



WAKE UP CALL

Welcome to issue 49 of Wake Up Call – RSM Indonesia newsletter covering topics on audit, accounting, business, corporate finance, transaction support, governance, internal control, management, risk, and taxation.

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THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

Enhancing internal audit activity through a risk based approach



Angela Simatupang, Consulting Practice

An organisation that understand its risks, understand its opportunities. If it does not know its risks, it doesn't know the risks it can accept, it doesn't know the risk to take, it doesn't know how to grow and, sooner or later, it will wither away.

When Harold Macmillan (UK Prime Minister 1957–1963), was asked by a journalist what can most easily steer a government off course, he answered 'Events, dear boy. Events'. Times don't change; investors and directors don't like unexpected events. Which is why organisations need to determine the risks which might give rise to these events and, in some cases, disclose them.

How does any organisation able to control events and seize opportunities? By understanding the risks it faces; the risks it is prepared to accept; and the action necessary to manage those risks it is not prepared to accept.

What is RBIA?

Risk based internal auditing (RBIA) is one of many opinions provided to the board, and audit committee, on corporate governance.

The Institute of Internal Auditors (IIA) defines RBIA as a methodology that links internal auditing to an organisation's overall risk management framework. RBIA allows internal audit to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite.

In implementing RBIA, the assurance required by the board from various functions will have to be taken into consideration, and this should be

reflected in the internal audit's charter. It is the internal audit department's responsibility to fulfil the board's requirements; and it is the board's responsibility to fulfil the requirements placed on it by legislation.

Advantages of RBIA

Your organisation has objectives and risks threaten the achievement of these objectives. Your organisation reacts to these threats by introducing internal controls. The Board therefore need to know that these internal controls are reducing the risks to a level which they have approve.

By following RBIA, internal audit should be able to conclude that:

Management has identified, assessed and responded to risks above and below risk appetite.

The responses to risks are effective but not excessive in managing inherent risks within risk appetite.

Where residual risks are not in line with the risk appetite, action is being taken to remedy that.

Risk management processes, including the effectiveness of responses and the completion of actions, are being monitored by management to ensure they continue to operate effectively.

Risks, response and actions are being properly classified and reported.

Is Your Organisation Ready?

Every organisation is different, with a different attitude to risk, different structures/processes/language. Internal auditors need to adapt this idea to the structures, processes and language of their organisation to implement RBIA.

RBIA seeks at every stage to reinforce the responsibilities of management and the board for managing risk.

If the risk management framework is not very strong or does not exist, the organisation is not ready for RBIA. More importantly, it means that the organisation's system of internal control is poor.

This article has been published at The Jakarta Post, 22 October 2018.

For further information, please contact:

inquiry@rsm.id

Increased tax audit risk for group company



Untoro Sejati, Tax Practice

Over the past few years, one of the political agenda that has become the main focus for most of the Tax Authorities around the world is combating tax evasion through the Base Erosion and Profit Shifting (BEPS) schemes. Since 2012, OECD member countries and the G20 have agreed to fight against the presence of BEPS. BEPS is structured by setting a special agreement or conducting a special transaction scheme between affiliated parties to obtain tax benefits. The main purpose of this scheme under BEPS is to minimise the overall tax expenses of companies as a group. One of the major schemes for tax evasion is transfer pricing, where one company shifts its profits to its affiliates which enjoy lower tax rate or other tax benefits by conducting mispriced (non-arm's-length) transactions.

Indonesia is one of the country that has been seriously and actively fighting against the presence of transfer pricing abuse. Over the past decade, it can be seen that massive efforts were put in by the Indonesia Tax Authority in modifying and developing transfer pricing regulations aiming to ward off BEPS – there were thirteen (13) transfer pricing regulations published in Indonesia. The most recent regulation is the Circular Letter of the Directorate General of Tax Number SE-15/PJ/2018 (SE-15/2018) regarding Audit Policy. The objective of this regulation is to enhance the quality of tax audit. One of the steps that need to be

performed by the Tax Authority before conducting an audit is to make a list of taxpayers who will become the priority target for exploring the tax potential. This list is made on the basis of referring to some indicators as stated in the regulation.

This regulation must be considered by companies within a group since the existence of intra-group transactions has become an indicator for Tax Authority proposing a tax audit. According to SE-15/2018, the existence of intra-group transactions may trigger two types/categories of indications: an indication of non-compliance and indication of an aggressive tax planning.

Indication of non-compliance related to transfer pricing:

- Having cross-border intra-transactions, especially with affiliate companies located in lower tax jurisdictions;
- Having domestic intra-group transactions for more than 50% of the total transactions;
- Having transactions with domestic affiliated companies that are still in tax loss position.

Moreover, an aggressive tax planning through transfer pricing is deemed to exist if the following criteria are met:

- The counterpart of the transaction is located in a lower tax jurisdiction;
- There is indication that the counterpart of the transaction

didn't have any substance or didn't add any economic value to the transaction (re-invoicing);

- There are significant related party transactions;
- There is intra-group payment for services, royalty, cost distribution arrangement, and other transactions;
- There is a business restructuring;
- Financial performance of taxpayer differs as compared to financial performance of the industry; and
- There is recorded loss for three years in the last five years.

