision of the Chairman of *Bapepam*

Number: Kep-38/PM/1996, 17 January 1996

[Superceding previous decision Kep-17/PM/1995, 9 June 1995]

1. General

This rule applies to companies that have made a Public Offering and Public Companies.

2. Requirement to Submit Annual Reports

a. The annual report of companies that have made a Public Offering of shares and Public companies shall be submitted to *Bapepam* in 4 (four) copies and made available to shareholders not later than 14 (fourteen) days before the annual shareholders meeting.

b. The annual report of companies that have made a Public Offering of debt Securities must be submitted to *Bapepam* in four copies not later than five months after the end of the company's fiscal year. This requirement continues as long as the debt securities are outstanding.

3. Form and Content of Annual Reports

a. General Provisions

1) The annual report of companies must include a Summary of important Financial Data, an Analysis and discussion by Management, Audited Financial Statements and a Management Report.

2) The annual report must be in the Indonesian language. If the annual report is also presented in another language, either in the same or separate documents, the documents must be available at the same time and contain the same material information.

...

b. Management Report

...

c. Section concerning A Summary of Important Financial Data

A company must present the following comparative information for the last five fiscal years or since the establishment of the company, if the company has been in business for less than five years:

- 1) sales or income;
- 2) gross profit;
- 3) operating income;
- 4) net profit;
- 5) outstanding shares;
- 6) profit (loss) per share;
- 7) proforma sales or income (if needed);
- 8) proforma net profit (if needed);
- 9) proforma profit (loss) per share perform(if needed);
- 10) net working capital;
- 11) total assets;
- 12) total investment;
- 13) total liabilities;
- 14) total equity;
- 15) return on total assets;
- 16) return on equity;
- 17) current ratio;
- 18) debt to equity ratio;
- 19) debt to asset ratio;

- 20) loan to deposit ratio;
- 21) capital adequacy ratio; and
- 22) other relevant financial information about the company.

d. Section containing Management's General Discussion and Analysis

The company must summarize and analyze financial reports and other information focusing on material changes that have occurred since the last annual report or since the Registration Statement was submitted. For example the discussion and analysis should include:

- 1) a description of the company's business activity;
- 2) a discussion of the company's material commitments for capital investments, the purpose of such commitments, the source of funds to fulfill such commitments, the currency in which such commitments are denominated, and any measures the company has taken to hedge risks resulting from foreign currency exposures;
- 3) a discussion of the extent to which the company's future operating results or financial condition are exposed to risks due to fluctuations in foreign currency exchange rates or interest rates. This discussion must include description of all unhedged loans and commitments in foreign currency, or debts with unfixed interest rates;
- 4) a discussion and analysis of the reported financial information regarding unusual events that cause it not to be representative of future results;
- 5) a description of any unusual or infrequent events or transactions, and any material economic changes that may affect the company's revenue in the audited financial statements, with stress on the latest financial statements. In addition, a description of any other material income and expense considered necessary to understand the company's operations;

6) if the financial statements show a material increase or decrease in net sales or revenue, the discussion should disclose the extent to which the increase or decrease is a result of changes in prices, volume of sales and or new products or services;

7) a discussion of the effect of price changes to sales and net operating income for the last two years, or since the beginning of the business if it is less than two years;

8) information with regard to business risk caused, among other things, by:

- a) competition;
- b) supply of raw materials;
- c) rules of other countries or international regulations; and
- d) government policy

The degree of each risk and its effects on the company should be taken into account;

9) Information and material facts that occurred after the date of the auditor's report;

10) description of the company's business prospects in relation to the industry, the general economy and the international market supported by quantitative data (if there is a reliable source).

e. Financial Statement Section

1) This section must contain financial statements prepared in accordance with Financial Accounting Standards issued by the Indonesian Accountant Association and accounting rules issued by *Bapepam* and have been audited by the Accountant registered with *Bapepam*. If there is a difference of opinion between the company and the accountant regarding the preparation of the financial statements, and if the disagreement causes the accountant to give a qualified

opinion, adverse opinion, or to resign from the engagement or to be dismissed by the company, the company must disclose these facts and the important aspects of the financial reports on which there is disagreement;

2) The financial statements that shall be presented for the last two years, or since the establishment of the company if the company has been in business for less than two years are as follows:

- a) a balance sheet;
- b) a profit and loss statement;
- c) a statement of retained earnings;
- d) a cash flow statement;
- e) notes to the financial statements;
- f) other reports and descriptions of matters which are an integral part of the financial statements (if required), such as reports on commitments and contingencies for Issuers and Public companies operating in the banking industry;

3) Notes to the financial statements must disclose separately the amount of each type of transaction and the balance of accounts of the directors, commissioners, employees, substantial shareholders, and related Persons as defined in Financial Accounting Standards. The separate summaries shall show receivables, accounts payable, sales or income and expenses. When the transaction(s) in a certain category with respect to one person exceed Rp1,000,000,000 (one billion rupiah), such transactions must be recorded in a separate account and the name of the Person must be disclosed;

4) The company must disclose all transactions and reconcile them to beginning and ending balances in the separate summary of notes to the financial statements;

5) The notes to the financial statements must disclose business segments in accordance with generally accepted accounting standards; and

6) The following additional information must be disclosed in appropriate account in the financial statements:

- a) description of stock ownership by directors, commissioners and shareholders who own 5% (five percent) or more (showing total shares, par value, and percentage of ownership);
- b) description of pending legal cases that could affect more than 2% (two percent) of net equity or consolidated net annual profit of the company and its subsidiaries;
- c) export sales or revenue from abroad of more than 10% of total sales or revenue;
- d) sales or revenues from any business activity, that contributes 10% (ten percent) or more of the total sales or revenue of the company or its subsidiaries;
- e) sales to, or revenue from, one client or a group of affiliated clients that constitutes 20% (twenty percent) or more of the total sales or revenue;
- f) any cost or expense that exceeds 5% (five percent) of the total costs or expenses related to a product or project that will contribute to revenue in the future, or which is not related to existing revenue contributing activities.

Appendix 18. Bapepam Immediate Disclosure of Information

Rule Number X.K.1: Disclosure of Information that must be made Public
Immediately

Decision of the Chairman of *Bapepam*

Number: Kep-86/PM/1996, 24 January 1996

[Superceding previous decision Kep-22/PM/1991, 19 April 1991]

1. Every Public Company or Issuer whose Registration Statement has become effective, must report to *Bapepam* and make public any material information regarding events that may affect the price of securities or investors' decisions, not later than two working days after the event occurs.

2. Events, information or material facts, that may reasonably effect the price of securities or investors' decisions may, among other things, consist of:

m. the replacement of the Accountant who audits the company;

Appendix 19. Bapepam Periodic Financial Statements (Extracts)

Rule Number X.K.2: Obligation to Submit Periodic Financial Statements

Decision of the Chairman of *Bapepam*

Number: Kep-80/PM/1996, 17 January 1996

[Superceding previous decision Kep-22/PM/1991, 19 April 1991]

1. General

a. Periodic financial statements in this rule are defined as annual financial statements and semi-annual financial statements.

b. Every Issuer and Public Company whose Registration Statement has become effective, must submit periodic financial statements in four copies to *Bapepam*.

c. The financial statements consist of:

- 1) a balance sheet;
- 2) a profit and loss statement;
- 3) a retained earnings statement;
- 4) a cash flow statement;
- 5) notes to the financial statements; and
- 6) other reports and explanations that are an integral part of the financial statements, if required, such as commitment and contingency statements for Issuers and Public Companies in the banking sector.

d. Financial statements must be presented in Indonesian.

e. Financial statements must be presented in a format that provides a comparison with the same previous period, unless the company has not submitted financial statements for Capital Market purposes before, either because it has just made an initial Public Offering or is a new company.

f. Financial statements should be presented in accordance with the

generally accepted accounting principles that are referred to in the Financial Accounting Standards issued by the Indonesian Institute of Accountants and any other accounting requirements established by *Bapepam*. Elements of financial statements of Issuers and Public Companies in industries for which accounting treatment has not been specified in the Financial Accounting Standards issued by the Indonesian Institute of Accountants and other accounting practices in the Capital Market, should at least be presented and explained in accordance with the form and content which are requested for financial statements submitted as part of the Registration Statement.

