

WAKE UP CALL

Welcome to issue 38 of Wake Up Call—RSM Indonesia newsletter covering topics on audit, accounting, business, corporate finance, governance, internal control, management, risk, taxation.

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- Consolidation of SOE and Its Impact to Financial Statements
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MOST EFFICIENT WAY TO DETECT FRAUD



Angela Simatupang, Governance Risk Control Practice

Fraud risk management should be a priority for all organizations.

Fraudsters are smart and have varied concealment methods, thus good control environment is crucial.

Most fraud were initially detected through 'tips'.

The easiest & most efficient way to detect fraud is to provide a reporting system that allow people to report on wrongdoing.

All organizations, regardless of size and industry, are subject to fraud risks. If the fraud is large, then it could hit the organization to the bottom. Imagine the massive loss, huge legal costs, diminishing investor trust, destruction of brand and reputation. The place you work at might be gone in a split second.

You might think that if there was never a reported occurrence of large fraud, then fraud risk management should not be a priority. Is that really so? Actually, no report of occurrence do not mean that it never happened, and small fraud could lead to massive fraud – fraudsters do not limit themselves; they steal from employer wherever the opportunity presents itself.

There are 3 factors for an ordinary person to commit fraud: pressure, opportunity, rationalization. Pressure is what motivates the person to commit fraud; opportunity is the method seen by the person that allow fraud to happen and not caught; rationalization is the thought use to justify the conduct of fraud—rationalization makes the weird feeling you have in your stomach when you know you do something bad, suddenly disappear.

A recent survey by ACFE launched in 2016 show that asset misappropriation is by far the most common occupational fraud (83%), compared to

corruption (35%) and financial statement fraud. Though lower in number of occurrence, financial statement fraud caused a median loss of US\$975,000. In Asia-Pacific, top 5 fraud scheme includes corruption, non-cash, billing, expense reimbursements, and financial statement fraud, and top mostly happened in operations, sales, and purchasing.

Fraudster profile and method of concealment

Most fraudsters are smart, which makes it more difficult to detect, and this is aligned with ACFE survey which revealed that 80% of fraudsters in Asia Pacific have a university degree, and 42% were managers in their company.

The fraud concealment method in asset misappropriation usually involves creation of fraudulent physical documents, altering physical documents, creating fraudulent transactions or deleting transactions in the accounting system, altering document or files, altering account balances in the accounting system, altering and deleting journal entries, altering reconciliation, and creating fraudulent files.

Preventing and detecting fraud

Preventing is always better than detecting. To prevent, one needs to create a culture that upholds ethics and integrity, and a sense that there will be always someone watching over

you, you can build a fraud risk management framework to support the implementation.

The easiest and efficient way to create that sense is to facilitate a reporting system where people can report any wrongdoing occurred within the company. ACFE study also shows that 'Tip' is always on the top in initial detection of fraud, both in small and large organization.

Ideally, to gain more trust, it would be better if the reporting system be managed independently from the company. This is to give greater assurance to the 'tipper' that their personal information will not leak. Tip received should then be followed up appropriately and measures need to be taken to improve the related process within the organization – as this will also be one factor that boosts employee's trust on management commitment on business ethics.

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CONSOLIDATION OF STATE OWNED ENTERPRISES AND ITS IMPACT TO FINANCIAL STATEMENTS

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Formation of a SOE holding company for specific sector need to undergo due diligence, evaluation, assessment, benchmarking, and analysis on the pro forma financial statements of both SOEs that will be consolidated as well as the future SOE holding. By the Indonesia SFAS, consolidation of SOEs in Indonesia will be treated as business combination under common control. Consolidation of SOE will have impact on the paid-in capital.

Since the beginning of 2016, the Government revives the consolidation of SOEs that was initiated a few years ago. The pattern of consolidation is by formation of a holding company for each sector, i.e.: banking, mining, construction, infrastructure, plantation, etc.

Ideally the consolidation process undertaken by the Ministry of SOEs will go through a series of activities, which include due diligence on the holding company formation and structure, projecting the business of new holding company and its subsidiaries to be as well as its measures to develop the business at national, regional and global level, and calculating the value created by establishing such holding company. Further study will also need to be conducted, that include a benchmarking to a similar corporation at regional and global level.

Strategic aspect with regard to the formation of holding company will need to be carefully assessed, and it will include evaluation on the interests of stakeholders, management control system, organization structure, taxation, information system and human resources.

To support the entire evaluation process, pro forma financial statements of each SOE member that will be part of the holding company need to be analyzed.

Consolidation is the result of restructuring and reorganization in the form of business combination. Naturally, consolidation must adhere to Indonesia Statements of Financial Accounting Standards (Indonesia SFAS or PSAK). The Indonesia PSAK on business combination is more comprehensive compared to the International Financial Reporting Standards (IFRS).

There are two types of business combination (PSAK 22 and 38). Business combination can be made between entities that are not under the same control as well as an "under common control". Group restructuring and reorganization are excluded from the scope of IFRS 3 Business Combinations, because the combining entities are controlled by the same party, and categorized as Business Combinations Under Common Control (BCUCC).

