



A Newsletter of RSM AAJ Associates

Wake up Call

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QUOTE OF THE QUARTER :

**“If opportunity doesn’t
knock, build a door”**

Milton Berle (1908- 2002)

Message from the Editor

Dear Friends,

We are pleased to issue the first Wake Up Call edition of 2013. Time flies quickly and yes we are in a new year now. Keep your hopes high, because it looks like 2013 is a good year for the world economy and it does look even better for the economy in Indonesia. Also the Chinese New Year is just around the corner. In this occasion, the Management of RSM AAJ Associates wishes you a good and prosperous year ahead. Also, as we leave 2012 behind us, we would like to thank all of our clients for the trust you gave to our firm. We look forward to serve you better in 2013 and the following years to come.

Despite the good outlook of our economy, we think Indonesia needs to be continuously cautious of its economic condition. When talking to businessmen, there are three issues that remain weak in our economy environment. They are insufficient infrastructure support, unbalanced distribution of income, and weak legal framework and enforcement. Infrastructure facilities might be one of the major direct matters that can slow down the growth of the Indonesian economy. The other two, unbalanced distribution of income and weak legal framework, can indirectly cause business investment and expansion to slow down. We are sure that the Government is aware about this and trying to do something to improve them.

Another matter that might cause hick-ups is the coming 2014 National Election. Historically, national election tends to cause the government to **"slow down"** in making important economic decision.

So, a lot of optimism plus a lot challenges for the Government, for business players, and also for the people in Indonesia.

This edition of Wake Up Call features articles related to Distress Asset Investment, Productive Working Environment and also a nice article on how Internal Auditors should respond to the Emerging Consuming Class. We hope you have fun reading our newsletter and we hope these articles have some benefits for you in running your business.

Best Regards,

The Editor

Distressed Asset Investment

Distressed Asset Investment is considered as one of the alternative investments available for investors. An alternative investment is an investment product other than the traditional investments of stocks, bonds, cash or property.

What is a Distressed Asset?

Assets are usually considered distressed when their value is severely depressed for a reason particular to the Companies who own those assets and not because of general market conditions. The most common situation is a commercial loan on which the issuer has defaulted on payments of interest or principal. In most cases, Distressed Asset Investments involve the purchase of debt.

The emerging markets of Asia, Eastern Europe and Latin America have been the source of distressed assets over the past two decades, with Indonesia is standing firm as one of global **investors' most** favourite targets due to its abundant natural resources and massive domestic market. Crises and defaults are an essential part of emerging markets investment. Corporations saw their loans were in default, and as the results, they were forcefully traded at a discount and/or restructured. On the other hand,

the governments of those developing countries had created dismal economic situations, crashed their economies and defaulted on their commercial debts. Now both corporations and governments have learned their lessons and rebuild.

Who are the Investors?

Distressed asset investments are undertaken by both corporations and financial investors (private equity houses, asset management companies, distressed asset funds). Implementing the investment strategies successfully requires specific skills and particular economic structures. For those firms with the appropriate professional skills and capital base, however, the strategies can be extremely profitable.

Why Investing in Distressed Assets?

When executed competently, distressed asset acquisitions can be an effective, highly profitable investment for investors. Such acquisitions might provide investors with strategic assets such as equipments or technology, revenue streams or even a new geographic customer base, for a fraction of what they might otherwise cost. In summary, potential opportunities and benefits of

investing in distressed assets are as follows:

1. Deeply discounted assets can deliver above-average returns.
2. Opportunities include growing market share, expanding geographic or product footprint and generating new revenue streams.
3. Distressed assets often feature significant feature of embedded debt financing which is even more valuable in a tight credit market.
4. Distressed asset acquisition can be a defensive measure, preventing sales, market share or proprietary technology or processes **from falling into competitors' hands.**
5. **"Rescued" employees at** underperforming companies can become highly motivated.

What are the Challenges in Investing in Distressed Assets?