2. Annual Financial Statements

a. The annual financial statements must be accompanied by an auditor's report with an opinion and be submitted to *Bapepam* no later than 120 days after the annual report date.

b. The annual financial statements must be disclosed to the public with the following requirements:

- 1) the company must publish a balance sheet, profit and loss statement as well as a commitment and contingency statement (for banks) in two newspapers in Indonesian one of which has a nationwide circulation, and one of which is published in the Issuer's or the Public Company's domicile, no later than 120 days after the annual report date. Medium or Small Companies must publish a balance sheet, profit and loss statement as

well as a commitment and contingency statement (for banks) in at least one newspaper in Indonesian that has a nation-wide circulation;

2) the form and content of the published balance sheet, profit and loss statement and commitment and contingency statement must be similar to those presented in the annual report that is submitted to *Bapepam*; and

3) evidence of the announcement must be submitted to *Bapepam* no later than two workdays after the announcement date.

c. If there are differences between the semi-annual financial statements presented to the public and the annual financial statements covering the same period, that fact should be disclosed in notes to the financial statements. Differences in the semi-annual financial statement data are usually because of corrections suggested as a result of the auditor review of the annual financial statements. The notes should also include the differences in the net profit and matters that caused the changes.

d. The annual financial statements shall be included in the annual report for the purpose of the General Meeting of Shareholders.

3. Semi-Annual Financial Statements

a. The semi annual financial statements must be submitted to *Bapepam*:

1) no later than 60 days after the semi-annual report date, if they are unaudited;

2) no later than 90 days after the semi-annual report date, if they are accompanied by an auditor's limited review report; and

3. no later then 120 days after the semi-annual report date, if the financial

statements are audited and accompanied by the auditor's opinion.

b. The semi-annual financial statements should be presented based on the same principles as the annual financial statements, and they should also include adjustments at the end of accounting period to provide information on an accrual basis.

c. If there are any differences between semi-annual financial statements and the annual financial statements of the same period, the semi-annual financial statements presented for comparison with those in the next period must be restated in accordance with the data in the annual financial statements.

d. Semi-annual financial statements must be disclosed to the public with the following requirements:

1) the company must announce the balance sheet, profit and loss statement and the commitment and contingency statement (for banks) at least in one Indonesian newspaper that has a nation-wide circulation;

2) the form and content of the published balance sheet, profit and loss statement and the commitment and contingency statement (for banks) must be the same as those presented in the semi-annual financial statements submitted to *Bapepam*;

3) the announcement must be made within the required period for submitting semi-annual financial statements to *Bapepam*. Evidence of the announcement must be submitted to *Bapepam* no later than two working days after the announcement date.

Appendix 20. Bapepam Comfort Letters (Extracts)

Rule Number VIII.G.5 : Guidelines for Preparing Comfort Letters

Decision of the Chairman of *Bapepam*

Number: Kep-41/PM/1996, 17 January 1996

1. A Comfort Letter is a letter prepared by an accountant stating whether or not a material fact has occurred between the date of the financial statements and the effective date of the Registration Statement that may cause significant changes, endanger the financial position, or results of operations as disclosed in the financial statement as a part of the Registration Statement document and presented in the Prospectus.
2. The Comfort Letter is:
 - a. a source of additional information for *Bapepam*;
 - b. a method for Underwriters to obtain financial data about the company that is not included in the audited financial statements presented in the Prospectus;
 - c. additional material for drafting the underwriting agreement.
3. The Comfort Letter is addressed to *Bapepam* and the Managing Underwriter and includes the matters prescribed in item 5 of this rule.
4. The Comfort Letter is prepared on the basis of discussions among the Accountant, the Issuer, and the Underwriter.
5. a Comfort Letter includes at least the following:
 - a. the Comfort Letter date; The date indicates the last date of Accountant responsibility in conducting audit procedures needed to prepare the Comfort Letter which may not be more than 14 days before the Registration Statement is declared effective. If there is a material fact that causes significant changes, endangers the financial position, or the results of the Issuers operations, *Bapepam* may ask the Accountant to resubmit a Comfort Letter that covers the period from the former Comfort Letter up to the beginning date of the offering period.
 - b. the Subject; COMFORT LETTER
 - c. the designated address;
 - d. a preliminary Paragraph;
 - 1) The Accountant must make a statement that it has audited the financial statements of the Issuer, attached as part of the Registration Statement.
 - 2) The Accountant must make a statement that the audited financial statements have been prepared by the Issuer in accordance with generally accepted accounting principles and other generally accepted accounting standards practiced in the capital market.
 - 3) The accountant must make a statement that the Accountant's report is included in the Registration Statement.
 - e. a body paragraph;
 - 1) The Accountant's Statement of Independence; The accountant must make a statement that he or she is independent of the Issuer.
 - 2) Compliance with generally accepted accounting principles and other generally accepted accounting practices used in the Capital Market; The Accountant must make a statement that the form and content of the audited financial statements in the Registration Statement, are in accordance with generally accepted accounting principles and other generally accepted accounting practices used in the

Capital Market. If there is any material deviation from generally accepted accounting principles and other generally accepted accounting practices used in the Capital Market, this deviation must be disclosed.

3) Compliance with Public Accountant Professional Standards; The Accountant must make a statement that the audit procedures used for the financial statements in the Registration Statement are in accordance with Generally Accepted Accounting Standards issued by the Indonesian Institute of Accountants.

4) A statement with regard to review procedures for the period and the results on the unaudited interim financial statements; The Accountant must make a statement with regard to the review on procedures applied to the unaudited interim financial statements and the results in the form of a negative assurance, by stating that the unaudited interim financial statements have been fairly presented and that no negative matters have been found that may affect the financial positions shown in the financial statements and the results from operations as presented in the audited financial statements.

5) Disclosure with regard to an Exception to the Negative Assurance; If there is any exception to the negative assurance with regard to procedures in reviewing the unaudited interim financial statements, the Accountant must disclose it.

6) A statement with regard to review procedures and results for the period between the unaudited interim financial statement date and the Comfort Letter date; For the period after the unaudited interim financial statement date to the Comfort Letter date, the Accountant must give a statement with regard to review procedures applied and the results in the form of a negative assurance. The negative assurance must state that there is no material fact which may cause significant

changes, or endanger the financial position, or results of operations or if there is a material fact which may cause otherwise, it must be disclosed.

7) A statement with regard to proforma financial information; If proforma financial information is included in the Prospectus as a part of Registration Statement with regard to a merger, changes in equity, significant discontinuation of a business segment, etc., the Accountant must review the proforma financial information, and provide negative assurance based on his professional judgment in accordance with Attestation Standard section 300 issued by the Indonesian Institute of Accountants.

8) A statement with regard to a financial forecast; If a financial forecast is included in the Prospectus, the Accountant must review the financial forecast based on his professional judgment in accordance with Attestation Standard section 300 issued by the Indonesian Institute of Accountants.

9) A statement with regard to financial data, including figures, tables, statistics, and graphs presented in the Prospectus in accordance with the audited financial statements of the Issuer; and The Accountant must review the financial data, including figures, tables, statistics, and graphs presented in the Prospectus and its conformance with the audited financial statements of the Issuer. The results must be stated in the form of a negative assurance that figures, tables, statistics, and graphs do not differ with the audited financial data.

10).A statement that in making statements in items 4) to 9) of this rule, the Accountant has reviewed all minutes of directors', commissioners', and shareholders' meetings, and other relevant nonfinancial information up to the date of the Comfort Letter. The Accountant must review all minutes of directors',

commissioners', and shareholders' meetings, and other relevant nonfinancial information up to the date of the Comfort

letter, and state that this audit supports the conclusions in items 4) through 9) of this rule.