What about consolidation of SOEs?

Almost certainly, this is a BCUCC, because SOE, before merged/consolidated are all under common control of the Government of Indonesia.

How it will impact financial statements?

Since the BCUCC transaction does not result to change in ownership of the economic substance of the business which is combined, the transaction is

recognized in the carrying amount based on the pooling of interest method.

Entity that receives business (Holding) recognizes the difference between the consideration transferred and the carrying amount of each BCUCC transaction in the equity and presenting it as "additional paid-in capital". Meanwhile, entities that release business (SOEs/Holding subsidiaries) recognize the difference between the consideration received and the carrying amount of business that is released in the equity and presenting it as "additional paid-in capital".

Lastly said, the impact of BCUCC is reflected in the "additional paid-in capital".

Do note that the latter happen only if there is a difference between consideration transferred/received and carrying amount (book value) of business.

Complexities may arise depending on the formation of a holding, whether it comes from one of the existing SOEs or from newly established Holding.

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NO ORGANIZATION IS IMMUNE TO CYBER RISK

Ponda Hidajat, Governance Risk Control Practice



Data and information are important and valuable asset in this digital age.

Need for a cyber risk assessment is not determined by the complexity of IT within an organization.

Cyber risk assessment is needed to identify exposures and to design the mitigation plan.

For some, the terminology of Cyber Risk is unthinkable and unlikely to occur, especially when you work at an organization with simple IT environment.

The common perception is that cybercriminal only interested in companies in certain industries such as e-commerce, bank, telecommunication, unfortunately the fact say otherwise. The recent Panama Papers scandal has proven that.

Data Theft

Mossack Fonseca is not a high-tech company; it is a law firm and corporate service provider. What has happened was someone with unauthorized access steals 2.6 terabyte data from their database. The data consist of 11.5 million files that contain client's confidential data from 40 years ago that connect more than 214,000 offshore companies to people in more than 200 countries.

We do not know whether the "attacker" ask for some money from Mossack Fonseca or from the people on the list before they "share" the file to ICIJ (The International Consortium of Investigative Journalists).

However one thing for sure is that the Panama Papers has harm Mossack Fonseca reputation as well as the people in the list.

Ransomware

Let me give you another example of cyber risk that is not targeting complex IT or a high-tech company, there is a phenomenon of ransom ware attacking healthcare industry and individual.

Ransom ware is a type of malicious software designed to block access to a computer system until a sum of money is paid.

Once your computer is infected by ransom ware, you cannot access your document important files, photos or even music in your computer before you pay some money to the "attacker".

Last month, attackers took computers belonging to the Hollywood Presbyterian Medical Center in Los Angeles hostage using a piece of ransom ware called Locky. Computers were offline for more than a week until officials caved to the extortionists' and paid the equivalent of \$17,000 in Bit coin.

How about in Indonesia?

A couple months ago, one of graphic designer in Indonesia was also being a victim of ransom ware.

All Sectors are Prone to Cyber-Attacks

From some of the samples provided, we can see that no single organization is immune from cyber risk.

The need for a cyber risk assessment is not determined by the complexity of IT used in an organization, and the risk is not exclusive only for certain industries.

Every organization needs to have a cyber risk assessment. All sectors are prone to cyber-attacks, and those attacks could be of any nature and they have the potential to damage not only the records, but also the reputation of your organization.

The minimum is to identify what impact does the cyber world brings to your organization.

From there, you can design a mitigation plan and action to reduce the likelihood of its happening as well as to reduce the exposure of it when it happens.

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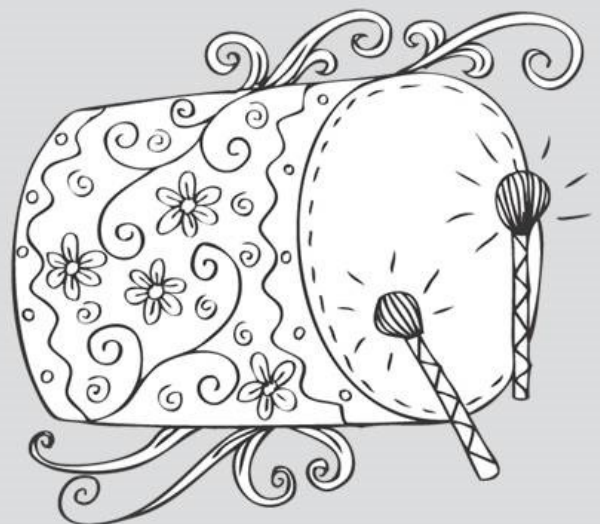
Indonesia Facts

Lake Toba is a large natural lake occupying the caldera of a super volcano. The lake is about 100 km long, 30 km wide, and up to 505 m deep. Lake Toba is the site of a massive super volcanic eruption estimated occurred 70,000 years ago. It is the largest known explosive eruption on Earth in the last 25 million years. According to the Toba catastrophe theory, it had global consequences for human populations: it killed most humans living at that time and is believed to have created a population bottleneck in central east Africa and India, which affects the genetic make up of the human world-wide population to the present. It has been accepted that the eruption of Toba led to a volcanic winter with a worldwide decrease in temperature between 3 to 5 °C, and up to 15 °C in higher latitudes.

