



## WAKE UP CALL

Welcome to issue 51 of Wake Up Call – RSM Indonesia newsletter covering topics on audit, accounting, business, corporate finance, transaction support, governance, internal control, management, risk, and taxation.

In this issues:

- Internal control at public sector's organizations
- Tax regulation updates
- Our activities



# Internal Control at Public Sector's Organizations



*Vidvant Brahmantyo, Consulting Practice*

Organizations in the public sector should have a mechanism in place to identify, analyze and respond to risks to manage the likelihood and magnitude of negative consequences like economic losses, security breaches and reputational damage. Internal controls may exist in an organization but may not be effective, and effectiveness may change over a period time. So the assessment should not just evaluate the existence of internal controls but must assess their effectiveness.

All organizations, including those in the public sector, are susceptible to external and internal risk. If the mechanism to identify, analyze and respond to risks does not exist, it can reduce citizen's confidence in public services and trust in government.

To safeguard integrity in public sector organizations, effective internal control systems are critical, particularly in high-risk areas, such as financial management, information technology and public procurement. By taking a risk-based approach, public sector organizations can apply cost-effective controls that strengthen oversight, without overly burdening the organization and hindering efficiency.

## Internal Control in Several Countries

Ownership of the internal control system inside an entity resides first and foremost with the first line of defence (managers) as the function that own and manage risks. The second line of defence is the function that oversee risks and the third line of defence is the function that provide independent assurance. This is recognized in laws and policies of many countries.

Based on data collected by OECD through its 2016 Survey on Public Sector Integrity from 31 OECD countries and 6 non OECD countries, it was

noted that having laws that ensure managers' ownership over these activities can provide incentives for managers, and aid countries in achieving committed oversight and stronger accountability.

Majority of countries reported that managers in the executive branch are held responsible by law for monitoring and implementing control activities.

Countries also face implementation challenges to mainstream internal control functions and activities within management systems and daily operations. One third of surveyed OECD countries indicated a moderate or severe challenge for promoting internal control processes as a tool for fostering integrity and improving organizational performance, as opposed to a stand-alone and bureaucratic tick-box exercise. Some countries noted weak support from political leadership and the senior administrative hierarchy as a moderate or serious challenge.

## Assessing Internal Control

Internal controls may exist in an organization but may not be effective, and effectiveness may change over a period time. So the assessment should not just evaluate the existence of internal controls but must assess their effectiveness.

Assessment of internal controls in any ministry or department needs to review not only the control activities or procedures but also:

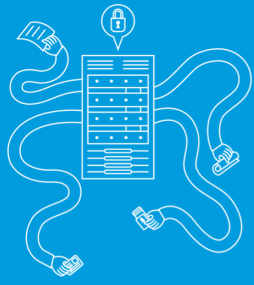
- the overarching control environment (tone at the top – is the top management serious about adhering rules or pays only lip service),
- the risk assessment process within the ministry or department (who does the risk assessment and how often is it done),
- the communication/reporting system within the ministry (are lapses or willful contraventions reported, are the rules clear, transparent, and easily accessible),
- the monitoring process (to ensure that loopholes are fixed, actions taken on an action that violates a law, treaty, or other ruling).

It is important to consider that internal controls exist not just in the accounting or treasury function but are part of every activity and department.

Sometimes it is useful to review internal controls in-depth over the entire process/value-chain rather than reviewing individual components of the entire process separately.

**For further information, please contact:**

[inquiry@rsm.id](mailto:inquiry@rsm.id)



# Tax Regulation Updates



*Nicholas Graham, Tax Practice*

## Additional Tax Deduction for Specific Businesses & Activities

Government Regulation No. 45 of 25 June 2019 ("GR-45/2019") amends Government Regulation No. 94/2010 ("GR-94/2010") to provide additional tax deductions for domestic corporate ("badan") taxpayers conducting the following businesses or activities:

- a. New investment or expansion for labour intensive industry

The deduction is available to corporate taxpayers that are undertaking new investment or an expansion in a labour intensive industry, and that have not already received a tax facility under either Article 31A of the Income Tax Law (investment allowance, extended tax loss carry forward and/or other tax facilities for activities in certain sectors or regions) or Article 29(1) of GR-94/2010 (income tax holiday).

A deduction ("reduction from net income") can be granted equal to 60% of the investment in the form of tangible assets (including land used for the main business activities). The additional deduction shall be recorded as an expense over a specific period.

- b. Provision of internship, traineeship and/or learning

The deduction is available to corporate taxpayers that undertake internships, traineeships and/or learning in the context of improving human resources.

The internship and traineeship programs shall involve:

- Students and/or teachers from vocational high schools and/or Islamic vocational high schools; and/or
- Students and/or teachers from diploma-level programs for vocational education; and/or
- Participants and/or instructors from vocational training centres; and/or
- Participants not under employment arrangements undertaking a program coordinated by the Department of Manpower

Learning refers to teaching activities by persons assigned by the corporate taxpayer to teach at vocational high schools, Islamic vocational high schools, diploma-level programs for vocational education, and/or vocational training centres.