Almost by definition, distressed assets acquisitions are rarely ideal. The potential challenges associated with such purchases are many, each potentially **threatening the buyer's return on investment.** Moreover, these transactions tend to take place in compressed time frames, adding greatly to the risks of overlooking hidden liabilities, overpaying or underestimating the effort

Distressed Asset Investment (Cont.)

needed to turn around operations, meld new and existing businesses increase potential capacity online and generate new revenue streams. In summary, the challenges are as follows:

1. Lack of familiarity with distressed assets could cause the acquirer to overpay.
2. Lack of experience in integrating distressed assets can lead to costly delays or chronic underperformance.
3. Inexperienced buyers could unwittingly take on an array of off-balance sheet liabilities ranging from product warranty issues to unfunded pension obligations.

4. Valuation, due diligence and closely related processes must be adjusted to reflect the nuance of distressed asset market conditions.
5. Underestimation of cost and effort of turnaround can reduce return on investment

Distressed Asset Investment Story In Indonesia

One of the most famous cases in distressed asset investment in Indonesia is the sale of 51% of PT Bank Central Asia, **Tbk's** shares held by the government of Indonesia through Indonesian Bank Restructuring Agency (IBRA) to Farallon Indonesia Investment (Farindo) in 2002.

The Asian monetary crisis in 1997 had a tremendous impact on

Indonesia's entire banking system. In particular, it affected **BCA's cash flow and even** threatened its survival. Panic rush forced the bank to seek assistance from the Indonesian government. The Indonesian Bank Restructuring Agency took over control of the bank in 1998. In 2002, IBRA divested 51% of its BCA shares through a strategic private placement tender. The Mauritius-based Farindo Investment won the tender for around IDR5,3 trillion. A year later, BCA assets were valued at IDR104 trillion. Roughly said, within a very short period, Farindo grew its investment value from IDR5,3 trillion to around IDR52 trillion (51% of BCA total assets of IDR104 trillion). Quite an achievement, **isn't it?** *[M. Yassin]*



The new "RSM Reporting" and "Talking Points" publication are now available in our website



A Productive Work Environment

It is possible to recognize that people have unlimited creative capacity and are an organization's most valuable resource, but still not know how to put those resources to work. This article focuses on the type of work environment a manager must create in order to tap the unlimited creative potential of people.

The Manager Creates the Work Environment

The manager is responsible for his group's work environment. Conditions within that environment are determined by the manager's:

1. Response to the group's needs
2. Attitude toward people and work
3. Use of authority
4. Response to mistakes and failures
5. Willingness to give the team proper credit for its accomplishments.

The manager interested in applying the proper philosophy of management and tapping the unlimited creative potential of people must:

1. Create a trust relationship between himself and his group
2. Give decision-making power to all individuals within the group
3. Turn failures and mistakes into positive learning experiences for the group

4. Constantly give proper recognition to the group and its individuals for accomplishments

All of these elements interlock and must be applied consistently in order to develop and maintain a productive work environment.

Develop a Trust Relationship

Trust is the most important element in the development and maintenance of a productive work environment. Trust stimulates security and confidence, two prerequisites to innovation and creativity. On the other hand, mistrust produces frustration, insecurity and fear---all major deterrents to creative thinking and innovative action.

A work environment based on trust gives employees the confidence and security needed to use their creativity. You see, innovation involves risk. The person who feels he can't trust his leaders will never take the risks required to develop new and better ways of accomplishing a task. Trust produces innovation, but mistrust breeds stagnation.

Give Decision-Making Power to People

Giving decision-making power is the second step in developing a productive work environment. From antiquity people have been forming organizations. However, none has withstood the test of time. All man-made organizations

eventually become extinct. Often their demise is due to their inability to remain flexible enough to meet the needs of a changing society. In other words, the organization fails to create an ongoing work environment that continually encourages people to use their creativity and innovative ideas to meet ever-changing needs---both within the organization and among those it serves.

Decision-making power provides freedom to apply one's creativity and innovative ideas. Decision-making power can be defined as the right to determine what action will be taken.

Decision-making power paves the way for an organization or group of people to be more responsive to people's needs, both within and outside the group. It allows for flexibility and change, and is the most effective way of tapping an individual's unlimited creative potential and channeling it toward the achievement of a specific goal.