The contents of SE-15/2018 clearly show high tax audit risks for companies within a group. To mitigate these risks, companies must undertake safeguards against affiliate transactions carried out, among others:

- Ensure that the transactions scheme carried out and the pricing policies for affiliated transactions are in accordance with arm's length principle;
- Maintaining defensible transfer pricing documentation, especially for companies that are in financial distress (very low profit or loss); and
- Consider tax and transfer pricing aspects on every business process carried out.

For further information, please contact:

inquiry@rsm.id

Our activities



In conjunction with RSM Indonesia's 34th anniversary on 4 March, we held a morning briefing session with the Governor of Bank Indonesia Bapak Perry Warjiyo. The Governor shared the perspective on financial stability and Bank Indonesia's strategy to strengthen and grow Indonesia's economy.

RSM Indonesia 34th Anniversary



4 March 2019



New addition to the RSM International Board

Angela Simatupang, our senior partner, has been elected as member of the RSM International Board of Directors.

The role of the RSM International Board of Directors (Board) is to set the strategy and take decisions that are in the best interests of the network as a whole.



The Board shall have day to day control of the management, strategy and administration. The Board is account to and be responsible to member firms.

The Board now comprise of 12 people from Argentina, Australia, Belgium, Egypt, Germany, Hong Kong, Indonesia, Mexico, South Africa, UK, and USA.

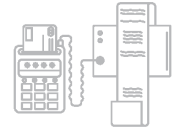
Client Alert



Tax Regulation Updates

- New Indonesian Income Tax Regulations regarding:
- Amendment to regulation on Foreign Tax Credits
- Regulation regarding taxation treatment of E-commerce transactions
- Amendment to regulation on the value added tax for the import and acquisition of goods in merger, consolidation, expansion, or acquisition
- Regulation on providing food and beverages for all employees and benefits in certain areas

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ABOUT TAX GLOBAL TIME



RSM Indonesia Client Alert:
Tax Regulation Updates
is available at www.rsm.id

Indonesia Facts



Mount Merapi, Gunung Merapi (literally Fire Mountain in Indonesian and Javanese), is an active stratovolcano located on the border between Central Java and Yogyakarta provinces, Indonesia. It is the most active volcano in Indonesia and has erupted regularly since 1548. It is located approximately 28 kilometres (17 mi) north of Yogyakarta city which has a population of 2.4 million, and thousands of people live on the flanks of the volcano, with villages as high as 1,700 metres (5,600 ft) above sea level.

Smoke can often be seen emerging from the mountaintop, and several eruptions have caused fatalities. After a large eruption in 2010 the characteristic of Mount Merapi was changed. On 18 November 2013 Mount Merapi burst smoke up to 2,000 meters high, one of its first major phreatic eruptions after the 2010 eruption. Researchers said that this eruption occurred due to combined effect of hot volcanic gases and abundant rainfall. The last eruption was so far 11 May 2018.

Source : wikipedia.com

New Partners at RSM Indonesia



Aria Senopati Lihu

Aria have a Bachelor of Economy in Marketing Management from Universitas Indonesia and a Master of Commerce from University of New South Wales, Australia. He is a Secretary at Indonesian Stevedoring Companies Association (APBMI) DKI Jakarta Region.

Professional Emphases: Corporate finance, Management consulting



Nano Aryono

Nano have a Bachelor of Economy in Accountancy from Universitas Airlangga and a Master of Business Administration from SBM Institut Teknologi Bandung. Certification that were obtained by Nano are Certified Management Accountant, and Port Expert.

Professional Emphases: Corporate finance, Transaction advisory, Management consulting



Resdy Benyamin

He graduated from Institut Teknologi Bandung with major in Informatics Engineering and minor in network and distributed system and Master of Management from Prasetya Mulya. He brings with him more than 20 years of experience in internal control, information technology (IT) architecture, IT risk management, IT governance, IT strategic plan and transformation, business continuity in various sectors including financial services, government, telecommunication. Among his professional certifications are Certified Information System Security Manager (CISM), The Open Group Architecture Framework (TOGAF) 9 Certified, Certified in Risk and Information Systems Control (CRISC), Certified in the Governance of Enterprise IT (CGEIT), EC-Council Certified Security Analyst (ECSA), ISO 27001:2005 Lead Auditor Qualification from British Standard Institute (BSI), ISO 27001:2005 Lead Implementer Qualification from The Professional Evaluation and Certification Board (PECB), Certified Information Systems Auditor (CISA), Certified Information Systems Security Professional (CISSP), ITIL Foundation in IT Service Management, EC-Council Certified Security Analyst (ECSA), EC-Council Certified Ethical Hacker (CEH), ISO/IEC 38500 Lead IT Corporate Governance Manager, COBIT 5 Implementation & Foundation, ITIL Intermediate Service Strategy, Service Operation, and Service Transition.

Professional Emphases: IT consulting



Untoro Sejati

Untoro have a Bachelor of Economy in Accounting from Universitas Indonesia and a Master of Laws (LLM) in International Tax from Vienna University of Economics and Business. Professional certification owned by Untoro are Indonesia CPA and Certified in Principles of Corporate & International Taxation (Transfer Pricing) issued by UK Chartered Institute of Taxation.

Professional Emphases: Tax, Transfer Pricing

Thank you for reading.

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For general queries, contact us at inquiry@rsm.id

RSM Indonesia

Plaza ASIA Level 10
Jl. Jend. Sudirman Kav. 59
Jakarta 12190 Indonesia

www.rsm.id

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