A Newsletter of RSM AAJ Associates

Wake up Call

Quarter II/2015 Edition

RSM AAJ
Audit • Tax • Advisory

Inside this issue:

Letter from our Chairman

Dear clients and colleagues,

I am sharing with you an exciting development at RSM AAJ and at our global network, RSM International.

This year, 2015 mark our 30th year of presence in Indonesia, and we are thankful to all of the support given by you—our clients and colleagues—which has made this milestone happened and celebrated. We are proud that by being globally connected with strong knowledge on Indonesia, we have been supporting our clients' needs to grow and expand internationally by providing seamless, cross-border services to our clients.

As you may be aware, our firm has been a member of the RSM network since 1992.

RSM is the seventh largest network of independent, audit, tax and consulting firms in the world with member firms in over 110 countries, with more than 730 offices and employing over 37,500 staff. The global network structure is similar to other international networks, but at the moment, RSM member firms all use different names and brands.

Following extensive global research of member firms worldwide, we believe we will better serve our current and prospective clients if we unite together across the network under one global brand – RSM.

The adoption of a unified brand reinforces the global network's position as the adviser of choice to entrepreneurial, dynamic companies globally.

On 26 October 2015 all of the members of the RSM International network will be uniting under the RSM brand. All RSM firms around the world will also adopt new brand positioning based around 'The Power of Being Understood', which encapsulates our values of: deep relationships based on understanding; a strong, collaborative approach; and providing our clients with ideas and insight to help them move forward with confidence.

Therefore, our firm name will change from RSM AAJ to RSM and we will adopt a new global logo and visual identity.

We believe that, with the adoption of a common name and unified global brand, we will strengthen our presence in the market, which in turn will create opportunities for you, and for our people.

From a client service perspective, I will continue to be your point of contact, and you will be served to the same high standards you are used to, by the same team that you value.

While our name is changing, we are maintaining the core essence and legacy of the AAJ brand.

By taking RSM as our brand name, we will accelerate the path to a recognized unified global brand and strategy. We are proud of our heritage, and we are staying true to our roots. Adopting the RSM name simply enables us to work most effectively in all countries around the world.

If you have any questions, please do not hesitate to get in touch with me and my team.

Kindest regards,

Amir Abadi Jusuf
Founder and Chairman
Chief Executive Partner

Protect your number

Dedy Sukrisnadi, Audit Assurance Practice

A wise man said, “If opportunities or threats arise through events, but you do not respond, then you are not smart. If they arise through a trend, and you do not make a plan, then you are not wise. If they arise from certain conditions, but you do not act anything to those, means you are not brave.” In the current situation where Rupiah tend to weakening than other currencies, especially US dollar, companies like yours should immediately act to protect its financial performance from exchange rate risk, that is on its fluctuation. A company needs to protect volatility in earnings by transferring those risks to a third party through hedging.

A company may minimize this exposed risk naturally by preparing items opposed to the items where risks arise. This is referred to as a natural hedge.

If the debt is in US dollars, a portion of the cash received in Rupiah shall be converted into US dollars as cash, deposits or other monetary items. Thus, foreign exchange losses result of debt in US dollars will be off-set with foreign exchange gains result of monetary assets in US dollars, and vice versa.

Another way in responding to this risk is by setting up instruments with symmetrical pay-off. These instruments can be either non-derivative instruments, such as money market, or derivatives.

A set of special accounting rules, in Indonesia Financial Accounting Standards (“IFAS”) referred as hedging accounting, shall applies when an entity used those instruments for hedging purposes.

At the outset, it is important to identify and specify correctly the risk to be hedged. This is because an item to be hedged may contain some risks. Risks that qualify for hedge accounting are interest rate risk, foreign exchange risk, price risk and credit risk. For example, a company with Rupiah’s functional currency who buys US dollar bonds will be exposed to interest rate risk, foreign exchange risk and credit risk. Incorrect specification of risk to be hedged will increase the probability of hedge ineffectiveness.

A hedged item can be a financial asset or liability with exposures to changes in fair value, a non-financial assets exposed to foreign exchange or price risks (such as, commodities), an unrecognized firm commitment, a highly probable forecast transaction or a net investment in a foreign operation. As an example, based on your question, hedged items could be inventories and loans. They are exposed by foreign exchange risk and interest rate risk (for loans in US dollar).