The deduction ("reduction from gross income") can be granted for up to 200% of the costs incurred.

- c. Undertaking research and development ("R&D")

The deduction is available for corporate taxpayers that conduct R&D in Indonesia, where such R&D will create inventions, innovations, mastery of new technologies, and/or transfer of technology that will improve the competitiveness of national industry.

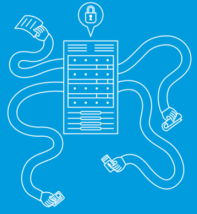
The additional deduction shall be recorded as an expense over a spe-

cific period. The deduction ("reduction from gross income") can be granted for up to 300% of the costs incurred.

This regulation is effective on 26 June 2019.

As is usual GR-45/2019 provides that the details for implementation shall be stipulated in a Minister of Finance Decree. This decree remains unissued and therefore questions remain regarding matters such as:

- What industries will be able to access the additional deduction for investment in labour intensive activities
- The period over which the additional deduction for investment or R&D must be claimed (e.g. the existing facility under Article 31A of the Income Tax Law requires the investment allowance is deducted over 6 years)
- Whether there is a practical difference between the reduction from net income referred to for investment in labour intensive industries and the reduction from gross income referred to for the special deductions for training and R&D
- Whether there will be partial facilities granted (e.g. the specific deductions for training and R&D refer to deductions "of up to" 200% and 300% respectively, suggesting there might be requirements to access different levels of deduction).



## Tax Regulation Updates

- What level of results (e.g. for inventions or innovations) will be required to support claims for R&D deductions.

### Revisions to Sales Tax on Luxury Goods and Article 22 for Residential Property

In June 2019, the Minister of Finance ("MoF") issued two revisions to regulations related to taxation of luxurious goods. The revised regulations increased the value of residential property before it is considered as a luxury good subject to Luxury VAT and reduced the rate of Article 22 income tax for the buyer of residential property classified as luxurious.

MoF Regulation No. 86/PMK.010/2019 dated 10 June 2019 ("PMK-86/2019") revises MoF Regulation No. 35/PMK.010/2017 regarding "Sales Tax on Luxury Goods (PPnBM) besides vehicles" ("PMK-35/2017"). Under PMK-86/2019 residential property is still subject to 20% PPnBM, however, the threshold is increased to IDR 30 billion and this now applies for all types of residential property (PMK-35/2017 previously

stipulated different thresholds based on the type of residential property).

PMK-86/2019 is effective on 11 June 2019.

PMK No.92/PMK.03/2019 ("PMK-92/2019") is the second revision to MoF Regulation No. 253/PMK.03/2008 related to Article 22 income tax to be paid for the purchase of luxurious goods. PMK-92/2019

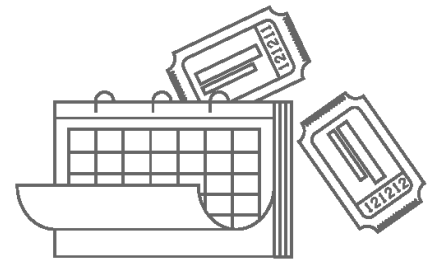
Before (PMK-35/2017)	Now (PMK-92/2019)
<b>Threshold:</b> <ul style="list-style-type: none"> <li>House including the land with selling price more than IDR 5 billion or the building size is more than 400 m<sup>2</sup>;</li> <li>Apartment, condominium, and similar with selling price more than IDR 5 billion or the building size is more than 150 m<sup>2</sup>;</li> </ul> <b>Tax Rate:</b> 5% from the price (excluding VAT and PPnBM)	<b>Threshold:</b> <ul style="list-style-type: none"> <li>House including the land with selling price of more than IDR 30 billion or the building size is more than 400 m<sup>2</sup>;</li> <li>Apartment, condominium, and similar with selling price of more than IDR 30 billion or the building size is more than 150 m<sup>2</sup>;</li> </ul> <b>Tax Rate:</b> 1% from the price (excluding VAT and PPnBM)

increases the threshold to be consistent with PMK-86/2019 and also reduces the rate of Article 22 tax applicable to purchases of luxurious residential property, as follows:

The Article 22 tax paid on acquisition of luxurious residential property is a prepaid tax for the buyer. That is, it can be credited against the annual income tax payable.

Article 22 does not apply to non-tax subject buyers such as an embassy of a foreign country or its employees who meet the requirements as per Article 3 of the Income Tax Law.

PMK-92 is effective on 19 June 2019.