Turn Failures Into Positive Learning Experiences

Fear of failure is one major reason why managers are reluctant to give decision-making power to other individuals. However, the person concerned about creating a productive work environment for a group must accept a certain amount of failure. He must also learn to

A Productive Work Environment (Cont.)

turn that failure into a positive learning experience for all concerned.

Fear of failure reduces the willingness to risk. Risk can be defined as exposing oneself to the possibility of loss or harm. Many leaders and managers fear change, innovation and creative ideas because of the risk involved. There is always the possibility the creative idea might fail and the group or organization might experience loss or harm. This fear presents a constant temptation to settle for what has been tried and proven in the past.

Many leaders promote that type of work environment by their attitude toward work and failure. The manager wishing to develop a highly productive work environment must promote innovation and change and be willing to live with the risk involved. In order to achieve their full potential, people must be permitted to make mistakes, or even to fail.

Failures can become positive learning experiences. Anyone can criticize and condemn one's failures, but effective managers work with people to turn their mistakes and failures into positive learning experiences. Any manager can discipline a subordinate for his shortcomings, but it takes considerable leadership skill to help a person

recognize his error, learn from it, and still be motivated to try again.

When an individual or group makes a serious mistake or fails, the leader should:

1. Meet with those involved in the mistake and determine the cause.
2. Work with the individual or group to determine what should have been done to avoid the mistake and what needs to be done to correct it.
3. Let the person who failed do the project or activity again to make proper corrections.

When dealing with mistakes, the manager should keep in mind that his job is to meet the work-related needs of those in his group or organization. Therefore, when a person has failed at a task, the manager should determine whether he contributed to the failure himself by not properly meeting individual needs.

Failure can be one of life's best teachers if people are given an opportunity to correct their mistakes and succeed. On the other hand, if improperly handled by the leader, failure can completely destroy an **individual's self-image**, motivation and productivity. Failure can turn a courageous, insightful person into a fearful and defeated one.

Provide Proper Recognition

Give credit and recognition to people for their accomplishments. Giving recognition costs nothing. Yet it is one of the most overlooked and least used tools of motivation a leader has at his disposal. Most leaders and managers acknowledge that giving recognition is important, but few take the time and effort to do it.

Recognition demonstrates that you need and appreciate people's contributions. Not one leader in a million would say he or she does not appreciate the contributions of people. However, many communicate that by their failure to voice appreciation for their people's efforts.

We rarely see a leader or manager properly recognize his people in private and public and still lack help and assistance. Such leaders have a ready reserve of workers to assist in accomplishing the group's tasks. Giving recognition stimulates people to use their creativity to achieve the group's or organization's goals and objectives. However, the leader who ignores opportunities to provide proper recognition will have a difficult time getting people to use their skills, gifts and abilities fully in achieving the group's goals. *[Renato M. Leuterio]*

Emerging Consuming Class : Its impact to Indonesia and how internal auditors should respond