Appendix 21. Bapepam Management Representation Letters

Rule Number VIII.G.6: Guidelines for Preparing a Representation Letter
by Management Regarding Accounting
Decision of the Chairman of *Bapepam*
Number: Kep-42/PM/1996, 17 January 1996

1. To complete the financial statements in the Prospectus, a company must submit a management representation letter to *Bapepam* regarding the financial statements presented in the Prospectus.
2. The form and content of the representation letter shall be as follows:
 - a. The representation letter date. The date of the representation letter signed by a director of the company shall be in accordance with the date of the comfort letter signed by the accountant, not more than 14 days before the effectiveness of the Registration Statement;
 - b. The representation letter address. The representation letter shall be addressed to *Bapepam* with a copy to the accountant who conducted the audit of the financial statements in the Prospectus;
 - c. The representation letter contents:
 - 1) a statement that the company's accounting standards are in conformity with generally accepted accounting principles and other capital market practices, and are consistent with those used in the prior period. It is also necessary to give a brief explanation regarding the specific company or industry;
 - 2) a statement that all "assets" of the company on the financial statement date in the Prospectus have been recorded and reported in the financial statements, with an additional note and explanation for each asset that is important, either with respect to a relatively material amount or a specific feature;
 - 3) a statement that all "liabilities" of the company on the financial statement date in the Prospectus have been recorded and reported in the financial statements, with an additional note and explanation for each important liability account, either with respect to a relatively material amount or a specific feature;
 - 4) a statement that all "equities" on the financial statement date in the Prospectus have been recorded and reported in the financial statements, with an additional note and explanation for each important total, either with respect to a relatively material amount or specific feature;
 - 5) a statement that all "income, expenses, profit and loss" on the financial statement date in the Prospectus have been recorded and reported in the financial statements, with an additional note and explanation for each important income, expenses, profit and loss, either with respect to a relatively material amount or specific feature;
 - 6) a statement that all "commitments and contingencies on the financial statement date in the Prospectus have been reported or disclosed in the financial statements. If there are no commitments and contingencies, that must be stated clearly;
 - 7) a statement that all important events, that have occurred after the balance sheet date until the date of the accountant's report, which affect the financial statements have been reported or disclosed in the financial statements, and that the important events after the date of the accountant's report until the effective

date which affect the company's financial condition and operational results have been disclosed in the representation letter or submitted to *Bapepam* and the accountant;

8) a statement of "other important matters", such as :

a) all results or minutes of meetings of the board of directors, commissioners, and shareholders until the date of the accountant's report have been presented or submitted to the accountant;

b) that there is no dispute related to a business transaction or loan agreement etcetera, up until the date of the accountant's report;

c) that there is no legal claim or charge because of a violation of a law or regulation which would affect either the company's financial condition or operating results within the period between the date of the financial statements and the accountant's report;

d) that all transactions between the company and outside Persons within the period between the financial statement date and the accountant's report have been conducted fairly, and that no company officials have had a direct self interest in such transactions with the company;

e) that all accounting and financial records have been shown to the accountant and there is no concealed matter;

f) that there are no transactions with affiliated Persons, except those that have been disclosed in the financial statements;

g) that there has been no fraud or unfairness found to have occurred within the period between the date of the financial statements and accountants report; and

h) that all of the matters mentioned above in letter a that occurred within the period

between the accountant's report and the effective date have been explained in the representation letter or submitted directly to *Bapepam* and the accountant.

d. Signing the representation letter. This representation letter is signed by the president director and the director responsible for accounting or finance.

Appendix 22. 2002 Ministerial Decree Regarding PA Services

Decree of the Minister of Finance of the Republic of Indonesia

Number: /KMK.06/2002

Regarding Public Accountant Services

Considering:

a. that to regulate public accountant service the Minister of Finance has issued the Decree of the Minister of Finance No. 43/KMK.017/1997 concerning Public Accountant Service as already amended by the Decree of the Minister of Finance No. 470/KMK.017/1999;

b. that in line with the Government's objective to improve the national economy and public interest protection, there is the need for reliable and professional Public Accountants and Public Accountant Office under effective and sustained regulation, management and supervision;

c. that in order to establish an effective and sustained regulation, management and supervision it is deemed necessary to replace the Decree of the Minister Finance as referred to in letter "a";

d. that based on the considerations referred to in letters a, b, and c it is necessary to issue Decree of the Minister of Finance on Public Accountant Service;

Observing:

1. Law No. 34 of 1954 on the Use of Accountant Degree (State Gazette 1954 No. 103; Supplement to State Gazette No. 705);

2. Presidential Decree No. 102 of 2001 on Position, Task, Function, Authority, Structure of Organization and Mechanism of Department;

3. Presidential Decree No. 109 of 2001 on Organizational Unit and Task of 1st Echelon of Department;

4. Presidential Decree No. 228/M;

5. Decree of the Minister of Finance No. 2/KMK.01/2001 on Organization and Mechanism of Finance Department as already amended by the Decree of the Minister of Finance No. 64/KMK.01/2002.

HAS DECIDED:

To enact : DECREE OF THE MINISTER OF FINANCE ON PUBLIC ACCOUNTANT SERVICE

Chapter I – General Provisions

Article 1

In this Decree of the Minister of Finance the meaning of:

1. Accountant is a person who has right to accrete to himself/herself accountant degree in accordance with the prevailing law.

2. Public Account is an accountant who already has license from Minister to give service as regulated in this Decree of the Minister of Finance.

3. Public Accountant Office or abbreviated KAP/PAO is an undertaking licensed by the Minister through which Public Accountant gives its services.

4. Public Accountant Office Branch, abbreviated KAP/PAO Branch, is an office established by KAP/PAO to give public accountant services led by one of the associates of the concerned KAP/PAO.

5. Foreign Public Account Office, abbreviated KAPA/FPAO, is an undertaking of professional services abroad licensed by the authority of the concerned country to run business at least in area of general audit on financial report.
6. Foreign Audit Organization, abbreviated OAA/FAO, is an organization abroad, established under the concerned country, whose members consist of professional service undertakings dealing in at least business of general audit on account.
7. Attestation is a declaration of opinion or consideration given by an independent and competent person on whether an assertion of an entity is in according in everything material with the established criteria.
8. Independent Auditor Report is a report signed by Public Accountant containing Public Accountant declaration of opinion or consideration as to compliance of an entity assertion with the established criteria.
9. Performance Audit is an independent, objective, and comprehensive appraisal conducted by outside party, of an entity or part of an entity audited on the basis of performance audit standard for the purpose of obtaining an integrated view of the degree of efficiency, economy, and effectiveness of the concerned entity or part of entity.
10. Special audit is an audit, based on audit procedure mutually agreed upon, of certain parts of an account made under comprehensive accounting basis over and above generally accepted accounting principle, as well as that of financial information for particular objective, conducted in compliance with Public Accountant Professional Standard.
11. Indonesian Accountant Association, hereinafter IAI/IAA, is an accountant profession organization acknowledged by the Government.
12. President or Associate President is a Public Accountant acting as the Head of a Public Accountant Office.
13. Public Accountant Office Branch President is a Public Accountant acting as the Head of a Public Accountant Office branch.
14. Associate is a Public Accountant or a person acting as a partner/associate in a Public Accountant Office in the form of limited partnership.
15. Domicile is the registered place of a Public Accountant Office in a Municipality or Regency.
16. Minister is the Minister of Finance of the Republic of Indonesia.
17. Director General is Director General of Department of Finance, Directorate General of Department of Finance.
18. Director is Director of Management of Accountant and Appraisal Services, Directorate General of Financial Institutions.

Chapter II – Public Accountant

First Section: Licensing

Article 2

- (1) Minister grants license to Accountant to be a Public Accountant.
- (2) Director General on behalf of Minister issues license as referred to in paragraph (1).

