

REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC) Indonesia

ACCOUNTING AND AUDITING
March 8, 2010 (updated in April 2011)

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Executive Summary

Since the issuance of the Accounting and Auditing ROSC in 2005, Indonesia has made significant efforts to improve the quality of corporate financial reporting. Considerable progress has been made to strengthen the institutional framework of accounting and auditing and to move toward convergence with International Financial Reporting Standards (IFRS) and adoption of International Standards of Auditing (ISA). Further improvements are necessary to make sure that Indonesia emerges as a good-practice country in accountancy reform in the developing world. This report focuses on areas where the country authorities and in-country stakeholders could implement actions to strengthen the accountancy profession and increase consistency with international standards.

The Indonesian Institute of Accountants (*IAI*) is the professional body of accountants and a member of the International Federation of Accountants (IFAC). The Indonesian Institute of Public Accountants (*IAPI*) is the professional body for public accountants. IAPI is an association member of IAI. The self-regulated IAI and IAPI are also the standard-setters, perhaps overly stretched with many responsibilities covered by the volunteer efforts of its members. IAI develops and disseminates accounting standards, and IAPI develops and disseminates audit and ethics standards. The Indonesian Financial Accounting Standards Board under IAI faces significant challenges, due to resource constraints, in achieving convergence of local accounting standards with International Financial Reporting Standards (IFRS).

In order to support the implementation of Indonesian accounting and auditing standards, there is a need to improve the institutional framework; including development of a standard-setting strategy and implementation plan to enhance practical compliance and enforcement of standards. Bapepam-LK has established a monitoring and enforcement process for listed companies and non-bank financial institutions. Bank Indonesia also has mechanisms in place to monitor prudential reporting by banks, including sharia banks. Within the Ministry of Finance, the Center for Supervision of Accountants and Appraiser Services, which is responsible for reviewing audit practices in the country, needs significant capacity improvements.

Enriched by significant input from stakeholders, this ROSC makes several recommendations: enhancements to the statutory framework for institutional and policy development; independent reviews of audit practices; convergence with IFRS for public interest entities and adoption of International Standards on Auditing; capacity strengthening of IAI to function as a leading member body of IFAC and bolstering IAPI activities as an integral part of IAI; strengthening the profession to ensure adequate numbers of public accountants to meet the needs of a growing economy, broader training programs on practical application of the new accounting and auditing standards; and continued development of accountancy curricula and teaching in universities throughout the country. The recommendations aim to build on the existing system and offer the groundwork for preparation and implementation of a country action plan geared towards a strengthened infrastructure of corporate financial reporting in Indonesia.

PREFACE

Reports on the Observance of Standards and Codes (ROSC) is a joint World Bank and International Monetary Fund (IMF) initiative that helps member countries strengthen their financial systems by improving compliance with internationally recognized standards and codes. The ROSC was developed in the wake of the financial crisis of the late 1990s as part of a series of measures to strengthen the international financial architecture. The global financial community considered that the implementation of internationally recognized standards and codes would provide a framework to strengthen domestic institutions, identify potential vulnerabilities, and improve transparency. Ultimately the ROSC aims to enhance countries' resilience to shocks and to better support their risk assessment and investment decisions. The ROSC involves preparation of reports in 12 key areas.¹ The ROSC Accounting and Auditing focuses on accounting and auditing standards and practices in the corporate sector, as well as the institutional framework that underpins the corporate financial reporting system in the country.

The Indonesia ROSC Accounting and Auditing was undertaken as a part of Financial Sector Assessment Program (FSAP) and is an update of the Accounting and Audit ROSC of 2005. The review was undertaken in 2009 and a draft report prepared in March 2010. The counterparts provided extensive comments on the draft report. The team re-started the dialog with the counterparts in June 2010 and updated the report in April 2011.

The Indonesia ROSC Accounting and Auditing was prepared in active collaboration with the Indonesian Institute of Accountants, Indonesian Institute of Public Accountants, Indonesia Capital Market and Financial Institution Supervisory Agency (*Bapepam-LK*), Bank Indonesia, Center for Supervision of Accountants and Appraiser Services of Ministry of Finance, Indonesian Chamber of Commerce, Indonesia Stock Exchange, and accounting and auditing professionals. The review was conducted through a participatory process with these stakeholders and was led and facilitated by Indonesian country authorities. The review included facilitated discussions and roundtable meetings with representatives of the profession and other stakeholders.

The ROSC team thanks the officials and coordinators of the various institutions for their valuable assistance in facilitating this review.

This ROSC was prepared by a task team of World Bank staff led by M. Zubaidur Rahman, Program Manager (OPCFM), with support from Rajat Narula (EAPFM) and consultant Sylvia Siregar, under the supervision of Iraj Talai, Manager, Financial Management, EAP; and was finalized by Rajat Narula (EAPFM) with support from Christina I Donna (EAPFM) under the supervision of Samia Msadek, Manager, Financial Management, EAP. The team benefited from the advice of Robert Mednick, ex President of IFAC. Significant assistance was provided by Bapepam-LK.

¹ The 12 ROSC areas are data transparency, fiscal transparency, monetary and financial policy transparency, banking supervision, securities, insurance, payment systems, anti-money laundering and combating financial terrorism, corporate governance, accounting and auditing, and insolvency and creditor rights.

ACRONYMS AND ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization of Islamic Financial Institutions
AICPA	American Institute of Certified Public Accountants
AusAID	Australian Agency for International Development
<i>Bapepam-LK</i>	<i>Badan Pengawas Pasar Modal dan Lembaga Keuangan</i> (Capital Market and Financial Institution Supervisory Agency)
<i>BI</i>	<i>Bank Indonesia</i> (Central Bank)
<i>BRM</i>	<i>Badan Review Mutu</i> (Quality Review Board)
CPA	Certified public accountant
CPD	Continuing Professional Development
<i>DKP</i>	<i>Dewan Kehormatan Profesi</i> (Profession Honorary Board)
<i>DKSAK</i>	<i>Dewan Konsultatif Standar Akuntansi Keuangan</i> (Financial Accounting Standards Consultative Board)
<i>DPN</i>	<i>Dewan Pengurus Nasional</i> (IAI National Council)
<i>DSAK</i>	<i>Dewan Standar Akuntansi Keuangan</i> (Indonesian Financial Accounting Standards Board)
<i>DSAS</i>	<i>Dewan Standar Akuntansi Syariah</i> (Indonesia Sharia Accounting Standards Board)
<i>DSP</i>	<i>Dewan Standar Profesi</i> (Professional Standards Board)
FRC	Financial Reporting Council
GAAP	Generally accepted accounting practice
GDP	Gross domestic product
GMS	General Meeting of Shareholders
IAASB	International Auditing and Assurance Standards Board
<i>IAI</i>	<i>Ikatan Akuntan Indonesia</i> (Indonesian Institute of Accountants)
<i>IAPI</i>	<i>Institut Akuntan Publik Indonesia</i> (Indonesian Institute of Public Accountants)
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IDX	Indonesia Stock Exchange
IDR	Indonesia rupiah (currency)
IES	International Education Standard
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISA	International Standards on Auditing
ISQC	International Standards on Quality Control
<i>KERPPA</i>	<i>Komite Evaluasi dan Rekomendasi Penyelenggaraan Pendidikan Akuntansi</i> (Committee of Evaluation and Recommendation of Professional Accounting Education)
MoF	Ministry of Finance