For further information, please contact:

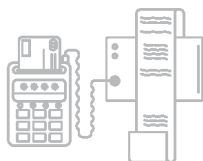
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## Client Alert



**Tax Regulation Updates**  
1. Expansion of Businesses subject to Preliminary Refunds of VAT  
2. Revision of Tax on Dividends

THE POWER OF BEING UNDERSTOOD  
ALERT TAX TECHNOLOGY

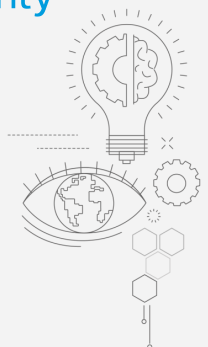


**RSM Indonesia Client Alert:**  
Tax Regulation Updates  
is available at [www.rsm.id](http://www.rsm.id)

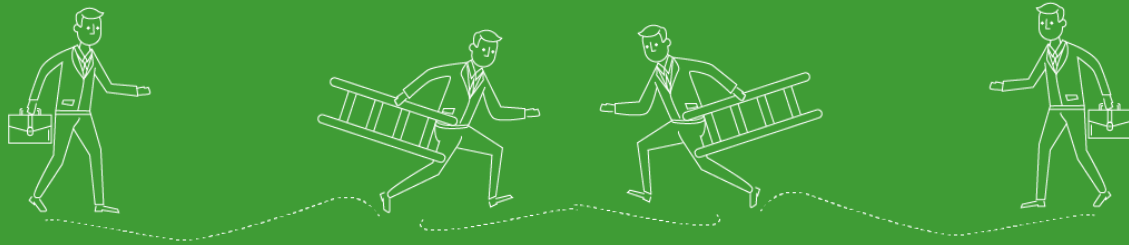
## Digital transformation and its impact on cybersecurity

78% of businesses agree that digital transformation is the only way to thrive in the current and future economy.

Click [here](#) for more in RSM's report



# Our activities



## RSM at IIA Conference 2019

RSM is a proud sponsor of the Institute of Internal Auditor (IIA) 2019 International Conference on 7–10 July 2019, at the Anaheim Convention Center in Anaheim, California as well of the IIA Indonesia National Conference on 24–25 July 2019, at the Alila Hotel in Solo, Indonesia where our Senior Partner, Angela Simatupang who is the Vice President of the IIA Indonesia and member of International Internal Audit Standard Board at IIA Global discussed on Internal Control over External Financial Reporting.



## 74<sup>th</sup> Indonesia Independence Day at RSM



17<sup>th</sup> of August is the Indonesia Independence Day. This year remarks as 74<sup>th</sup> and RSM Indonesia celebrated the occasion with a flag-raising ceremony and sang the national anthem. This year was special because the ceremony officers were all women. The ceremony was attended by partners and staff of RSM Indonesia.

## Accountant Festival

RSM Indonesia was present at IAI (Ikatan Akuntan Indonesia)'s Aspiring Professional Accountant Festival 2019 on 3–4 Sept 2019.

We had the pleasure to meet bright and aspiring students that will make up the future of Indonesian's professional accountants.



## Campus Visits

On 4<sup>th</sup> and 11<sup>th</sup> September 2019, we welcome students from Universitas Brawijaya and Universitas Airlangga.

We share with them a glimpse on the life of auditors and consultants at RSM Indonesia.

We are excited to have catered visitations from many renowned campuses throughout our presence and contributes to the advancement of our future generations.

# New Personnel at RSM



## I Wayan Agus Mertayasa, Senior Advisor



I Wayan Agus Mertayasa has joined RSM Indonesia as a Senior Advisor at RSM Indonesia. He has more than 40 years of experiences in finance, internal audit, and risk management. Prior joining RSM, he was the President Commissioner of Bank Tabungan Negara from 2016 to 2019. He has a long career at Bank Mandiri, including as Executive Vice President & Director from 1999 to 2005, Deputy CEO from 2005 to 2010, and Chairman of Bank Mandiri Europe Ltd at London, UK from 2010 to 2015. He was also the Managing Director of Bank Pembangunan Negara, CEO Bumi Daya International Finance in Hong Kong, and General Manager at Bank Bumi Daya International in New York, USA.



Gorontalo (Gorontaloan: Hulontalo) is a province of Indonesia on the island of Sulawesi. Located on the Minahasa Peninsula The provincial capital as well as the main gateway and the most populated city is Gorontalo City. Gorontalo consists mostly of mountainous areas that stretch from north to south of the province. The Gorontaloan mountains and forests are homes for unique flora and fauna.

Gorontalo Province has several places that are used as tourist attractions, one of which is Botu Barani Beach in Bone Bolango, Gorontalo has become very popular among local and foreign tourists due to the presence of a group of whale sharks on the coast. Not only local tourists, but the existence of these docile sharks managed to draw the attention of International Tourists.

Source : Wikipedia.com

## Indonesia Facts



Whale Shark Attraction, Botu Barani Beach, Gorontalo

Source : wegō.co.id

# Thank you for reading.

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