Article 3

- (1) To secure license as referred to in Article 2 paragraph (1), Accountant shall submit a written application to Director General for the attention of Director fulfilling the following requirements:
 - a. has never been sanction with Public Accountant license revocation;
 - b. domiciled in Indonesian territory as evidenced by Residence Identification

Card (KTP) or other evidence in according with the prevailing law;

c. owns State Register number for Accountant;

d. being a member of IAI and IAI-Compartment Public Accountant as evidenced by membership card or other official document of the concerned organization;

e. passing Public Accountant Certification Examination (USAP) conducted by IAI;

f. having a 1000-hour (a thousand hour) work experience in the area of general audit of account within the last 5 (five) years with at least five hundred (500) hours in between leading and supervising general audit association which is approved by the head of the employing Public Accountant Office or by first echelon level official of a Government Institution authorized in the area of general audit;

g. completing AP-1 form as appended in this Finance Minister Decree.

(2) The requirement of passing Public Accountant Certification Examination (USAP) as referred to in paragraph (1) letter e is excepted for an Accountant of the Finance and Development Supervisory Board (BPKP) fulfilling the following requirements:

a. released with honor from Civil Service at the time of submission of Public Accountant license application and being no less than fifty (50) years old;

b. having a minimum of 20-year work experience with good reputation;

c. possessing USAP-free recommendation issued by Head of BPKP;

d. the receipt of the license application be no later than December 31, 2003;

Article 4

(1) Public Accountant license shall be issued within a period of twenty (20) days as from receipt of complete and correct license application.

(2) Incompleteness of a license application shall be notified of in writing within a period of ten working days as from receipt of license application.

(3) License application shall be turned down if the applicant fails to meet the requirements referred to in Article 3 paragraph (1) and/or (2), and the applicant be notified in writing.

(4) In the event that a license application be turned down, the applicant can re-file a new application after satisfying the requirements referred to in Article 3 paragraph (1) and/or (2).

Article 5

(1) A Public Accountant is obligated to have Public Accountant Office to give his professional service.

(2) The requirement as referred to in paragraph (1) shall be met no later than six months as from the issuance of Public Accountant license.

(3) Public Accountant who resigns from Public Accountant Office is obligated to have own Public Accountant Office within 6 (six) months from his resignation.

(4) In the event that the requirement as referred to in paragraph (2) or (3) is not met, Director General on behalf of Minister shall lay down license revocation sanction upon concerned Public Accountant.

Second Section – Field of Service

Article 6

(1) Fields of services of Public Accountant and Public Accountant Office are attestation, including general audit and review of account as given in Public

Accountant Professional Standard, and Performance Audit and Special Audit.

(2) Public Accountant and Public Accountant Office can render services in non-attestation field after satisfying requirements in according with the prevailing laws.

(3) Non-attestation services as referred to in paragraph (2) include such activities as consultancy service, compilation service, taxation service, and other services in relation with accountancy and finance.

(4) Rendering of general audit of account of an entity can be executed by Public Accountant Office for a period of no later than five (5) consecutive fiscal (book-keeping) years and by a Public Accountant for no later than three (3) consecutive fiscal (book-keeping) years.

Chapter III – Public Accountant Office

First Section: Type of Undertaking

Article 7

(1) Public Accountant Office can take the form of:

- a. Personal Undertaking; or
- b. Partnership

(2) Partnership as referred to in paragraph (1) letter b is a civil association or firm.

(3) Personal-undertaking Public Accountant Office can only be established and run by a Public Accountant who acts as Head of the Office.

(4) Partnership Public Accountant Office can only be established and run if at least 75% of the partners are Public Accountants and each of them acts as partner/associate and one of them as Head of the partners.

(5) Head of partners as referred to in paragraph (4) is a Public Accountant.

Second Section – Licensing

224

Article 8

(1) Minister grants business license of Public Accountant Office.

(2) Director General on behalf of Minister issues the permit as referred to in paragraph (1).

Article 9

(1) To obtain business license of Public Accountant Office, as referred to in Article 8 paragraph (1), of personal undertaking type the Head of the concerned Public Accountant Office shall submit written application to the Directorate General for the attention of Director enclosing:

- a. copy Public Accountant license;
- b. list of names of at least three permanent auditors holding a minimum Diploma III level certificate of formal education in accountancy;
- c. copy NPWP (tax payer number) of the concerned Public Accountant Office;
- d. Public Accountant Office Quality Control System (SPM) design that meets Public Accountant Professional Standard (SPAP) covering at least policy aspect of all elements of quality control;
- e. domicile evidential document of the Head of the concerned Public Accountant Office;
- f. evidential document of ownership or lease of the office, and office diagram showing that the office is isolated from other activities;
- g. completely filled-in KAP-1 form as appended to this Ministerial Decree.

(2) To obtain business license of Public Accountant Office, as referred to in Article 8 paragraph (1), of partnership type, the head of partners of the concerned Public Accountant Office shall submit written application to the Directorate General for the attention of Director enclosing:

a. requirements as referred to in paragraph (1), letters b, c, d, f, and g;

b. notarized cooperation agreement for partnership Public Accountant Office covering at least:

- 1) parties to the partnership;
- 2) partners' addresses
- 3) form of association as referred to in Article 7 paragraph (2);
- 4) name and domicile of the concerned Public Accountant Office (KAP);
- 5) rights and obligations of the parties/partners;
- 6) the partner(s) authorized to enter into an agreement, for and on behalf of the Public Accountant Office, with third party in relation to the services rendered;
- 7) settlement mechanism in the event of dispute;

c. copy Public Accountant license upon the head of partners and Public Accountant partners;

d. Letter of approval of all Public Accountant partners on the appointment of one of the partners as the head of partners;

e. evidential documents of domicile of the Partner Head and the partners of the Public Accountant Office;

(3) Director General on behalf of Minister can appoint an official to conduct a direct physical survey the submitted business license application.

Article 10

(1) Business license of Public Accountant Office shall be issued within 20 (twenty) work days as from receipt of the complete and correct application.

(2) Incomplete application shall be notified of in writing within 10 (ten) work days as from receipt thereof.

(3) The application shall be refused if it fails to satisfy the requirements as referred to in Article 9 paragraph (1) and/or (2), and notification to that effect shall be in writing.

(4) In the event that the application be refused, the applicant can re-submit a new application after fulfillment of the requirements as referred to in Article 9 paragraph (1) and/or (2).

Third Section – Branch of Public Accountant Office

Article 11

(1) Branch of Public Accountant Office can only be established under a partnership Public Accountant Office under the same name as the latter.

(2) Branch of Public Accountant Office shall be headed by a Public Accountant himself partner of the concerned Public Accountant Office.

(3) Branch of Public Accountant Office can be established in all territory of the Republic of Indonesia

Article 12

(1) Permit to establish Branch of Public Accountant Office shall be issued by Minister.

(2) Permit as referred to in paragraph (1) shall be issued by Director General on behalf of Minister.

Article 13

(1) To obtain permit to establish Branch of Public Accountant Office as referred to in Article 12 paragraph (1), the Head of partners of the concerned Public Accountant Office shall submit written application to Directorate General for the attention of Director enclosing:

a. Approval letter of all partners of the Public Accountant Office on the appointment of one of the partner Public Accountants as the head of the Public Accountant Office Branch;

b. copy license of the Public Accountant to be Branch Head;

c. copy evidential document of domicile of the Branch Head which is in according with the domicile of the concerned Public Accountant Office Branch;

d. list of names of at least 2 (two) permanent auditors holding a minimum Diploma III level certificate of formal education in accountancy;

e. evidential document of ownership or lease of the office, and office diagram showing that the office is isolated from other activities;

f. completely filled-in KAP-1 form as appended to this Ministerial Decree.

(2) Director General on behalf of Finance Minister can appoint an official to conduct direct physical survey upon the filed application for permit to establish a Public Accountant Office Branch.