<i>MUI</i>	<i>Majelis Ulama Indonesia</i> (Indonesian Council of Ulemas)
<i>PAPI</i>	<i>Pedoman Akuntansi Perbankan Indonesia</i> (Accounting and reporting guidelines for banking)
<i>PAPSI</i>	<i>Pedoman Akuntansi Perbankan Syariah Indonesia</i> (Accounting and reporting guidelines for sharia banking)
<i>PPAJP</i>	<i>Pusat Pembinaan Akuntan dan Jasa Penilai</i> (Center for Supervision of Accountants and Appraiser Services in MoF)
<i>PPAk</i>	<i>Pendidikan Profesional Akuntan</i> (Professional accounting education)
<i>PRM</i>	<i>Pelaksana Review Mutu</i> (Quality Reviewer Team)
<i>PSAK</i>	<i>Penyataan Standar Akuntansi Keuangan</i> (Indonesian Financial Accounting Standards)
<i>ROSC</i>	Reports on the Observance of Standards and Codes
<i>SAK</i>	<i>Standar Akuntansi Keuangan</i> (Accounting standards)
<i>SAK ETAP</i>	<i>Standar Akuntansi Keuangan Entitas Tanpa Akuntabilitas Publik</i> (Accounting standards for non-public interest entities)
<i>SME</i>	Small and Medium-sized Enterprises
<i>SMP</i>	Small and Medium-sized Audit Practices
<i>SPAP</i>	<i>Standar Profesional Akuntan Publik</i> (Indonesian public accountant professional standards)

I. Introduction and Background

1. This report is part of a joint initiative of the World Bank and IMF to prepare Reports on the Observance of Standards and Codes (ROSC). The ROSC Accounting and Auditing review for Indonesia mainly focuses on the strengths and weaknesses of the accounting and auditing environment that influences the quality of corporate financial reporting. It involves both a review of mandatory requirements and actual practices. The reference points of international standards used in this report are International Financial Reporting Standards (IFRS),² International Standards on Auditing (ISA),³ and international experience and good practice in the field of accounting and auditing regulation.

2. The methodology used to conduct the analytical work for preparing this report includes application of the ROSC Accounting and Auditing diagnostic review. Developed by the World Bank, the diagnostic template was complemented by a comprehensive due diligence exercise. The World Bank ROSC team met with key stakeholders involved in accounting and auditing and corporate reporting in Indonesia. Also, several discussion forums were held with groups of preparers and auditors of financial statements, investors, and financial analysts.

3. Indonesia has made remarkable progress over the last decade in terms of macroeconomic and political stability. Since the late 1990s, Indonesia has seen consistent output growth and a rapid decline in external imbalances. After a slowdown in growth in 2009 resulting from the global financial crisis, to 4.5 percent, growth rebounded in 2010 and reached 6.1 percent. Growth in 2010 was supported by both strong domestic demand and a recovery of Indonesia's main trading partners in the region. For 2011, growth is projected to accelerate to 6.4 percent, a result of both strong external demand and continued domestic consumption and investment.

4. Recent investment climate surveys indicate that the business perceptions of the investment climate in Indonesia have improved since 2003 (except for infrastructure) but the country still has a long way to go. The Government of Indonesia has made significant efforts to improve the investment climate. Notable reforms include the passage of the amended Income Tax Law, which reduces corporate and personal rates and the passage of a landmark Investment Law providing a single legislative framework for domestic and foreign investment. While significant progress has been achieved and reforms are generally heading in the right direction, increased flows in secondary markets in recent years present an urgent need for accounting and auditing standards to be compatible with international standards. There is need to enhance the quality of corporate financial reporting and to further strengthen the effectiveness of monitoring and enforcement mechanisms, which will have an impact on enhancing investor confidence in corporate financial information.

5. The experience of the financial crisis of 1997/1998 has called for an improvement in the financial sector safety net, including the development of an integrated system to supervise the financial sector and a framework for closely monitoring financial sector stability. Steps

² In this report, IFRS refers to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) issued by IASB's predecessor International Accounting Standards Committee (IASC), and the applicable interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

³ ISA are issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

were taken in this direction, particularly by starting a deposit insurance scheme, institutionalization of Bank Indonesia's role as a lender of last resort, and establishment of institutional processes and mechanisms for resolving troubled banks. These initiatives should be topped up by additional measures to strengthen the quality of accounting and auditing in the banking sector.

6. The last ROSC Accounting and Auditing was carried out in 2005. Significant accomplishments since 2005 include:

- The Public Accountants Act was enacted in May 2011. The law provides a stronger legal backing for the accountancy profession and establishes a steering committee to provide recommendations to MOF on the accounting profession.
- There has been a significant increase in National Accounting Standards (PSAK) that are now IFRS convergent.
- IAI membership has grown to over 8000 from less than 6000. IAPI has been established to particularly focus on the audit profession.
- Financial Accounting standard for non public sector entities (small and medium size enterprises) was issued in end – 2009 based on IFRS for small and medium-size enterprises, improving their prospects to access to finance.

7. There were 121 commercial banks in Indonesia (of which four were state owned) and 1,733 rural banks as of December 31, 2009. There were six sharia commercial banks, 25 sharia business unit operations (division of conventional commercial banks), and 139 sharia rural banks. Total assets of all banks were IDR 2,534,106 billion.⁴ The banking sector continues a period of bank consolidations. There are 27 banks listed on the Indonesian Stock Exchange (IDX), and therefore their financial statements are reviewed by *Bapepam-LK* (Capital Market and Financial Institution Supervisory Agency). There are 140 insurance companies operating in Indonesia, consisting of 46 life insurance companies, 90 non-life insurance companies, and 4 reinsurance companies. The IDX was established at the end of November 2007 through merger of Jakarta Stock Exchange and Surabaya Stock Exchange. In 2009, the IDX had 440 listed companies with a total market capitalization IDR 2,682,363 billion, consisting of IDR 2,019,375 billion stock market capitalization, IDR 88,329 billion corporate bond market capitalization, and IDR 574,658 billion government bonds market capitalization. This represented about 48 percent of Indonesian GDP in 2009.⁵

II. Institutional Framework

A. Statutory Framework

8. **The accountancy profession in Indonesia is governed by *The Use of Accountant Title No. 34 (1954) Law*.** According to this outdated law, an accountant title is given only to those who have an accountant certificate. This law also empowers the Ministry of Finance

⁴ Indonesian Banking Statistics, published by the Bank Indonesia.

⁵ Source: IDX website, IDX Statistics 2009

(MoF) to issue further regulations with regard to accountants. The MoF-issued regulations form the basis of establishing and operating various important institutions that underpin the accountancy profession. The experience of similar institutions in other countries shows that strong legal backing through appropriate national laws, not ministerial regulations, is very important for ensuring efficiency and effectiveness of these institutions. The absence of a modern legal framework affects the development of an enabling institutional underpinning for supporting high-quality accounting and auditing practices in Indonesia. The MoF has issued various regulations directing the steps to obtain an accountant title and license to provide professional services as a statutory auditor. According to the MoF-issued Decree No. 100/PMK.01/2008, the supervision of accountancy profession, including monitoring of statutory auditors' professional activities, falls under the purview of the MoF-based Center for Supervision of Public Accountants and Appraiser Services (*PPAJP*).

9. **A new draft law on public accountants has been prepared⁶.**

Some strengths are as follows:

- Provides stronger legal backing compared to MoF decree
- Establishes an Oversight Committee consisting of government and the professions that provide recommendation to the Minister and acts as an appeal committee against imposition of administrative sanctions

10. However, the following areas need to be strengthened:

- Framework for regulating the accountancy profession, including licensing of practicing auditors;
- Establishment/continuation of a professional accountancy body, its governance, and functioning arrangements;⁷
- Requirements for obtaining and maintaining membership in a professional accountancy body;
- Guiding principles for awarding professional accountancy qualification and professional training, including practical training of aspiring members of the professional accountancy body;
- Framework and institutional arrangements for ethics, standard-setting and dissemination;
- Establishment and functioning of an oversight body to conduct activities for monitoring and enforcement of applicable accounting and auditing standards; and
- Establishment and functioning of disciplinary mechanisms for investigating and disciplining accountants in public practice for misconduct and breach of professional and ethics standards.