There are many instruments available for hedging. However, only instruments that qualify as hedging instruments shall be used. Those instruments are designated derivatives with the exception of written option, embedded derivatives, and a designated non-derivative financial asset or non derivative financial liability that hedges the risk of changes in foreign currency rates only.

There are three types of hedge of hedging relationship, fair value hedge, cash flow hedge and hedge of net investment in a foreign operation. As an illustration, in your case, a fair value hedge may be appropriate for foreign exchange risk on loans. Then, you will also need to assess the hedging instrument’s effectiveness in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to hedged risk. Hedge effectiveness must be evaluated prospectively at the inception of the hedge and retrospectively on an ongoing basis.

Please keep in mind that hedge accounting applies only if a hedging relationship has met the requirements as specified in the IFAS. This is frequently forgotten by the companies. For example, IFAS requires that at the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. If the entity has no such formal designation and documentation, hedge accounting cannot be applied.

Building the most fit risk management

Angela Simatupang, Governance Risk Control Practice

Risk is an essential part of any business. Properly managed, it drives growth and opportunity. It is necessary that the enterprise risk management processes become embedded in business to ensure that responses to risk remain current, dynamic and relevant.

Basis for assessing adequacy controls in addressing risks

There are several sources that board member can use in assessing the adequacy of internal controls with regards to financial, operational and compliance risk, and it can entail both internal and external sources.

Enterprise risk management (ERM). The purpose of an internal controls system is to manage key risks to a level that is acceptable by the company. As part of ERM, enterprise risk assessments will be performed. The result is a starting point to identify key risks, and matching them to existing controls to assess the adequacy of the controls.

Internal audit activity, compliance and other control programs. Internal audit helps to provide reasonable assurance on the effectiveness of internal controls system.

Thus, an internal audit plan should be aligned to results of periodic enterprise risk assessment to ensure that controls surrounding key risks are checked. Also, assessment of the internal audit function should be performed to review the structure, methodology, and resources. Other compliance programs such as compliance reviews and whistleblowing system are also means to identify risks and control gaps.

Other external sources. This involves reviewing the results and action of third parties (e.g., the management letter raise by the statutory auditors, ISO audits, accolades or disciplinary actions by professional or regulatory bodies).

Good governance requirements relevant to a Singapore listed company

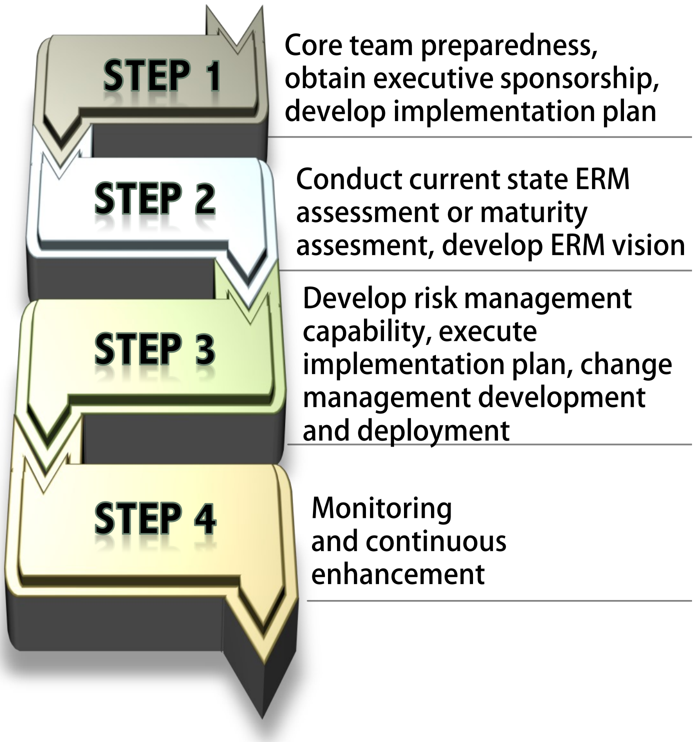
As a subsidiary of a Singapore listed company, you need to be aware of the listing requirements related to good governance practice, which include among others:

An issuer in Singapore is required to have a robust and effective system of internal controls, addressing financial, operational and compliance risks.