Article 14

(1) Permit for the establishment of Public Accountant Office Branch within 20 (twenty) work days as from receipt of complete and proper application.

(2) Application shall be declared incomplete and be notified of accordingly in writing within a period of 10 (ten) days as from receipt of the application.

(3) Application shall be refused if it does not satisfy the requirements as referred to in Article 13 paragraph (1) and be notified of accordingly in writing.

(4) In the event that the application be refused the applicant can re-submit a new application after fulfilling the requirements as referred to in Article 13 paragraph (1).

Fourth Section – Use of Office Name

Article 15

(1) Public Accountant Office shall use the name of the concerned Public Accountant and shall not use abbreviated name.

(2) For partnership Public Accountant Office the addition of the words “& Partners” after the name of the concerned Public Accountant Office as referred to in paragraph (1) shall be allowable only if the number of the Public Accountants in the concerned Public Accountant Office be more than the number of the Public Accountants whose names are taken as the name of the Public Accountant Office.

(3) In the event that members of the partnership resign as Public Accountants or die and the name of the concerned members are being taken as the name of the Public Accountant Office then the name of the concerned Public Accountant Office can be retained as long as the retainment is approved of in writing by the resigning members or by the heir(s) of the died Public Accountant(s).

(4) Public Accountant Office (KAP) shall be prohibited to use the name of Public Accountant(s) who has/have been sanctioned with license revocation.

Article 16

(1) Public Accountant Office and Public Accountant Office Branch shall be obliged to put up office complete name in the front of the office.

(2) Public Accountant Office and Public Accountant Office Branch shall be obliged to print on its letter head office complete name, office address, and business license number at the least.

Chapter IV – Use Of Name Of Foreign Public Accountant Office (KAPA) And Foreign Audit Organization (OAA)

Article 17

(1) Public Accountant Office shall only be able to use the name of Foreign Public Accountant (KAPA) or of Foreign Audit

Organization (OAA) on office name, letter head, and other documents together with the name of Public Accountant Office (KAP) with the approval of Director General.

(2) Approval of the inclusion of the name of Foreign Public Account Office (KAPA) or of Foreign Audit Organization (OAA) as referred to in paragraph (1) shall only be given under the following conditions:

a. existence of a cooperation agreement with one Foreign Public Accountant Office (KAPA) or Foreign Audit Organization (OAA) which is not having a cooperation agreement with another Public Accountant Office;

b. the cooperation shall by nature be sustained in that it is not limited to a certain assignment and be stated accordingly in the relevant cooperation agreement;

c. there to be periodical quality review by Foreign Public Accountant Office (KAPA) or Foreign Audit Organization (OAA) which is stated accordingly in the relevant cooperation agreement;

d. the cooperation to cover at least the field of general audit service of account, which is so stated in the relevant cooperation agreement.

(3) Application for approval as referred to in paragraph (1) shall be submitted in writing by the Head or Head of Partners to Directorate General for the attention of Director enclosing:

a. profile of the concerned Foreign Public Accountant Office (KAPA) or Foreign Audit Organization (OAA);

b. copy cooperation agreement as referred to in paragraph (2);

(4) Cooperation agreement as referred to in paragraph (3) letter b shall contain at least:

a. parties to the agreement;

b. nature and scope of the agreement as referred to in paragraph (2) letters b and d;

c. rights and obligations of the parties to the agreement;

d. method of settlement in the event of dispute;

e. periodical quality review obligation by the concerned Foreign Public Accountant Office (KAPA) or Foreign Audit Organization (OAA).

(5) The approval as referred to in paragraph (1) can be revoked in the event that the Public Accountant Office (KAP) no longer complies with the requirements as referred to in paragraph (2).

Chapter V – Management And Supervision

Article 18

(1) Minister conducts management and supervision upon Public Accountants and Public Accountant Offices (KAP).

(2) Management and supervision as referred to in paragraph (1) shall be carried out by Director General.

(3) In carrying out the management and supervision as referred to in paragraph (2) the Director General can ask for opinion or input from the Indonesian Accountant Association (IAI) and/or Public Accountant Compartment of IAI.

Article 19

(1) In carrying out the management and supervision Director General shall make periodical and/or random inspection of the Public Accountants and/or Public Accountant Offices.

(2) Inspection as referred to in paragraph (1) is made to scrutinize the compliance of Public Accountants, and/or Public Accountant Offices with the requirements set forth in this Finance Minister Decree and implementation regulations thereof.

(3) Periodical inspection as referred to in paragraph (1) is done on the basis of yearly inspection schedule fixed by Director General.

(4) Random inspection as referred to in paragraph (1) shall be made if:

- a. the results of the periodical inspection warrant a follow-up;
- b. there is a public complaint/allegation
- c. there is some information worth following up.

(5) In carrying out the supervisory function as referred to in paragraph (1) Director General can ask for opinion or input from Quality Review Board of IAI-Compartment on Public Accountants.

Article 20

(1) Director General can appoint and assign some person as the inspector for the inspection as referred to in Article 19.

(2) In carrying out the assignment the inspector shall be obligated to show his commission to the Public Accountant and/or the Head or the Head of Partners or the Public Accountant Office Branch Head to be inspected.

(3) The inspector shall not be allowed to bring out with him the work papers of the Public Accountant of the concerned Public Accountant Office.

(4) The inspector shall be obligated to treat confidentially things or information gained during the inspection as well as the results of the inspection against other unrightful or unauthorized parties.

Article 21

(1) Public Accountant and/or Public Accountant Office being inspected shall not refuse or evade the inspection nor obstruct in any way the inspection.

(2) Public Accountant and/or Public Accountant Office to be inspected shall be

obligated to show and lend work papers, reports and other documents as well as to give any information necessary for the inspection to the inspector.

(3) Public Accountant and/or Public Accountant Office shall be considered evasive of and obstructive to the inspection if the inspected:

- a. fails to show and lend the work papers, reports and other documents needed;
- b. fails to give necessary information;
- c. shows and lends work papers, reports, other documents as well as give information which are foul or fouled up as though they were true and faithful; or
- d. disregards summons.

Article 22

(1) The inspector shall make minutes of inspection.

(2) The minutes of inspection as referred to in paragraph (1) shall be signed by the inspector, Public Accountant, and/or the Head or Head of Partners of the inspected Public Accountant Office.

(3) In the event that Public Accountant and/or Head or Head of Partners of the Public Accountant Office being inspected refuse to sign the minutes of inspection then the refusing party shall be obligated to make a declaration of refusal together with the relevant reasons and supporting documents.

(4) The declaration of refusal can be considered in deciding the results of inspection.

(5) The inspector shall unilaterally decide the minutes of inspection if the Public Accountant and/or Head or Head of Partners of the Public Accountant Office inspected refuse to sign the concerned minutes of inspection.

Article 23

(1) Before the inspection ends the inspector shall make an interim conclusion of the inspection, within no later than 3 (three) work days before the expiry of his commission, to be given to the concerned Public Accountant and/or Head or Head of Partners of the Public Accountant Office inspected.

(2) The Public Accountant and/or Head or Head of Partners of the Public Accountant Office inspected can give written response to the interim conclusion as referred to in paragraph (1).

(3) In the even that the Public Accountant and/or Head or Head of Partners of the Public Accountant Office inspected does not give written response up to the completion of the inspection then the interim conclusion as referred to in paragraph (1) shall be considered accepted by the inspected.

(4) In the event that the Public Accountant and/or Head or Head of Partners of the Public Accountant Office inspected refuse in part or in total of the interim conclusion as referred to in paragraph (1) then the refusal shall be accompanied by supporting documents.

(5) Before the results of the inspection is published the Inspector and Public Accountant and/or Head or Head of Partners of the Public Accountant Office inspected shall conduct final review upon final conclusion of the inspection.

(6) The results of final review as referred to in paragraph (5) shall be made into minutes of review of inspection results which is signed by the Inspector, Public Accountant and/or Head or Head of Partners of the Public Accountant Office inspected.