11. **According to the *Indonesian Company Law No. 40 (2007)*, corporate entities are required to prepare annual financial statements in accordance with the accounting standards issued by the professional accounting organization recognized by the Indonesian Government.** Although there is no formal legal backing to IAI as a professional accounting body, the Indonesian Financial Accounting Standards Board under IAI acts as the de-facto standard setter in the country. According to the Company Law, financial statements

⁶ The Public Accountants Bill was passed by Parliament on May 3, 2011 (Law No. 5 of 2011)

⁷ In this regard, it would be helpful to consider IFAC's publication, "Establishing and Developing a Professional Accountancy Body, Second Edition (November 2007)" as a reference point.

should consist of a balance sheet, an income statement, a statement of cash flows, a statement of changes in stockholders' equity, and notes to the financial statements.

12. **Capital Market Law No. 8 (1995) article 86(1) requires issuers with effective registration statement or listed companies to publish periodic reports and submit such reports to Bapepam-LK, the securities market regulator.** The annual financial statements of listed companies must be audited and filed with Bapepam-LK within 90 days of the calendar year-end. Half-yearly financial statements must also be filed with Bapepam-LK within 30 days, 60 days, or 90 days if unaudited, reviewed, or audited. The Indonesia Stock Exchange requires interim financial statements to be submitted within 30 days, 60 days, or 90 days if unaudited, reviewed, or audited, respectively.⁸ Listed companies are also required to publish their annual audited balance sheet and income statement in at least two Indonesian newspapers, one of which of nation-wide circulation, within 90 days of the balance sheet date.⁹ The half-yearly financial statements are required to be published in at least one nationally circulated newspaper. The Indonesia Stock Exchange also publishes on its website the full financial statements of all listed companies.

13. **Listed companies are also required to submit their annual reports to Bapepam-LK, as well as special notices to inform of particular events.** Annual reports should be submitted to Bapepam-LK within four months of the balance sheet date, and include a summary of key financial data, board of commissioners report, director report, company profile, management discussion and analysis, corporate governance report, directors' responsibility on financial statements, and audited financial statements. Listed companies are required to inform Bapepam-LK of any material decision, information or facts that could influence stock prices or investment decisions, such as business combinations, conflicts of interest, and the replacement of auditors.¹⁰ Listed companies are also required to report any related-party transaction within two business days of the transaction and to ask independent shareholders for approval through GMS for conflicts of interest of certain transactions.¹¹

14. **Financial institutions (are under a legal obligation to prepare and present semi-annual and annual financial statements to their respective regulator.** According to Bank Indonesia Regulation No. 3/22/PBI/2001, semi-annual and annual financial statements of banks must be audited and publicly disclosed within 60 days and four months, respectively, after the end of accounting period. Banks must also submit their audited annual financial statements to Bank Indonesia, Customer Protection Agency, rating agencies and two economic and finance magazines, no later than five months after the end of the financial year. In addition, a quarterly summary statement should also be published in the newspaper. Other disclosures required for banks, such as a monthly and quarterly summary statement, are documented and published on the Bank Indonesia's website. For financial institutions other than Banks, Ministry of Finance Decree No. 424/KMK.06/2003 requires insurance companies to submit quarterly and annual financial statements to Bapepam-LK. In addition, Ministry of Finance Decree No. 509/KMK.06/2002 requires pension funds to submit semi annual and annual financial statements.

⁸ *IDX Rule No. I-E* (Obligation to Submit Information) issued in 2004.

⁹ *Bapepam-LK Rule No. X.K.2* (Obligation to Submit Periodically Financial Statements) issued in 2003.

¹⁰ *Bapepam-LK Rule No. X.K.6* (Obligation to Submit Annual Report) issued in 2006.

¹¹ *Bapepam-LK Rule No. IX.E.1* (Affiliated Transactions and Conflict of Interest of Certain Transaction) issued in November 2009.

15. **Bank Indonesia, which is the Central Bank of the country, is empowered by the Bank Indonesia Law No. 6 (2009) to regulate and supervise the banking sector.** The banking sector comprises commercial banks and rural banks. In order to exercise its duty to regulate and supervise banks, Bank Indonesia prescribes regulations, grants and revokes licenses of banks and relevant institutions, implements banking supervision, and imposes sanctions. The *Sharia Banking Law No. 21 (2008)* specifically regulates sharia banks, which include sharia commercial and sharia rural banks. Sharia banks are also regulated and supervised by Bank Indonesia.

16. **Bapepam-LK is responsible for supervising the insurance companies and pension funds.** The *Insurance Business Law No. 2 (1992)* and the *Pension Fund Law No. 11 (1992)* empower the Ministry of Finance to regulate insurance companies and pension funds, respectively. Before 2005, monitoring of non-bank financial institutions was under the Directorate General of Financial Institutions of the Ministry of Finance. Based on a MoF Decree in 2005,¹² this Directorate was merged with Bapepam into Bapepam-LK. Since that time, the monitoring activities of those companies are under the Insurance Bureau and the Pension Fund Bureau of Bapepam-LK.

17. **The Company Law, Capital Market Law, and Banking Law stipulate requirements for financial audits.** The Company Law stipulates that the following types of entities are required to undergo an annual financial statement audit: (a) Company collects and/or manages the community's fund; (b) Company issues a debt acknowledgement letter to the public; (c) Company constitutes an issuer; (d) Company constitutes a state-owned company; (e) Company owns assets and/or business with the minimum value of IDR 50 billion; or (f) Company is obliged pursuant to the prevailing regulation. All listed companies, non-bank financial institutions, and banks are required to be audited by a certified public accountant (CPA)¹³.

18. **A public accountant must be registered with Bapepam-LK in order to provide professional services to the capital market.** Public accountants registered with Bapepam-LK are required to submit a Periodic Report on Accountant Activity regarding client assignment. This is a comprehensive report consisting of (a) Report on Attestation Services with opinion, (b) Report on Attestation Services without opinion, and (c) Report on Non-Attestation Services.¹⁴ Bapepam-LK also requires accountants to report confidentially to Bapepam-LK within 3 business days if, in the course of performing professional services for the client, they find a violation of Capital Market Law and regulations.¹⁵

19. **The annual financial statements of banks must be audited by an auditor registered with Bank Indonesia.** There are exceptions, however, small rural banks (i.e., those having total assets of less than Rp. 10 billion) are exempt from the statutory audit requirement. Approximately one thousand small rural banks benefit from this exemption.

¹² *Ministry of Finance Decree No. 606/KMK.01/2005* concerning Organization and Job Description of Capital Market and Financial Institutions Supervisory Agency.

¹³ In order to be awarded the CPA qualification, a person must register as an accountant at the Ministry of Finance, pass the Indonesia CPA examination, and fulfill minimum practical experience requirements. An Indonesia CPA is required to comply with some additional requirements for submitting application as a registered public accountant at the Ministry of Finance in order to obtain a license to sign audit opinions.

¹⁴ *Bapepam-LK Rule No. X.J.2* (Periodic Report of Accountant Activity) issued in 2008.

¹⁵ *Article 68 of CML and Bapepam -LK Rule No. X.J.1* (Accountant Report to Bapepam) issued in 1996.