The board of directors and audit committee are required to give an opinion on the adequacy of the internal controls, addressing financial, operational and compliance risks.

The audit committee may commission an independent audit on internal controls for its assurance, or where it is not satisfied with the systems of internal control.

This means that there should be an effective board oversight on risk management as well as an assurance from the CEO and the CFO not only on the fair view of financial information, but also on assurance on the effectiveness of company's risk management and internal control systems.



Consideration in building ERM framework

Stages in ERM implementation process can vary, but what most important is to understand what activities constitute within and its corresponding objectives, so that it can be tailored to the uniqueness of your organisation.

There are several guidelines that you can utilise as well in designing the most fit risk management framework, COSO ERM Framework, AS/NZ ISO 31000:2009 Risk Management, ISO 31000, IEC/ISO 31010, to name a few.

Will the potential tax amnesty and related policies achieve their objective?

Nick Graham , Tax Practice

As reported by the Director-General of Taxation, until 30 April the Government has only collected 23.6% of its 2015 non-Migas tax revenue target. By comparison the collections for 2014 were 31.5% at a similar time last year. Although there was a 10.6% increase in non-Migas income taxes compared to 2014 there was a 5.3% decrease in collections of PPN and a significant decrease in collections of PBB and other minor taxes compared to 30 April last year, resulting in a less than 4% increase in year-to-date collections of non-Migas tax revenue compared to last year.

This is not a promising start to achievement of the targeted 38.7% increase in non-Migas tax revenue and might explain recent regulations (e.g. reductions to penalties; tax facilities for investment) and recent statements regarding a tax amnesty – all of which are intended to deepen and broaden the tax base. That is, ensuring that existing taxpayers fully comply with their obligations to declare all income and pay all taxes, and capturing those individuals and businesses that have not yet registered. In addition the comments in the media in May that the Government might be considering a reduction of the corporate tax rate from 25% to as low as 17.5% might, if legislated, encourage additional foreign investment that would generate employment and economic growth that will then boost the Government's future tax revenues.

The question to be asked is whether these regulations will result in the hoped for improvements to the tax base or will these only provide short-term benefits?

It is an open secret that there are Indonesian funds in Singapore and elsewhere that "want to come home". The pressure to bring these funds onshore now is increasing due to the improved cooperation between national governments (e.g. the Automatic Exchange of Information Agreements that will facilitate transfer of information to the Indonesian Tax Office from overseas), the increased scrutiny by PPATK (Indonesian Financial Transaction Reports & Analysis Centre) and stricter banking regulations. Furthermore some of the owners of these funds are likely to see opportunities to invest the funds here or to settle existing onshore obligations. From this perspective the proposed tax amnesty and the regulation on reduced penalties for late or amended tax reporting might prove a catalyst for repatriation of these funds.

I suspect that some funds will return, however, I am not sure whether a significant percentage of the funds will be repatriated. My reason for this is the perceived lack of fairness in implementation of the tax laws and regulations. Time and again taxpayers are issued with tax assessments that appear unreasonable compared to the facts at the time of the tax audit. This assessment activity is getting worse due to the 38.6% increase to the non-Migas tax revenue target from 2014. As a consequence law-abiding taxpayers are being forced to incur significant costs to fight these tax assessments through the objection process to the Tax Court. In many cases the taxpayer then wins at the Tax Court – not because of a successful argument about interpretation of the tax laws but because the tax assessment was wrong and should never have been issued. This is a very frustrating and expensive process for the taxpayers that have complied with the tax laws and should be praised for their compliance rather than, it appears, being targeted.

If this behavior of the Tax Office does not improve then there is limited incentive for businesses to come clean, register as taxpayers and then fully comply with their tax obligations. In fact the current unreasonable tax assessments encourage businesses to remain unregistered to avoid being attacked after they have registered and moved into the tax net.

These issues are also relevant for foreign investors. Although the investment facilities and potentially reduced corporate tax rate might attract initial interest the serious investors will consider the effective tax rate (i.e. the tax payable compared to commercial profit, after likely adjustments by the Tax Office). In addition they will assess factors such as transportation infrastructure, availability and reliability of power supply, availability and flexibility of the labor force, ease and cost of import/exports. After all there must be a commercial opportunity that will generate a profit before investment will occur. According to the World Bank, Indonesia's ranking in 2015 for ease of doing business was 114 from 189 countries. This was a modest 3 rank improvement from 2014. By comparison Malaysia is ranked 18th, Thailand with all its current political problems is ranked 26th and Vietnam is 78th. Surely we can do better?