(7) The Inspector concludes the inspection results unilaterally if the Public Accountant and/or Head or Head of Partners of the Public Accountant Office inspected refuse to sign the minutes of review of inspection results.

(8) Director General submits the report on inspection results to the Public Accountant and/or Head or Head of Partners of the Public Accountant Office inspected.

Article 24

(1) In giving its services, Public Accountant or Public Accountant Office shall comply with:

a. Public Accountant Professional Standard set by the Indonesian Accountant Association (IAI).

b. Code of Ethic of IAI and accounting ethical code of Public Accountant IAI Compartment; and

c. The prevailing laws related to the services rendered.

(2) Public Accountant and Public Accountant Office in carrying out assignment on Performance Audit shall be obligated to comply with Performance Audit standard agreed upon by the Public Accountant and Public Accountant Office with the assignor (work giver).

Article 25

Public Accountant shall be obligated to sign Independent Auditor Report, Performance Audit report, and Special Audit report and putting in the license number of the concerned Public Accountant.

Article 26

(1) Public Accountant shall be prohibited from simultaneously functioning as state official, head or employee in a government institution, state owned- or regional state owned- or private-undertaking, or other legal entity.

(2) Prohibition of double function as referred to in paragraph (1) shall be excepted for the Public Accountant who concurrently functions as a mere lecture in an academic institution, not holding any structural position and/or

commissioner or committee responsible to Commissioner or Management Consultancy manager.

(3) The Public Accountant who is excepted from the double function prohibition as referred to in paragraph (2) shall be obligated to report in writing to the Directorate General for the attention of Director within no later than 1 (one) month as from the occurrence of the assumption of the double function.

Article 27

(1) Public Accountant shall be obliged to reside in the territory of Indonesia.

(2) Public Accountant shall be obliged to be a member of IAI and IAI-Compartment Public Accountant.

(3) Director General on behalf of Minister lays down the sanction of license revocation as referred to in paragraph (1) or (2)

Article 28

(1) Public Accountant shall be obligated to take Sustained Professional Education (PPL) conducted and/or acknowledged by Indonesian Accountant Association and/or Director General with the sum of Sustained Professional Education Credit Unit (SKP) being no less than 30 (thirty) each year.

(2) Public Accountant who within 1 (one) year fails to conduct general audit on financial report shall be obligated to take PPL in the field of auditing and accountancy for at least 15 (fifteen) SKP in the next year, which is part of the sum of SKP as referred to in paragraph (1).

Article 29

Public Accountant shall be obligated to report in writing to Directorate General for the attention of Director if he/she:

a. becomes partner of Public Accountant Office enclosing:

1) notarized cooperation agreement

2) agreement on responsibility of maintenance of Independent Auditor Report and Inspection Work Papers as referred to in Article 35 paragraph (2), in case where said maintenance responsibility is transferred to the concerned Public Accountant Office;

b. resigns from the Public Accountant Office;

within no later than 1 (one) month as from the occurrence thereof.

Article 30

(1) Public Accountant license shall be declared invalid/inoperative if the license holder dies.

(2) In the event that the Public Accountant as referred to in paragraph (1) owns a personal-undertaking Public Accountant Office then the concerned business license is declared inoperative.

(3) Director General on behalf of Minister revokes business license of personal undertaking Public Accountant Office if the license of the concerned Public Accountant is revoked.

Article 31

(1) Resignation of a Public Accountant is subject to Minister's permission.

(2) Director General on behalf of Finance Minister to issue permission as referred to in paragraph (1).

(3) Public Accountant resignation application shall be submitted in writing by the concerned Public Accountant to Director General for the attention of Director enclosing:

a. Letter of statement signed by the concerned Public Accountant on his/her resignation.

b. Letter of statement on settlement of professional commitment between the Public Accountant and his/her client signed by the concerned Public Accountant.

c. the original Public Accountant license.

(4) Director General can refuse resignation application as referred to in paragraph (1) if the applicant:

a. is being examined/inspected by Director General or charged by other parties and the charge is worth following up.

b. has been sanctioned twice with letter of warning within the last 48 (forty-eight) months as from submission of complete and proper application.

c. is not bearing obligations imposed on him/her under the recommendation of Director General;

d. is being on license freeze sanction.

(5) In the event of the license as referred to in paragraph (1) is granted to a Public Accountant who was once sanctioned with license freeze then the provision of Article 50 paragraph (2) still applies if he/she returns to be Public Accountant.

Article 32

(1) In certain circumstances Director General can grant approval of temporary stoppage of Public Accountant services of own request to Public Accountant.

(2) Application for approval as referred to in paragraph (1) shall be submitted by the concerned Public Accountant in writing to the Directorate General for the attention of Director enclosing:

a. recommendation letter from the Public Accountant Office for the Public Accountant being Partner with the Public Accountant Office.

b. complete address during the taking of the temporary Public Accountant service giving stoppage term;

c. the period of temporary Public Accountant service giving stoppage applied for the Public Accountant who is taking further formal education if the

period applied for be more than 5 (five) years;

d. statement from the Indonesian Accountant Association (IAI) and Public Accountant IAI Compartment that:

1) the concerned Public Accountant is being under review by IAI or Public Accountant IAI Compartment;

2) the concerned Public Accountant has fulfilled IAI or Public Accountant IAI Compartment membership obligations.

3) IAI or Public Accountant IAI Compartment received no complaint/allegation from other party which warrants a follow-up in relation to the services rendered by the concerned Public Accountant;

4) the concerned Public Accountant is not being on sanction given by IAI or Public Accountant IAI Compartment;

(3) The term of temporary Public Accountant service giving stoppage of own request as referred to in paragraph (1) applies for no longer than 5 (five) years, except for Public Accountant taking further formal education.

(4) Director General can refuse application as referred to in paragraph (2) if the concerned Public Accountant:

a. fails to enclose the requirements as referred to in paragraph (2)

b. is being examined by Director General or being charged by other party and the charge is worth following up;

c. has been given letter of warning twice within the last 48 (forty-eight) months as from the submission of complete and proper application;

d. is not being under any obligations imposed on him/her under the recommendation of Director General;

e. is being on license freeze sanction.

Article 33

(1) Public Accountant who is going to terminate the temporary Public Accountant service giving stoppage period as referred to in Article 32 paragraph (1) shall be obligated to submit written application to the Directorate General for the attention of the Director enclosing evidence, legalized by Indonesian Accountant Association (IAI), of having taken the Sustained Professional Education (PPL) as referred to in Article 28.

(2) The Public Accountant who is being on temporary Public Accountant service giving stoppage for reason of taking further formal education shall be obligated to take 30 (thirty) Sustained Professional Education Credit Units (SKP) in auditing and accountancy within the last 12 (twelve) months before terminating the temporary Public Accountant service giving stoppage.

(3) The Public Accountant failing to submit application for the termination of the temporary Public Accountant service giving stoppage as referred to in paragraph (1) up to the termination period of the temporary Public Accountant service giving stoppage as referred to in article 32 paragraph (3), the Director General on behalf of the Minister revokes the Public Accountant license thereof.

(4) Application for approval of temporary Public Accountant service giving stoppage of own request can be re-submitted within no less than 5 (five) years as from the expiry of earlier approval of the earlier temporary professional inactivity.

Article 34

(1) Domicile obligation as referred to in Article 27 paragraph (1) is not applicable to Public Accountant who is being on temporary Public Accountant service giving stoppage of own request.

(2) In case the Public Accountant acting as the Head of personal-undertaking Public Accountant Office, during his/her being on temporary professional inactivity, the concerned Public Accountant Office shall be prohibited to give professional service as referred to in Article 6.

(3) Public Accountant who is being on temporary professional inactivity shall be prohibited to be Head of Partners or Head of Public Accountant Office Branch.

Article 35

(1) Public Accountant Office shall be obligated to keep Independent Auditor Report, Auditing Papers of the concerned Public Accountant, and other documents for a period of 10 (ten) years.