20. **There are requirements regarding rotation of audit partners and accounting firms** Ministry of Finance Decree No:17/PMK.01/2008 mandates a three-year rotation for audit partners and a six-year rotation for firms. This regulation provides a one-year grace period for the accounting firm to continue to audit the client once the six-year period is completed. Rotation also applies for auditors in capital market and banks.¹⁶ Bapepam-LK's rotation requirement is the same as that of MoF; however, Bank Indonesia Regulation requires a five-year rotation for both audit partner and accounting firm. For rural banks, a three-year rotation is required. The auditor of a listed bank is expected to follow the stricter requirement regarding rotation (i.e., three-year rotation for audit partner, and five-year rotation for firms). It should be noted that the partner rotation periods are much shorter than international good practice. Specifically, the IFAC Code of Ethics for Professional Accountants, revised in July 2009, requires audit partner rotation every seven years for public interest entities. Additionally, there is no compelling evidence to suggest that firm rotation improves audit quality; in fact, many studies conducted worldwide recommended against mandatory rotation of audit firms.¹⁷ Yet, in recent years, audit partner rotation has emerged as an international good practice.

21. **Bapepam-LK regulations and Indonesia Stock Exchange (IDX) rules require listed companies to establish audit committees.** The governance structure of Indonesian limited liability companies includes a two-tiered board system: board of directors (including president director and directors who actively manage the company) and board of commissioners (who have oversight of the board of directors). The board of directors and commissioners are responsible jointly and severally for any misleading information presented in their company's financial statements. An audit committee is established by, and accountable to, the board of commissioners. The audit committee consists of at least one independent commissioner and at least two members from outside the company who are not members of the board of commissioners. The chair of the audit committee is required to be an independent commissioner.

22. **The auditors of state-owned enterprises—both listed and non-listed—are required by law to perform compliance audits at the time of conducting financial statements audits.** A public accountant who audits the financial statements of a state-owned enterprise should also conduct a compliance audit of laws/regulations and internal controls. Listed state-owned enterprises have to follow the requirements of the Capital Market Law regarding financial reporting as well as other state financial laws.

B. The Profession

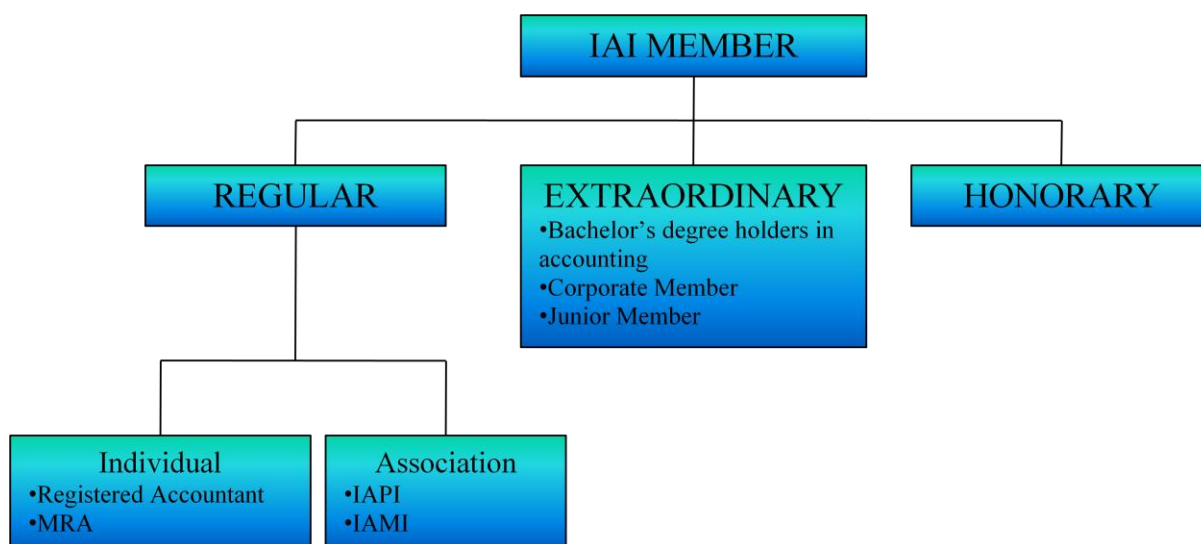
23. **IAI offers three membership categories (regular, extraordinary, and honorary members).** Only regular members are required to fulfill all membership obligations. Regular members are required to hold a Bachelor's degree in accounting and successfully complete the IAI approved professional accounting program (PPAk) from an accredited university, and then register with the Ministry of Finance. Individuals who hold a Bachelor's degree in accounting, even without registration at the Ministry of Finance, may be entered as IAI extraordinary members without meeting additional requirements. The IAI may enter an

¹⁶ Bapepam-LK rules no. VIII.A.2 issued in August 2008; Bank Indonesia Regulation (3/22/PBI/2001).

¹⁷ Cameran, M., D.D. Vincenzo and E. Merlotti, "The Audit Firm Rotation Rule: A review of the Literature." Paper published by SDA Bocconi School of Management, Bocconi University, Milan, Italy, September 30, 2005.

individual as an honorary member when he/she is deemed to be of high caliber with respect to contributing to the development of accountancy profession in Indonesia.

Figure 1
Diagram of IAI Membership



Note: MRA = Mutual Recognition Arrangement

24. **IAI's pre-qualification program does not incorporate all relevant requirements from IFAC International Accounting Education Standards Board.** Candidates for membership are not required to undergo any practical training in line with international good practice. IFAC's IES 5, Practical Experience Requirements, requires at least three years of practical experience.

25. **Membership in the Indonesian Institute of Accountants or Ikatan Akuntan Indonesia (IAI) is not mandatory for preparers of financial statements or auditors.** The IAI, which was established in 1957, has been a member of IFAC since 1986. The IAI is an umbrella organization that includes four "compartments," or associate organizations. These associate organizations congregate auditors (IAPI)¹⁸, management accountants (IAM), academic accountants, and public sector accountants. As a self-funded professional body, IAI is responsible for setting accounting standards and organizing programs for continuing professional development for its members. As of December 2009, IAI had 8,185 registered members, 343 junior members, and 73 corporate members.¹⁹ As observed from these figures, Indonesia has relatively few professional public accountants, and most of them are concentrated in the main urban centers.

26. **The IAPI (Indonesian Institute of Public Accountants) represents the auditing profession of the country.** Since its establishment in 2007, the IAPI has been responsible

¹⁸ The members belonging to the public accountant compartment formed a separate organization (IAPI) in 2007.

¹⁹ Those 8,185 registered members consist of 854 management accountants; 1,397 public accountants; 725 accountant academicians; 3,558 public sector accountants; and 1,651 other accountants.

for setting a code of ethics as well as auditing standards. Although IAI leadership claims that IAPI is integral to its constitution, in practice these two organizations do not appear to belong to the same organizational structure. In fact, there are indications that IAPI has been planning to apply for IFAC membership in its own right. Immediate steps are necessary to resolve the confusion created by separation of IAPI from IAI. In this regard, an enabling legal framework is urgently needed. As of December 2009, IAPI individual members totaled 1,178, of which 873 are practicing public accountants and 305 are non-practicing public accountants. In addition to the individual members, there are 499 public accounting firms that have become IAPI members.

27. Indonesia needs to scale-up efforts for increasing the number of qualified professional accountants. As of December 2009, there were 47,500 MoF-registered accountants in Indonesia. Only a fraction of these have taken IAI membership. It seems that the vast majority of registered accountants do not find it beneficial to apply for IAI membership. Since 2009, graduates of the Accountant Professional Education program have been automatically registered as IAI members before they obtain the Registered Accountant title from MoF. In the future, this may increase the number of registered accountants with IAI membership. In Indonesia with a population of 240 million, IAI's membership of less than 8,000 shows a skewed picture of the availability of qualified professionals. The problems within the accountancy profession are exacerbated when considering that about 40 percent of public accountants in Indonesia are above the age of 60 and about 8 percent are under the age of 40.²⁰

28. A registered public accountant can apply for a practice license from the Ministry of Finance once minimum requirements for offering professional services are fulfilled. To meet the minimum requirements, a public accountant must supply evidence that he/she has an office located in Indonesia; employs three auditors with at least, a Diploma in Accounting and at least one must also be a registered accountant; and has a quality-control system in place.²¹ If the firm is a partnership, the partners must provide the partnership charter and a letter of agreement on the appointment of a chairman signed by all partners. As of December 2009, there were 410 registered accounting firms in Indonesia. This also calls for better aligning clarity and consistency of Ministry of Finance's procedure of registration and licensing with IAPI membership requirements.