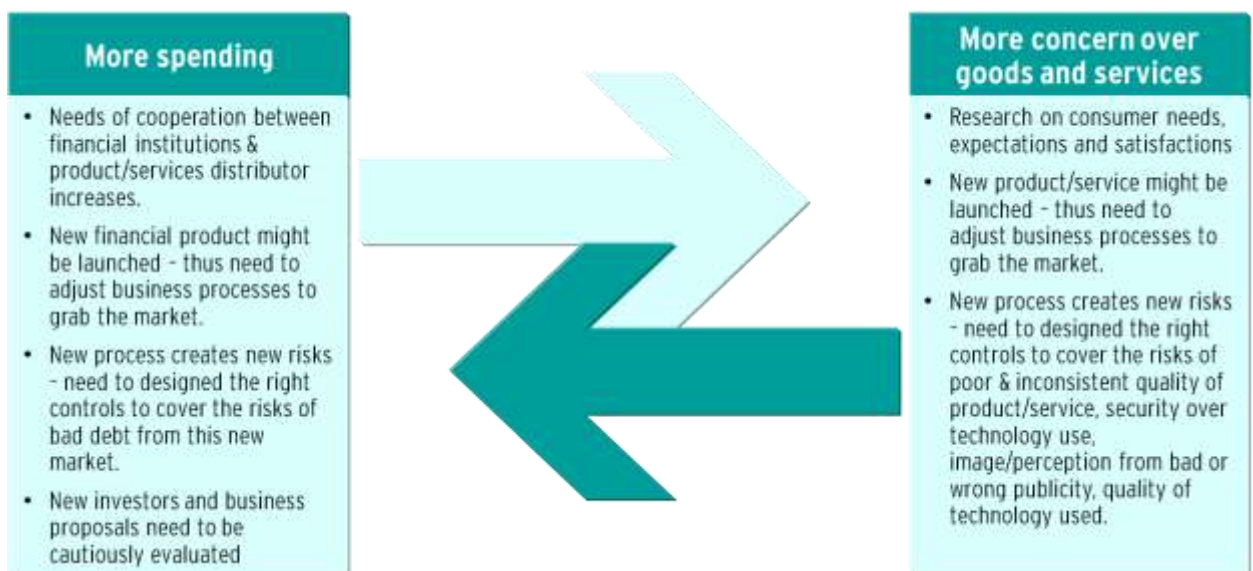
A research stated that from 1990 to 2025, three billion people are **set to join the world's consuming class** (*McKinsey Global Institute, consuming class is defined in the research as people with disposable income above \$10 at PPP*). The rising emerging economies are found predominantly in Asia, including notably China and India, as well as Indonesia, Vietnam, and other economies of the ASEAN. Thanks to their rapid growth, the share of Asia in global output could rise from 28 percent today to 43 percent by 2030 (*Homi Kharas and Geoffrey Gertz - Wolfensohn Center for Development at Brookings*).

In recent years, Indonesia's economy has grown constantly at above 5 percent per year and, as the economy grew, so have the

levels of public income and the size of the middle class (*RSIS, NTU Analysis*). Another research by the World Bank stated that, **Indonesia's burgeoning middle class** (*those who are capable of spending between US\$2 and \$20 per day*) comprises 56.5 percent of its 237 million populations, numbering 134 million people, a jump of 65 percent since 2003.

These developments and the projection arose from it has contributed to a conclusion that Indonesia is now being considered as one of those sexy market to enter. Many people are now putting their eyes on Indonesia to observe the growth, the opportunity available and of course how they can enter and capture that opportunity.

Indonesia's emerging middle class has proven to be a huge engine of consumption, of the latest and highest quality of goods and services. With the increasing consumption, the business will grow as there is more money that can be expended. Direct impacts of such growth can be enjoyed by those which business are in the industry of consumer goods and services provider, i.e. banks & other financial institution, consumer goods manufacturer, retailer, airline, telecommunication, health-care/hospital, hotelier. However, a non-direct impact will also be enjoyed by certain manufacturer - those that manufacture product to support infrastructure growth, i.e. cement, steels.



Emerging Consuming Class : Its impact to Indonesia and how internal auditors should respond (Cont.)

On the other hand, consumer will have more concern over products and services they purchased. There will be more challenge by companies to meet the needs and expectation of consumer in areas of quality of product and services, image of product and services, access to product and services. Thus companies need to conduct more research to meet **customers' demand, consider and analyze the use of electronic and social media marketing to promote product and services.**

As an internal auditor, should internal auditors respond to all **these changes ? Let's start from the fact that internal auditors are the sentinel that adds value to any organization. Internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes.**

In the governance area, internal auditors shall assess and make appropriate recommendations for improving the governance process with the objective of among others ensuring effective organizational performance management and accountability, communicating risk and control information to appropriate areas of the organization, and coordinating the activities and

communicating information among the board, external and internal auditors, and management. In that spirit, then internal auditors must evaluate the design, implementation, and effectiveness of the **organization's ethics**-related objectives, programs, and activities; and must assess whether the information technology governance of the organization sustains and **supports the organization's strategies and objectives.**

In the risk management area, internal auditors shall evaluate the effectiveness and contribute to the improvement of risk management processes. This means that internal auditors must determine whether risk management processes are effective based on judgment resulting from their assessment that organizational objectives support and align with the **organization's mission;** significant risks are identified and assessed; appropriate risk responses are selected that align **risks with the organization's risk appetite;** and relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.