(2) In case a Public Accountant Office closing down or having its business operations closed down then the responsibility to keep Independent Auditor Report and Auditing Papers as referred to in paragraph (1) transfers to the concerned Public Accountant.

Article 36

Public Accountant Office employing an expatriate worker shall submit pertinent report to the Directorate General for the attention of the Director containing at least information on the name, expatriate work permit issued by relevant authorized institution, citizenship, expertise, work schedule, and term of assignment within no later than 1 (one) month as from the employment of the concerned expatriate worker.

Article 37

Public Accountant Office shall be obligated to submit business activity report, financial report, Sustained Professional Education (PPL) realization, and Expatriate Worker work program realization of the previous calendar year no later than end of April of the next

calendar year to the Directorate General for the attention of Director.

Article 38

Public Accountant Office and Public Accountant Office Branch shall be obligated:

- a. to have for Public Accountant Office (KAP) and for Public Accountant Office Branch three persons and two persons, respectively, working as permanent auditing staff with no lower than Diploma III level certificate of formal education in accountancy;
- b. to have NPWP (tax payer number)
- c. to have office isolated from other activities;
- d. to run quality control system which is in according with Public Accountant Professional Standard (SPAP);
- e. to apply and keep records on working hours of each auditor including Public Accountant in the assignment of general audit of account and/or of Attestation.

Article 39

Public Accountant Office Branch shall be headed by Branch Head domiciliating in according with the domicile of the concerned Public Accountant Office Branch.

Article 40

(1) Any change of name, type of business or domicile of Public Accountant Office and/or domicile of Public Accountant Office Branch shall be subject to permission from Minister.

(2) The requirement of permission from Minister for change of domicile as referred to in paragraph (1) is excepted for the regions of Bekasi, Jakarta, and Tangerang as well as other regions to be fixed later by Director General.

(3) The permission as referred to in paragraph (1) shall be issued by Director General on behalf of Minister.

(4) To obtain permission as referred to in paragraph (1), the Head or Head of Partners of Public Accountant Office shall be obligated to submit written application to the Directorate General for the attention of Director enclosing the requirements as referred to in Article 9 paragraph (1) or (2) and/or Article 13 paragraph (1) as well as the original of the business license granted earlier.

(5) By the grant of the new business license as referred to in paragraph (1) the earlier issued license is declared invalid.

Article 41

(1) Head of Partners shall be prohibited from being Head of Public Accountant Office Branch.

(2) Public Accountant Office shall be prohibited from establishing an office of any form other than that of branch office.

Article 42

Public Accountant Office shall be obligated to submit in writing to the Directorate General for the attention of Director in no later than 1 (one) month as from the occurrence of:

- a. change of order of Partners, enclosing notarized cooperation agreement;
- b. change of Head of Partners and/or Head of Public Accountant Office Branch, enclosing domicile evidence and letter of approval from all partners of said change;
- c. change of address, enclosing evidential document on ownership or lease of the concerned office and the diagram thereof showing that the office is isolated from other activities;
- d. change and/or end of cooperation with Foreign Public Accountant Office or Foreign Accountant Organization.

Article 43

(1) Closing down of Public Accountant Office and/or Public Accountant Office Branch shall be subject to permission from Minister.

(2) Director General on behalf of the Minister of Finance shall issued permission as referred to in paragraph (1).

(3) Application for closing down of Public Accountant Office and/or Public Accountant Office Branch shall be submitted in writing by the Head or Head of Partner to Director General for the attention of Director enclosing:

a. Letter of statement, signed by the Head of the Public Accountant Office if it is of personal undertaking type or by all Partners of the Public Accountant Office it is of partnership type, on the closing down of the Public Accountant Office and/or Public Accountant Office Branch;

b. Letter of statement, signed by the Head of the Public Accountant Office if it is of personal undertaking type or by all Partners of the Public Accountant Office it is of partnership type, on the settlement of professional commitment between the Public Accountant Office and/or Public Accountant Office Branch and its client;

c. the original of the business license of the Public Accountant Office and/or Public Accountant Office Branch

(4) Business License of Public Accountant Office Branch

a. shall be frozen if business license of the concerned Public Accountant Public is frozen;

b. shall be revoked if business license of the concerned Public Accountant is revoked;

c. shall be revoked if the concerned Public Accountant closing down its business operation;

d. shall be revoked if the concerned Public Accountant closing down the activity of the branch of the concerned Public Accountant.

Article 44

(1) Public Accountant and/or Public Accountant Office is responsible for all services rendered;

(2) Public Accountant and/or Public Accountant Office shall be prohibited from including its name on document or written communication containing financial report or parts thereof, except the concerned Public Accountant or Public Accountant Office having audited or compiled or reviewed the financial report or parts thereof.

Article 45

License of Public Accountant and business license of Public Accountant Office or license of Public Accountant Office Branch is valid/applicable all over the territory of Indonesia.

Article 46

(1) Public Accountant having worked with Audit Service Cooperative shall be considered having fulfilled the requirements of Article 5 paragraph (1) and done his/her work in according with the provisions of the prevailing laws on Audit Service Cooperative.

(2) Audit Service Cooperative as referred to in paragraph (1) shall be cooperative established by Cooperative Movement having as members Cooperative Legal Entity conducting audit on Cooperative.

Chapter VI – Sanctions

Article 47

(1) Infringement of this Decree of the Minister of Finance and implementing regulations thereof shall be sanctioned with warning, license freeze, or revocation of license.

(2) Minister to lay down sanction as referred to in paragraph (1) on:

- a. Public Accountant
- b. Public Accountant Office; or
- c. Public Accountant Office Branch.

(3) Sanctions as referred to in paragraph (1) shall be laid down by Director General on behalf of Minister.

(4) Sanction as referred to in paragraph (1) shall not necessarily be laid down by manner of order.

(5) Sanction shall be effective upon laying down.

Article 48

(1) Imposition of sanction as referred to in Article 47 paragraph (1) shall be made in accordance with the degree of infringement, namely:

- a. warning sanction upon light infringement
- b. license freeze sanction upon grave/serious infringement
- c. license revocation upon very serious infringement

(2) Sanction as referred to in paragraph (1) shall likewise be imposed upon Public Accountant if the provision of Article 55 paragraph (1) be met;

(3) Light infringement is infringement that meets the following criteria:

- a. Administrative infringement as referred to in Articles 6 paragraph (2), 7, 11, 15, 16, 17, 21, 25; 26, 28, 29, 34, 35, 36, 37, 38, 39, 40, 41, 42, 44, 54, 55 paragraph (1) letter a, 59 paragraph (2) or (3), or 60 letter d; or
- b. infringement of the provision of Article 24 in the execution of commission as referred to in Article 6 which does not affect independent auditor report and/or results in other forms of the concerned commission.

(4) Serious infringement is infringement that falls under the following criteria:

- a. infringement of the provision of Article 24 in commission as referred to in Article 6 which is liable to significantly affect independent auditor report and/or results in any forms of the concerned commission;
- b. fulfilling the provision as referred to in Article 43 paragraph (4) letter a;
- c. infringement of the provision of Article 6 paragraph (4) or Article 59 paragraph (5) or (6); or
- d. infringement that fulfills the provision as referred to in Article 49 paragraph (2) and/or Article 55 paragraph (1) letter b.

(5) Very serious infringement/violation is one that falls under the following criteria:

- a. infringement of the provision of Article 24 in commission as referred to in Article 6 which is liable to affect very significantly the independent auditor report and/or results in any other forms of the concerned commission;
- b. fulfilling the provision as referred to in Article 43 paragraph (4) letter b or c or d;
- c. fulfilling the provision as referred to in Article 50 paragraph (3); or
- d. infringement of Article 5 paragraph (1) or (2) or (3) and/or Article 27 paragraph (1) or (2) and/or Article 33 paragraph (3) and/or Article 52 and/or Article 53 and/or Article 55 paragraph (1) letter c and/or Article 58 paragraph (3).