29. IAI and IAPI lack adequate human and financial resources. IAI has a few full-time management staff, and its members carry out most of the functions on a voluntary basis, though of late the number of full time staff has changed. The IAPI has been trying to put in place the organizational structure and arrangements for operating as a professional accountancy body. However, it lacks capacity to function efficiently and effectively due to lack of resources. Most of the work within the IAI and IAPI is done by practitioners who work for the associations pro-bono.

30. IAPI prepared a Code of Ethics in October 2008. IAPI's Code of Ethics, based on the IFAC Code of Ethics for Professional Accountants, was issued with the effective date of January 1, 2010. In order to facilitate proper implementation of the Code of Ethics, it is necessary to develop and widely disseminate implementation guidance using Indonesian examples and cases.

²⁰ Etty Retno Wulandari, Director of Accounting Standard and Disclosure Bureau, Bapepam-LK, presentation at the ROSC Accounting & Auditing Conferences in Beijing, October 29, 2009.

²¹ The Ministry of Finance Decree number 17/PMK.01/2008.

31. **There are only a few cases in which public accounting firms have been sued in an Indonesian court.** Under current law, auditors are not required to carry professional indemnity insurance. However, liability of practicing accountants has been an intensely debated issue in accounting and auditing forums. Due to ambiguities in the current laws and regulations, no accounting firm has been sued for substandard work by companies, shareholders, or third parties.

32. **Many public interest entities are audited by capacity-constrained accounting firms.** The small and medium-sized accounting firms, due to a lack of adequate resources, face challenges in providing high-quality auditing services to financial institutions and other public interest entities with complex business transactions. This has serious consequences for the quality of audited financial information used by the market participants in Indonesia. With few exceptions, most accounting firms in Indonesia are relatively small. The numbers presented in the Table 1 show that a majority of registered firms have only one registered public accountant/partner. The potential for audit quality problems in the banking sector is highlighted by the fact that most capacity-constrained accounting firms are providing audit services to the 779 rural banks.

33. **An accounting firm should have more than one audit partner in order to implement various IFAC-prescribed quality assurance arrangements.** Moreover, when an accounting firm audits a bank or a listed company, it should have experienced public accountants with adequate knowledge of their clients' business, as well as practical knowledge of applying high-quality auditing standards. From this perspective, it is important to put in place arrangements for providing capacity-building assistance to most of the accounting firms involved in providing professional services to BI-regulated and Bapepam-regulated entities. Even though Bapepam-LK allows public accounting firms to have one audit partner, Bapepam-LK rule number VIII.A.1 requires that in order to be able to engage in Capital Market activity, he or she must sign a written agreement with another public accounting firm that has partner registered with Bapepam-LK, regarding transfer of responsibilities if the registered accountant of the respective public accountant firm is unable to fulfill his or her duties.”

Table 1. Number of Public Accountants in Firms Registered with Bank Indonesia and Bapepam-LK

<i>Number of BI/Bapepam-LK registered public accountants in each accounting firm</i>	<i>Firms registered with Bank Indonesia^(a)</i>		<i>Firms registered with Bapepam-LK^(b)</i>	
	<i>Total number of accounting firms</i>	<i>%</i>	<i>Total number of accounting firms</i>	<i>%</i>
1	147	64.47	76	45.24
2	43	18.86	49	29.17
3	27	11.84	18	10.71
4	5	2.19	9	5.36

5	3	1.32	3	1.79
6	2	0.88	3	1.79
7	0	0	2	1.19
8	0	0	1	0.60
9	0	0	2	1.19
10	1	0.44	1	0.60
11	0	0	0	0
14	0	0	1	0.60
16	0	0	0	0
19			1	0.60
21			1	0.60
23			1	0.60
TOTAL	228	100	168	100

Sources:

- (a) January 2011, data provided by Bank Indonesia.
- (b) January 2011, data provided by Bapepam-LK.

C. Professional Education and Training

34. **An accounting degree from an accredited university is required for registering as an accountant with the Ministry of Finance.** Effective September 1, 2004, in order to receive the title of accountant from MoF, one must successfully complete the professional accounting education (PPAk) program conducted by accredited universities.²² A university that intends to open a PPAk program must submit a proposal to the Directorate of Higher Education. The Committee of Evaluation and Recommendation of Professional Accounting Education (KERPPA)—which is a part of IAI—is responsible for reviewing and assessing the eligibility of the university program. Based on KERPPA’s recommendation, the Directorate of Higher Education endorses the PPAk program at the university. The university must also comply with the KERPPA-approved syllabus. Furthermore, IAI-organized admission tests for entry into PPAk programs are held at all participating universities using KERPPA-prepared materials. The PPAk program covers accounting and auditing standards, taxation, professional ethics, capital market and financial management, and management accounting; and in general the program covers the core knowledge content of IFAC-issued International Accounting Education Standards.

²² Ministry of National Education Decree No. 179/U/2001 on the Administration of Accounting Professional Education

35. **There are a number of additional requirements that must be met in order to become an auditor.** Only MoF-registered accountants are eligible to take the Indonesia CPA examination, which is conducted by IAPI. CPA candidates must possess at least three years of practical experience in accounting, auditing, and financial reporting, or at least four years in teaching accounting and auditing at the university level, within five years of passing the Indonesia CPA examination. The IAPI is responsible for verifying whether the CPA candidate has obtained the required experience. IAPI membership is also required of auditors. There are no requirements for trainee-auditors to undertake supervised practical training in authorized audit firms. One of the strategy initiatives of Certification Board of IAPI in continuing education is conducting certification for Junior and Senior Auditors. The Ministry of Finance does not clearly set out the guidelines for the auditing experience verification procedures.

36. **An Indonesia CPA must register as a public accountant at the Ministry of Finance in order to obtain a license to sign audit opinions.** In order to be eligible to apply as a registered public accountant,²³ an Indonesia CPA certificate holder must be an active member of IAPI, domicile in Indonesia, and have 1,000 hours of auditing experience within five-year period, of which 500 hours are as an audit team leader. However, if applying more than two years since obtaining the CPA certificate, then proof of minimum 60 hours of continuing professional education undergone during the previous two years must also be presented to the Ministry of Finance.





37. **A certified public accountant must meet minimum continuing professional development (CPD) requirements in order to maintain CPA status.** For a CPA in public practice, a total of 30 CPD credits per year must be obtained. When a CPA is not in public practice, he/she is required to take a minimum of 15 credits of CPD. All public accountants must submit statements regarding their CPD credits during a year to the Ministry of Finance before the end of January of the subsequent year. IAI and IAPI organize training programs for enabling their members to comply with the CPD requirements.

38. **IAI also requires its members to comply with CPD requirements.** IAI members are required to take 120 CPD credits over the course of three years, with at least 30 credits annually. However, there is no system in place to monitor compliance with the CPD requirement. This undermines the essence of CPD requirements recommended by IFAC educational standards.