Thus I believe that any tax facilities and/or a reduction to the corporate tax rate will not see significant and sustained increases in foreign investment unless there are also real and continuous improvements to the ease of doing business in Indonesia. In fact this also applies to domestic investors that also suffer from the high-cost business environment.

The success of the potential amnesty and regulation on reduction of tax penalties will also be influenced by business' perceptions as to whether the Government will be serious in detecting non-compliant businesses after the amnesty has expired. That is, the 2008 Sunset Policy did result in an increase in the number of taxpayers, however, the Tax Office continues to focus its attention on existing taxpayers (especially those claiming refunds) rather than unregistered businesses and taxpayers that are manipulating their profits to avoid refunds and mandatory tax audits.

More resources must be allocated to monitoring the performance of all taxpayers (rather than only refund claimants) and to actively pursuing unregistered businesses. To maximize the impact this new focus should be fully communicated to the market and then consistently applied – it should not be a once-only "cash" program. If a country must have regular tax amnesties then this suggests there is a fundamental problem with implementation and enforcement of the tax laws and regulations – it is these weaknesses and unfairness that encourage non-compliance.

In summary, the tax amnesty and other tax facilities are not a magic bullet that will hit the target. The successful and sustainable implementation of these will depend on the steps the Government takes to ensure fairness of treatment by tax auditors, to actively pursue unregistered businesses and to reduce the factors that are creating a high-cost and investor unfriendly environment.

Our activities

Celebrating 30 years
1985 – 2015

RSM Asia Pacific Conference

The 2015 RSM Asia Pacific Regional Conference took place in Jakarta, Indonesia from 5 - 8 May inclusive, and attended by almost 200 RSM people from across Asia Pacific countries, as well as from other regions, such as Europe and North America.

The first day of plenary sessions provided updates from Jean Stephens, CEO of RSM International and Mike Kirley, Chairman of RSM International, as well as activities and updates from around the various regions. We also heard further from Jean on the vision of taking RSM into 2020 from a strategy, brand and growth perspective.

After a busy three days and with one day to go at the Ritz-Carlton Kuningan Jakarta, we caught our breath at the RSM AAJ-hosted dinner at Cafe Batavia. While we stepped back into 19th century Jakarta during the colonial era, we managed to incorporate 21st century customs with a lively karaoke session, good music and great conversation!

RSM AAJ Partner in the Spotlight

IRWAN BUNYAMIN AFFIF
SENIOR MANAGING PARTNER RSM AAJ ASSOCIATES
TAK BISA LEPAS DARI BASKET

Our Senior Partner, Irwan Affif was featured at Investor Daily on 12 May 2015. He talked about his "health investment" plan through basketball. See more at http://bit.ly/1crfE1w.

INVESTOR DAILY PROFILE 28
AMIR ABADI JUSUF
Kesuksesan Adalah Buah Kepercayaan
Pembaca dan Penerbit Buku

The profile of our Chairman, Amir Abadi Jusuf was also featured on 22 June 2015, where he shared his success story which achieved through perseverance. See more at http://i.cubeupload.com/PKap05.jpg.

Our activities

Celebrating 30 years
1985 – 2015

RSM AAJ Anniversary Gathering

To share the joy of our 30th anniversary, we held a dinner reception on 8 May 2015. We are truly thankful to all our clients, colleagues, friends, alumnae, who have played a significant role in the first 30 years of our life, and we are looking forward in welcoming you again in our life as our journey continues.

audit assurance

tax

corporate finance

transaction support

governance risk control

business services

connect with us

facebook.com/RSMAAJ.ID

twitter.com/RSMAAJ

linkedin.com/company/rsm-aaj-associates

Contact us at newsletter@rsmaaj.com
to subscribe, unsubscribe, or to receive printed copy of Wake Up Call

For general queries, contact us at inquiry@rsmaaj.com

RSM AAJ Associates
Plaza ASIA Level 10 Jl. Jend. Sudirman Kav.59
Jakarta 12190 Indonesia
www.rsmaaj.com