Article 49

(1) Warning sanction as referred to in Article 47 paragraph (1) shall be given three times at most within the last 48 (forty-eight) months at longest.

(2) Public Accountant and/or Public Accountant Office having been sanctioned

as referred to in paragraph (1) shall be sanctioned with license freeze upon next light infringement.

Article 50

(1) License freeze sanction to be inflicted shall be 24 (twenty-four) months at the most, and during the license freeze Public Accountant shall be prohibited from rendering services as referred to in Article 6.

(2) License freeze sanction as referred to in Article 47 paragraph (1) shall be inflicted once at the most.

(3) In case Public Accountant and/or Public Accountant Office having been inflicted with license freeze sanction as referred to in paragraph (2) then upon serious infringement next time license revocation be inflicted.

Article 51

Public Accountant Office of personal undertaking type shall be business license frozen if the license of the concerned Public Accountant is frozen.

Article 52

Public Accountant inflicted with license freeze sanction shall be prohibited from:

- a. rendering services as referred to in Article 6;
- b. becoming Head of Partners or Head of Branch.

Article 53

Public Accountant Office whose business license is frozen shall be prohibited from rendering services as referred to in Article 6.

Article 54

Public Accountant having sanctioned with license freeze:

- a. shall be obligated to comply with Sustained Professional Education (PPL)

taking as referred to in Article 28 paragraph (1) and (2); and

- b. shall not be exempted from responsibility for services that have been rendered as referred to in Article 6.

Article 55

(1) Public Accountant shall be inflicted with:

- a. Warning sanction if he/she gets warning sanction from Indonesian Accountant Association (IAI) and/or Public Accountant IAI-Compartment;
- b. license freeze sanction if he/she gets membership freeze sanction from Indonesian Accountant Association (IAI) and/or Public Accountant IAI-Compartment;
- c. License revocation sanction if he/she gets membership dismissal sanction from Indonesian Accountant Association (IAI) and/or Public Accountant IAI-Compartment;

(2) Infliction of sanction as referred to in paragraph (1) does not abolish/reduce the Minister's authority to conduct examination upon the concerned Public Accountant if there be objection from the public against the sanction inflicted and/or there to be some information worth following up;

Article 56

(1) Infringement by Public Accountant Office Branch of the provision as referred to in Article 38 letter a or letter b or letter c or letter e shall lead to infliction of sanction as referred to in Article 47 paragraph (1) upon the concerned Public Accountant Office Branch.

(2) Infringement by Public Accountant Office Branch of the provision as referred to in Article 24 or Article 35 paragraph (1) and/or Article 38 letter d shall lead to infliction of sanction as referred to in Article 47 paragraph (1) upon the

concerned Public Accountant Office Branch.

Article 57

(1) The sanction of license freeze or of license revocation upon Public Accountant, Public Accountant Office or Public Accountant Office Branch shall be made known to the public.

(2) Warning sanction upon Public Accountant, Public Accountant Office or Public Accountant Office Branch can be made known to the public.

Chapter VII – Transitional Provisions

Article 58

(1) Public Accountant, Public Accountant Office, and Public Accountant Office Branch having secured license at the moment of enactment of this Decree of the Minister of Finance shall be declared as having secured license under this Finance Minister Decree.

(2) Application for license of Public Accountant, for business license of Public Accountant Office and license of Public Accountant Office Branch which has been applied but was not yet granted shall be reapplied in according with the requirements set forth in this Finance Minister Decree.

(3) Public Accountant having secured license under the Decree of the Minister of Finance No. 43/KMK.017/1997 concerning Public Accountant Service as already amended by the Decree of the Minister of Finance No. 470/KMK.017/1999 shall remain subject to the provision on having to possess Public Accountant Office within a period of 1 (one) year as from the grant of the license.

Article 59

(1) Public Accountant Office having liaised with Foreign Public Accountant Office and been using the name of the latter at the moment this Finance Minister Decree is enacted shall be

obligated to meet the requirements as referred to in Article 17 of this Finance Minister Decree within no later than 6 (six) months as from the enactment of this Decree of the Minister of Finance.

(2) Public Accountant Office which fails to meet the requirements as referred to in paragraph (1) shall be prohibited from using Foreign Public Accountant Office or Foreign Accountant Organization.

(3) Partnership type Public Accountant Office under the Decree of the Minister of Finance No. 43/KMK.017/1997 concerning Public Accountant Service as already amended by Decree of the Minister Finance No. 470/KMK.017/1999 shall be obligated to meet the provision as referred to in Article 9 paragraph (2) letter b of this Decree of the Minister of Finance within no later than 6 (six) months as from the enactment of this Decree of the Minister of Finance.

(4) Infliction of license freeze sanction upon Public Accountant, Public Accountant Office and/or Public Accountant Office Branch under the Decree of the Minister Finance No. 43/KMK.017/1997 concerning Public Accountant Service as already amended by the Decree of the Minister of Finance No. 470/KMK.017/1999 shall be excepted from the provision of Article 50 paragraph (2) of this Decree of the Minister of Finance.

(5) Public Accountant Office having rendered general audit service for 5 (five) consecutive fiscal years or more and still being committed for general audit for the next fiscal year of some entity's financial report at the moment of the enactment of this Decree of the Minister of Finance can only realized said commitment for the next 1 (one) fiscal year.

(6) Public Accountant having rendered general audit service for 3 (three) consecutive fiscal years or more and still

being committed for general audit for the next fiscal year of some entity's financial report at the moment of the enactment of this Decree of the Minister of Finance can only realized said commitment for the next 1 (one) fiscal year.

Article 60

By the enactment of this Decree of the Minister of Finance:

a. Inspection of Public Accountant, Public Accountant Office and/or Public Accountant Office Branch that is going on can proceed and thereafter it shall subject to provision under this Decree of the Minister of Finance;

b. Infliction of sanction upon Public Accountant, Public Accountant Office and/or Public Accountant Office Branch on the bases of results of examination under Branch under the Decree of the Minister of Finance No. 43/KMK.017/1997 concerning Public Accountant Service as already amended by the Decree of the Minister of Finance No. 470/KMK.017/1999 shall be subject to the provision under the present Decree of the Minister of Finance;

c. All warning sanctions having been inflicted upon Public Accountant, Public Accountant Office and/or Public Accountant Office Branch shall be considered valid and effective and thereafter they shall be subject to the provision under Article 49 paragraph (1) of this Decree of the Minister of Finance.

d. Public Accountant having been assuming dual positions/functions excepted under the Decree of the Minister of Finance No. 43/KMK.017/1997 concerning Public Accountant Service as already amended by the Decree of the Minister Finance No. 470/KMK.017/1999 shall be obligated to report in writing to the Directorate General for the attention of Director within no later than 6 (six)

months as from the enactment of this Decree of the Minister of Finance.

Chapter VIII – Closing Provisions

Article 61

(1) By the enactment of this Decree of the Minister of Finance all parties not satisfying the requirements set forth in this Decree of the Minister of Finance shall be prohibited from rendering services as referred to in Article 6.

(2) Prohibition as referred to in paragraph (1) shall not be applicable to state high institution or government department having authority to render services, as provided in Article 6, under the prevailing laws.

Article 62

By the enactment of this Decree of the Minister of Finance, the Decree of the Minister of Finance No. 43/KMK.017/1997 concerning Public Accountant Service as already amended by the Decree of the Minister of Finance No. 470/KMK.017/1999 is declared effective no longer.

Article 63

Necessary provision for the implementation of this Decree of the Minister of Finance shall be given under Decree of Director General.

Article 64

This Decree of the Minister of Finance shall take effect on the day it is enacted.

In order that every person may be informed, it is ordered that promulgation of this Decree be published in the State Gazette of the Republic of Indonesia.

Enacted in : Jakarta

on :

THE MINISTER OF FINANCE OF THE
REPUBLIC OF INDONESIA

BOEDIONO