39. **Leading universities in Indonesia offer an internationally comparable accountancy education; however, accountancy education in many academic institutions throughout the country needs improvement to meet the needs of a modern profession.** Accounting programs in a vast majority of the universities throughout the country suffer from a lack of well-qualified teaching staff and modern learning materials. The leading universities have high standards in their curricula, teaching, textbooks, and learning materials. The students at the leading universities mostly use textbooks from the United States, including U.S. GAAP-based financial accounting textbooks, but rarely use IFRS-based textbooks, which are of limited availability.

²³ Ministry of Finance Act number 17/PMK.01/2008 (replacing previous Ministry of Finance Decree number 359/KMK.06/2003 which revised Decree number 423/KMK.06/2002).

Table 2. Summary of IAI, IAPI, Bapepam-LK and PPAJP functions

Agencies	Primary Activities/Functions
	<ul style="list-style-type: none"> • Set Financial Accounting Standards • Provide Continuous Professional Education • Provide qualifications for those who wants to work in financial management and accountancy
	<ul style="list-style-type: none"> • Set Auditing Standards for Public Accountants • Set Professional Code of Ethics for Public Accountants • Conduct Public Accountant Certification Examination • Provide Continuous Professional Education for public accountants
 <p>BAPEPAM - LK</p>	<ul style="list-style-type: none"> • Set and enforce Capital Markets rules and regulation • Establish disclosure principles for Issuers and Listed Companies • Set Standard, norm, guidance on criteria, procedures and implement those in financial institution sector
 <p>PPAJP</p>	<ul style="list-style-type: none"> • Prepare the formulation of policies in fostering public accountant profession and public appraisal • Supervise public accountant and public appraisal services and present information thereon.

D. Setting Accounting and Auditing Standards

40. **IAI is responsible for setting accounting standards for both public interest and non-public interest entities.** IAI established the Financial Accounting Standard Board (*DSAK*), whose members represent the accountancy profession and various regulatory bodies in the country. *DSAK* is responsible for setting Indonesian financial accounting standards (or *Pernyataan Standar Akuntansi Keuangan, PSAK*), which apply to listed companies, banks, non-bank financial institutions, and other entities, including SOEs. Subsidiaries of a listed company, regardless of listing status, are required to apply *PSAK* in line with the parent company. ‘IFRS-based *PSAK*’ is intended to be applied by public interest entities. In addition, *DSAK* also issued *SAK ETAP* (accounting standard for non-public interest entities). According to the Capital Market Law, IAI-issued financial accounting standards are mandatory for all entities supervised by Bapepam-LK. In addition, the law authorizes Bapepam-LK, whenever necessary, to prescribe accounting regulations with respect to financial reporting by capital market participants.

41. **The Bank Indonesia requires all banks to comply with the financial accounting standards issued by DSAK and BI rules.** According to Bank Indonesia Regulation No. 3/22/PBI/2001, financial statements of banks must be prepared based on *PSAK* and BI-issued Accounting and Reporting Guidelines for Banking (*PAPI*), revised in 2008. For sharia banks, Bank Indonesia has also issued Accounting and Reporting Guidelines for Sharia Banking (*PAPSI*). In addition, BI has prepared accounting guidelines for rural banks that are in line with *SAK* for Non-Publicly Accountable Entities.

42. **Bapepam-LK is responsible for mandating accounting and auditing requirements for insurance companies.** The Insurance Council of Indonesia has issued financial reporting guidelines for insurance companies. Insurance companies' financial statements must comply specifically with PSAK 36, *Accounting for Life Insurance*; PSAK 28, *Accounting for Casualty Insurance*; and PSAK 108 for sharia insurance. Moreover, insurance companies must apply statutory accounting principles based on *Ministry of Finance Decree Number 424/KMK.06/2003* as last amended by *Ministry of Finance Decree Number 158/PMK.10/2008* and *Bapepam-LK Regulation Number 02/BL/2009*. This Decree stipulates types, valuation, and limitation of assets. It also stipulates valuation of technical reserves (liabilities). Insurance companies must submit separate financial statements for unit link and/or sharia products, if applicable, attached to the combined financial statements.

43. **The 17-members of DSAK are appointed by the IAI National Council (DPN) with input from the Financial Accounting Standard Consultative Board (DKSAK).** Consisting of accountants and non-accountant representatives of financial statement users, DKSAK provides directions and priorities regarding setting financial accounting standards. Both DSAK and DKSAK report to the IAI National Council. IAI provides resources and funding to DSAK. Occasionally, IAI receives grants or donations from the government or private sector for accounting standards development.

44. **The sharia (Islamic religious law) accounting standard setting body is called the Indonesia Sharia Accounting Standards Board (DSAS).** The DSAS is within the organizational structure of IAI. The sharia accounting standards are also part of PSAK. Sharia accounting standards are prepared with reference to fatwa (Islamic edict) of the Indonesian Council of Ulemas or religious intellectuals' council (*MUI*), conceptual framework for the preparation of Sharia financial statements, and accounting standards issued by the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) based in Bahrain. Any entity engaged in sharia transactions must follow the requirements set forth by sharia accounting standards.

45. **Under normal circumstances, the process of issuing a PSAK — from publication to mandatory applicability — takes approximately one year.** In some circumstances, the applicability period may be more than one year. For example, the applicability of PSAK 50, *Financial Instruments: Presentation and Disclosures*, and PSAK 55, *Financial Instruments: Recognition and Measurement*, which had been planned to be effective on January 1, 2009, was delayed until January 1, 2010, due to many companies, especially banks, asking for an extension to prepare their internal infrastructure to implement these new standards. Bapepam-LK believes that sufficient time should be allowed for the preparers in reading and understanding the new standards, and also for the people to learn about the new standard prior to it becoming mandatory.

46. **IAPI is the authoritative body for setting auditing standards.** In February 2008, through MoF regulation, IAPI was recognized as the professional public accountant organization authorized to set and issue auditing standards and code of ethics for accountants in public practice. Auditors are required to comply with Indonesian Public Accountant Professional Standards (*SPAP*) set by the Audit Standards Committee (DSP) of IAPI. The IAPI leadership has expressed their intention to converge local auditing standards with International Standards on Auditing (ISA). The IAPI has appointed and engaged a competent professional to conduct the translation process of all the international professional standards issued by IFAC. DSP has issued (i) the new Code of Ethics for Public Accountants (2008),

and (ii) the exposure draft of the new Quality Control Standards No. 1 (2009), which is expected to be effectively implemented as of July 1, 2012, together with other professional standards. The Framework for Assurance Engagements is currently being developed by DSP. All of these new professional standards are sourced from the international standards issued by IFAC.

47. Financial accounting standards for non-public interest entities (small and medium-sized enterprises or SMEs) were issued in end-2009. The micro, small and medium-sized enterprise sector in Indonesia accounts for over 50 percent of the country's GDP²⁴. In view of the importance of SMEs in economic development of Indonesia, the Government has been showing keen interest in supporting the sustainable growth of these enterprises. The fact that high-quality corporate financial reporting by SMEs could contribute to enhancing their access to finance, improvement in their accounting, auditing, and financial reporting scheme is necessary. With this point in mind, IAI established a committee to develop simplified financial reporting requirements for SMEs. The standard drew from the draft IFRS²⁵ for SMEs and existing Indonesian accounting standards.