Internal auditors must ensure that risk management processes are monitored through ongoing management activities, separate evaluations, or both. Internal auditor must evaluate risk exposures relating to the **organization's governance,** operations, and information systems regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets; and compliance with laws, regulations, and contracts. Internal auditors must also evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

In the control area, internal auditors shall assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. This means that internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the **organization's governance,** operations, and information systems regarding the reliability and integrity of financial and operational information; effectiveness and efficiency of

Risk & Internal Audit Advisory Services

Transaction Support & Capital Market Services

Audit & Assurance Services

Business Establishment & Corporate Secretarial Services

Tax Advisory Services

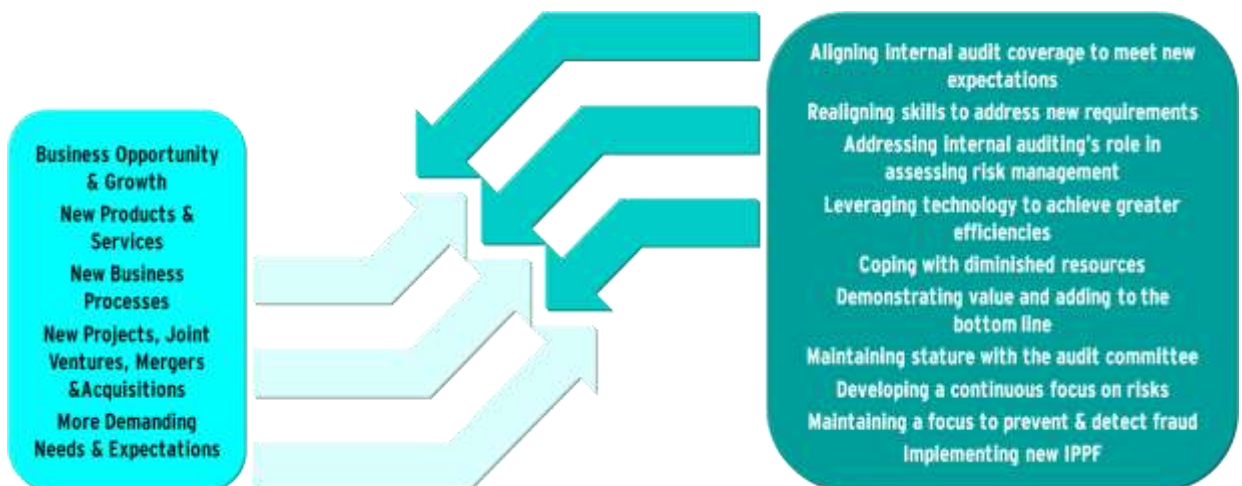
Emerging Consuming Class : Its impact to Indonesia and how internal auditors should respond (Cont.)

operations; safeguarding of assets; and compliance with laws, regulations, and contracts. Internal auditors should ascertain the extent to which operating and program goals and objectives have been established and conform to those of the organization, and review operations and programs to ascertain the extent to which results are consistent with established goals and objectives to determine whether operations and programs are being implemented or performed as intended.

has been prudently developed with regards to risks and benefits, and any agreements made with external party with regards to those plan has been adequately reviewed by legal function to ensure that the company is sufficiently protected. Further, Internal auditors should also check the implementation of those plans and how it measure up in achieving the objective as well as its benefit to the company.

the market has been effectively functioning. This is important in **retaining consumers' satisfaction** which influences the trust and loyalty of consumer to the **company's brand**. In talking about branding, the marketing strategy and its implementation need also be assessed to ensure that the strategies implemented correspond with the changing behavior of consumer.