All of us at RSM wishes you
a joyful Eid al-Fitr 1437 H

May Allah's blessing light up the path
and lead to happiness,
peace and success.

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Our activities

OECD BEPS Action Plan to hit middle market business

Global Business Reaction to BEPS

Survey reveals impact of BEPS on the middle market.



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- *Middle market businesses report uncertainty with Base Erosion and Profit Shifting (BEPS) rules*
- *Businesses split on who will bear the cost of BEPS rules between shareholders, customers and business*
- *Business community supports the creation of a global tax standard, despite the costs*

On June 6, RSM released the result of a global survey conducted by RSM on the impact of BEPS rules as issued by OECD.

72% of internationally operating middle market businesses (defined as having revenues from \$50m to \$1bn) expect to pay more tax as a result of the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan as uncertainty around how the rules will be implemented hits the boardroom. An independent survey of middle market businesses worldwide commissioned by RSM, the world's sixth largest audit, tax and consultancy network, shows that these organisations plan to bear the brunt of the costs, but will pass on some costs to shareholders and customers.

41.2% of middle market businesses expect their tax burden to grow by up to 10%, with 31% expecting their effective tax rate to increase by more than 10%. The pattern continues for compliance costs with 65% of middle market companies expecting these to grow by more than 10%. The majority (53%) intend to absorb some of the costs themselves but 35% expect customers and 30% expect shareholders to also shoulder some of the burden.

Despite the potential impact to their bottom line, just 18% of middle market businesses have undertaken planning to bring them into line with the new permanent establishment rules and 20% are fully aligned with the revised transfer pricing rules. More than three quarters (78%) of middle market companies say that the rules are creating uncertainty.

Even with these cost increases, businesses of all sizes are broadly in support of BEPS, with 69% admitting a global taxation standard is necessary. Indeed, when asked to rank the guiding principles of BEPS legislation, simplicity and business practicality ranked the highest with cost of implementation ranked as the lowest consideration.

However, most businesses surveyed see BEPS as a work in progress rather than the final solution, with more work needed by governments globally to ensure the original objectives of the proposals are met. 61% of those surveyed felt the BEPS action plan only moderately, slightly or did not at all satisfy the primary objective of ensuring tax is paid where profits are created and only a third (35%) felt it would largely or completely satisfy the objective of levelling the international playing field.

The full report can be downloaded at rsm.global/BEPS

Our activities

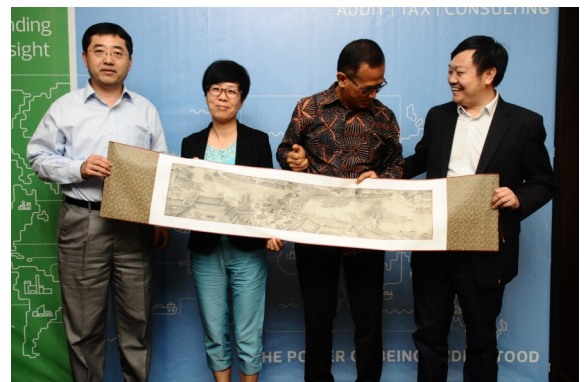
RSM Indonesia Facilitate Jiangsu Province of China Delegation

Chinese investors are enthusiastic about putting money into Indonesia, with investment indicators showing a positive trend of investment flow from the country.

RSM Indonesia, on June 13 in Jakarta, hosted a delegation of 20+ delegates from Jiangsu Province, People's Republic of China. They were coming to discuss doing business in the country, the prospective sectors, and learning about Indonesia's banking industry road map.

Delegation consists of elements of local government leaders, such as from the Division of Outward Investment and Economic Cooperation of the Department of Commerce, Division of Foreign Investment Administration, Economic Development Bureau, the People Government Office. The delegation also comprises the heads of such companies from Jiangsu Xinoi Steel Co. Ltd., Liyang Jinkun Forging & Machining Co. Ltd., Jiangsu Donghai Chunbao Crystal Trading Company, Taizhou New Times Real Estate Development Company, Jiangsu Kinson Conduit Industry Co Ltd, China Nuclear Industry HuaXing construction Co. Ltd., and others.

The visit was part of a series of activity to introduce investment in ASEAN which is brought by RSM in Indonesia, Singapore, and Malaysia. RSM in Indonesia is eager to assist in showcasing investment potentials both in Indonesia and ASEAN.



Watch footage of this event on [youtube.com/channel/UCDffrcPT6y7A30eo9-9v2w](https://www.youtube.com/channel/UCDffrcPT6y7A30eo9-9v2w)



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Thank you for reading.

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