E. Ensuring Compliance with Accounting and Auditing Standards

48. Bapepam-LK performs the monitoring function of listed companies' financial statements. The Corporate Finance Bureau of Bapepam-LK performs field examinations and desk reviews on a sample basis to determine the level of compliance with the applicable accounting standards and disclosure requirements set forth by Bapepam-LK. Infractions detected through these reviews are considered violations, which may trigger administrative sanctions by Bapepam-LK. The sanctions may comprise written admonitions, restriction or suspension of business activities, revocation of business licenses, cancellation of approvals, cancellation of registrations, and fines. For example, fines ranging from IDR 1 million to IDR 500 million (approximately US\$100 to US\$50,000) can be imposed for late submission of financial statements. In addition to administrative sanctions and provisions related to compensation, criminal sanctions may apply. In fact, any person with the intent to deceive or to cause loss to another person or to mislead Bapepam, loses, destroys, erases, obscures, hides, or falsifies records of a person that is licensed approved or registered, including a registered issuer or a listed company shall be subject to imprisonment for a maximum period of three years and a maximum fine of five billion rupiah.²⁶ In practice, Bapepam-LK has imposed administrative sanctions of more than IDR 500 million (US\$50,000) and even brought a case to criminal investigation.

49. The Indonesia Stock Exchange (IDX) also reviews financial statements of listed companies. The IDX Monitoring Division conducts reviews of annual and quarterly financial statements, as well as the disclosure of information as required by Bapepam-LK. The Monitoring Division is authorized to request information necessary for the review of financial statements from listed companies and auditors. These reviews are of a general nature, and noncompliance with technical accounting and reporting requirements are not assessed. If in the course of this general review, the reviewers detect material infractions, the Stock Exchange is required to report these to Bapepam-LK. Based on the results of the monitoring process, the Stock Exchange may require listed companies to make additional disclosures. It

²⁴ Statistics from Ministry of Cooperatives and SMEs (www.depkop.go.id)

²⁵ The final IFRS for SMEs was issued on July 9, 2009.

²⁶ Per Article 107 of the Capital Market Law.

also has the authority to impose sanctions on listed companies in case of violations of financial reporting requirements.

50. **Bank Indonesia has the authority to regulate and supervise the banking sector, which includes ensuring that banks comply with the applicable financial reporting requirements.** Several departments within Bank Indonesia review all financial reports of banks mainly to monitor compliance with prudential reporting requirements. The specific areas of general-purpose financial statements that attract greater scrutiny by the banking supervisors include loan loss provisioning and reported values of investments in securities. If significant departures from applicable requirements are found in their review, Bank Indonesia may impose sanctions, ranging from reprimands to suspension of business activities.

51. **Auditors are subject to a multi-layered supervision system.** The MoF-based Center for Supervision of Accountants and Appraiser Services (*PPAJP*) conducts examinations or quality reviews to ensure compliance by auditors with auditing standards. Further, auditors of companies engaged in capital market activities are subject to additional oversight by Bapepam-LK. IAPI also has a peer-review system in place for its members; both IAPI and IAI have an Honor Board-type body in place for their members.

52. **MoF's PPAJP performs both regular and "for cause" investigative examinations of accountants in public practice and appraisers involved in valuation activities.** It has about 20 inspectors for public accountants, and about 15 inspectors for appraisers. The number of inspectors for public accountants seems to be inadequate in view that there are about 400 accounting firms and about 800 public accountants who need to be inspected by PPAJP. In 2009, PPAJP conducted on-site reviews of about 50 accounting firms and about 90 public accountants. In view of increasing complexities of accounting standards and new developments in accounting and auditing disciplines, the PPAJP inspectors need to be well equipped with high-level knowledge and practical skills in the relevant fields. From this perspective, technical capabilities of PPAJP officials need to be significantly improved. Further, as PPAJP was established on the basis of a MoF-issued regulation, a stronger legal backing would help to make PPAJP more efficient and effective.

53. **Bapepam-LK has taken steps toward conducting audit quality reviews for auditors of companies that fall under their purview.** The Accounting Standards and Disclosure Bureau of Bapepam-LK is responsible for monitoring compliance of auditors with professional standards. The ROSC team views that there is a need to avoid duplication of work by Bapepam-LK and PPAJP and explore ways to achieve synergies.

54. **Bapepam-LK may initiate a criminal or formal²⁷ investigation of any person, including auditors, suspected of violating pertinent legal requirements.** In order to build capacity of Bapepam-LK to monitor auditors' compliance with applicable standards, rules, and regulations, an audit oversight project has been launched with the support of AusAID. The objective of this project is to assist Bapepam-LK in improving audit quality in Indonesia through the creation of an independent and globally recognized audit inspection system and, in so doing, meet the requirements to become a member of the International Forum of Independent Audit Regulators (IFIAR).²⁸ Under the current phase of the project, consultants have commenced training on international financial reporting and auditing standards. The

²⁷ A formal investigation could result in administrative sanctions.

²⁸ For information about this international organization, see: <http://www.ifiar.org/>

project will need to focus more effectively on the monitoring and enforcement aspects of auditing standards, audit quality control requirements, and professional ethics. Bapepam-LK will need technical support with regard to the establishment of the inspection unit and its audit inspection strategy, including methodology, technology and a risk-based approach to carrying out audit quality reviews. These activities of Bapepam-LK should be merged with the activities of PPAJP.

55. IAPI has started regular quality review program to monitor the compliance of its members with professional auditing standards and code of ethics. IAPI's Quality Review Board (BRM) consists of five partners from reputable audit firms and the Quality Reviewer Team (PRM) consists of four full-time staff. All have at least five year's experience working as independent auditors; the head of PRM is a CPA and a partner in an audit firm. Additional reviewers are to be sought from audit firms willing to lend their partners or managers when they are available (ad hoc team). From 2009 until now, PRM has completed quality reviews of 21 firms and has discussed its findings with BRM. The results of the quality reviews have been reported to the head of IAPI with the recommended corrective actions.

56. Both IAPI and IAI have disciplinary bodies for their members. IAPI's DKP (Profession Honorary Board) is responsible for monitoring and taking action when a member does not comply with ethical and/or professional standards. The Board is established under IAPI's article of association and consists of five members who are elected by IAPI's members. However, no sanctions have been imposed so far. IAI also has an Ethics Committee and a Disciplinary Board for its members who violate the code of ethics. However, no sanctions have been imposed by them, either.

III. Accounting Standards as Designed and Practiced

57. Indonesia's program of converging PSAK with IFRS was slow in the past due to inadequate resources at the disposal of the Financial Accounting Standards Board. However, a serious effort was undertaken by the Financial Accounting Standards Board to expedite the convergence process in 2009. By March 31, 2010 the Board had significantly reduced the gap between local standards (PSAK) and IFRS by revising 15 standards and revoking 15 non-IFRS based standards. The progress of issuing IFRS-based PSAK is quite slow mainly due to the fact that the DSAK finds it difficult to catch up with the growing number of new and revised IFRS and interpretations issued by the IASB. And DSAK spends much time assessing the suitability of specific IFRS requirements in the Indonesian environment. An assessment of each standard is not an efficient process to follow in converging Indonesian standards with IFRS. A general assessment should have been made to determine the main constraints—legal and other institutional constraints—that would be encountered with full convergence of Indonesian standards with IFRS. Then efforts could have been made to overcome the constraints or reduce impacts of the constraining factors in the IFRS-based local accounting standards.

58. The delay in convergence also reflects the need to translate all IFRS into the Indonesian language. In order to put in place an arrangement for timely translation of IFRS, DSAK needs to adhere to IASB translation processes to ensure consistent application of terms and a disciplined translation process. DSAK could consider drafting PSAK based on the translation of IASB-issued exposure drafts, then finalizing the draft standards immediately after issuance of approved IASB-issued standards or interpretations. This could

reduce the time gap between PSAK and IFRS in the future. It is expected that as of January 1, 2012 all IFRS will be adopted except IAS 41, Agriculture, and IFRIC 15, Agreements for the Construction of Real Estate.