There are many chores need to be completed by internal auditors,



Bearing in mind the crucial function and role that internal auditor shall play within the company, some example of what internal auditors can do include ensuring that the business development plan, be it a new product launch, a business joint ventures or acquisitions, as well as strategies established in responding to business dynamics

Internal auditors should also ensure that new processes have been supported with adequate guidelines to ensure consistent operation, and that the risk management function has conducted an analysis of its risks and controls. Further, internal auditors should also ensure that a review on the quality assurance of products and services sold to

and the above are just some of them. However, to enable internal auditors keep pace with the **company's business growth and dynamics**, they also need to be supported with sufficient resources that are able to fit with **the company's needs and expectation** out of them.

Emerging Consuming Class : Its impact to Indonesia and how internal auditors should respond (Cont.)

The time has come for internal auditors to be more creative and open-minded to align the coverage of their work activity to meet new expectations of board members bearing in mind the business growth

and new strategies implemented by its organization. Coverage of work shall not only cover governance, risk and control areas of existing business practice, but need to move beyond that.

Internal auditors should also see the future of the company and how the internal audit function can really be ammunition to safeguard the company. *[Angela Indirawati Simatupang]*

PUBLIC HOLIDAYS 2013

January

1 (Tue)	New Year 2013
24 (Thu)	Birth Of Prophet Muhammad SAW

February

10 (Sun)	Chinese New Year
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March

12 (Tue)	Saka New Year (Nyepi)
29 (Fri)	Good Friday

May

9 (Thu)	Ascension Day Of Jesus Christ
25 (Sat)	Vesak Day

June

6 (Thu)	Isra Miraj Of Prophet Muhammad SAW
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August

5-9 (Mon-Fri)	Idul Fitri 1 Syawal 1434 H
17 (Sat)	Independence Day

October

14-15 (Mon-Tue)	Idul Adha 1434 H
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November

5 (Tue)	Islamic New Year 1435 H
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December

25-26 (Wed-Thu)	Christmas Day
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News from our Office

RSM Annual Conference 2012 (4 – 7 November)

The RSM Annual Conference was held in London, UK from 4 to 7 November 2012. The conference was attended by about 270 delegates from around the world. This year conference discussed ,among others, the plan to further grow the network significantly and also about the new corporate identity of RSM. The conference also presents outside speakers talking about the global environment that are relevants to the grow of RSM. During the conference, 17 new RSM Member Firms s and RSM Correspondent Firms were introduced.



The 4th International Accounting Conf & The 1st Accounting Students Research Forum (22 – 23 November 2012)

RSM AAJ Associates sponsored The 4th International Accounting Conference & The 1st Accounting Students Research Forum which was held back in 22-23 November 2012 in Jakarta.

About 80 participants attended the event which discussed various update from the latest research in the Accounting and Finance world.

FEUI Job Fair (4 December 2012)



RSM AAJ Associates, together with other corporation in various industry, participated in the FEUI Job Fair which was organized by the Faculty of Economics, University of Indonesia.

The event was held on 4 December 2012 and was attended by approximately 60 participants, mainly university and college students. During the event, we perform a 15 minutes presentation about the firm to the participants. One of our partners, Hadi Avilla was there to do the presentation. We also have booth for students to visit and ask questions and also to drop in their resumes.

RSM AAJ Annual Party 2012

On 13 December 2012, RSM AAJ Associates held its Annual Party at the Kartika Chandra Hotel. All Partners and Staff were there to celebrate. The event also featured various talent show created and performed by not only the staff but also some of the Partners.. Each year we find out more and more about the hidden talents of some of the staff like singing, dancing, playing musing, acting, etc. In this annual celebration the firm also present appreciation to staff who have shown high dedication and good performance during the year. *See images from the Annual Party in the last page of this Wake Up Call.*



RSM World Day – the Winner of Photography Competition

One of our staff, Lilis Herlina, has won the RSM World Day Photography Competition for the category of "The most voted for Photo". The stunning sun-rise picture taken in the harbour of Jakarta was then chosen to be the cover picture of RSM Company Profile. The Photo Competition was organized by RSM International Office in London and it was open to all RSM members staff all over the world.

CONGRATULATIONS!

Lilis Herlina, RSM AAJ Associates, Indonesia



Images from RSM AAJ Annual Party





Season's Greeting
Wishing You a Wonderful
and Prosperous Year

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To receive printed copies of Wake Up Call, please contact us at :
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