59. **Although most PSAK are based on IFRS, gaps in the standards still exist.** The existing Indonesian accounting standards (PSAK) were developed mainly with reference to old IAS.²⁹ Over the years many of the old IAS have been updated, however necessary updates have not been made to most of the comparable Indonesian PSAK. Moreover, the issuance of new IFRSs has grown very fast in recent years, and the complexities of IFRS have also increased. These are the main reasons for the standards gap between PSAK and IFRS. Other reasons for the standards gap is that some of the Indonesian accounting standards were developed on the basis of U.S. GAAP, and some others were locally developed taking into account local legal requirements. In 2009, the Accounting Standards Board decided to revoke 16 PSAK, which resulted in a decrease in the number of Indonesian standards that did not have any IFRS counterparts. As of March 31, 2010, the standard gap with IFRS was as follows: 21 PSAK were fully comparable with IFRS; 5 PSAK were substantially comparable with IFRS; 8 PSAK were substantially non-comparable with IFRS; and four IFRS had not yet been adopted. The standards that were not comparable with IFRS were mostly standards without IFRS counterpart such as accounting for cooperatives. The extent of the standards gap for the 38 PSAK is shown in Figure 2.³⁰

Table 3. List of IFRS that have not been adopted yet³¹

No.	IFRS	Topic
1	IFRS 1	First-time Adoption of International Financial Reporting Standards
2	IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
3	IAS 29	Financial Reporting in Hyperinflationary Economics
4	IAS 41	Agriculture

Table 4. List of PSAK that are substantially non comparable to IFRS³²

No.	PSAK	Year	Topic
1	PSAK 3	1994	Interim Financial Statements
2	PSAK 18	1994	Accounting for Pension Fund
3	PSAK 50	2006	Financial Instrument: Presentation and Disclosure
4	PSAK 53	1998	Accounting for Share-Based Compensation
5	PSAK 36	1996	Accounting for Life Insurance
6	PSAK 28	1996	Accounting for Casualty Insurance
7	PSAK 29	1994	Accounting for Oil and Gas
8	PSAK 33	1994	Accounting for General Mining

²⁹ IAS were issued between 1973 and 2001 by the board of the IASC. In 2001, the IASB, IASC's successor body, adopted all IASs and continued to develop standards that were named IFRS. Today, reference to IFRS denotes the applicable old IAS as well as the IASB-issued IFRS.

³⁰ Updated in March 2010, based on inputs received from Bapepam L K

³¹ IAS 20 and IAS 29 have been adopted in 2011 into PSAK 61 and PSAK 63, respectively.

³² At the end of 2010, PSAK 3, PSAK 18, PSAK 50 and PSAK 53 has been revised by adopting each relevant IFRS as of 1 January 2009

Figure 2



60. As a part of the ROSC exercise, 30 sets of financial statements of companies listed on the Indonesia Stock Exchange were reviewed to better understand the degree of compliance with applicable PSAK. 2008 financial statements were used for review purposes. The sample was established to include financial statements audited by 21 accounting firms (including top five firms) operating in Indonesia. The reviewed companies represent banking, property and construction, manufacturing, mining, travel, publishing, and other sectors. The review focused on issues of presentation and disclosure but did not cover compliance with “recognition and measurement” requirements of accounting standards, which is not detectable through a review of financial statements. Selected compliance gaps found in the review are presented below:

- **Segment information.** A significant number of financial statements reviewed did not disclose fully the PSAK-required segment information disclosure, such as secondary segments disclosure and incomplete primary segment disclosure (capital expenditures, cash flows, etc).
- **Related-party transactions.** Most sampled enterprises reported the existence of transactions with related parties. However, most did not provide important disclosures such as the relationship and transactions, pricing policies, the volumes of related party transactions, and the corresponding amounts. Adequate disclosure of material related party relationships and transactions is essential to users’ understanding of a company’s financial position and results, and for minority investors’ confidence that

they will receive a fair treatment. Bapepam-LK has rigid regulations on related party transactions, however these must be submitted separately (not included as part of the financial statements).

- **Employee benefits.** All financial statements, except one, provided some disclosure on employee benefits. But the information disclosed usually did not meet all PSAK requirements. Only one financial statement provided information on the number of employees eligible for employee benefits, and a significant number did not disclose the date of the actuarial report. Disclosure deficiencies include inadequate disclosure as to whether actuarial or any other forms of valuation had been made to quantify outstanding liabilities for post-employment benefits.

IV. Auditing Standards as Designed and Practiced

61. **Indonesia has a plan to converge local auditing standards with International Standards on Auditing.** Current Indonesian auditing standards are based on the auditing standards issued by US AICPA. Following the 2005 ROSC Accounting and Auditing review exercise in Indonesia, the IAI decided to implement ISA effective in 2007. However, in a 2007 self-assessment prepared by the IAI as part of the IFAC Member Body Compliance Program, IAI stated that it was still in the process of translating ISA, and that their final adoption had been postponed until 2009. IAI, in an October 2009 action plan, stated that its association member IAPI stands firm on its convergence plans and is scheduled to adopt ISA by 2013. IAPI has indicated that it plans to adopt IAASB pronouncements as issued in the 2009 IFAC Handbook of International Standards on Auditing and Quality Control. The convergence plan is still in the form of milestone and agenda, thus it does not have a detailed plan for each stage, including the monitoring activities to ensure implementation progress as targeted. The agenda at present only has the target output to be completed at each milestone.³³

62. **Compliance with applicable auditing standards differs among audit firms of different sizes.** In order to assess actual auditing practices, the ROSC team interviewed practicing auditors and senior leaders of the auditing profession. Facilitated discussions were conducted with the representatives of large, medium-sized and small accounting firms. It appeared that auditors of firms associated with international accounting firm networks had the capability to adhere to high-quality auditing standards. Nevertheless, there were instances where some of these firms could not ensure a proper quality audit. Various knowledgeable stakeholders suggested that improved audit supervision by the audit partners, instead of relying heavily on junior-level audit staff, would improve the overall quality of auditing services provided by large and medium-sized firms in Indonesia. It was observed that smaller

³³ Subsequently, DSP has developed, in sufficient details, the target dates for the completion, monitoring, and implementation of each professional standard, including the timing for each phase of the converging processes, such as translation, discussion, establishment of exposure draft, socialization, and implementation, in order to make sure that the progress and development of each standard can be effectively monitored. Further, IAPI has also appointed and engaged a competent professional to conduct the translation process of all of the international professional standards issued by IFAC as part of its converging strategy. IAPI's Auditing Standards Board (DSP) has issued: the exposure draft of the new Quality Control Standards No. 1 (in 2009), which is expected to be effectively implemented as of July 1, 2012, together with other professional standards. Moreover, the Framework for Assurance Engagements is currently being developed by DSP. All of these new professional standards are sourced from the international professional standards issued by IFAC.

accounting firms found it difficult to bear the cost of training and related activities for ensuring compliance with modern auditing standards.

63. **The small and medium-sized audit practices generally lack the necessary resources to put in place arrangements for audit quality control.** Most of these firms face significant challenges with implementing requirements on audit quality control, specifically regarding skills, competence, delegation, acceptance and retention of clients, and monitoring. Also, an individual audit partner on average could be managing more than 100 audit engagements and taking responsibility for the quality when adding his/her signature to the audit report – the quality of the audit will be affected at some level since it is not humanly possible in any firm (large, medium, or small) for one person to effectively ensure quality of so many audit engagements during a year. Ultimately, it is his or her judgment, supervisory skill and professional opinion that show up in the audit report.

64. **Of the more than 400 accounting firms in the country, only few firms appear to have high level of compliance with the applicable auditing standards.** Interviews with a few practicing auditors of all sizes of firms in the country and discussions with the audit practice reviewers of the PPAJP³⁴, revealed some important compliance gaps in auditing practices. Some of these compliance gaps are as follows:

- **Audit planning.** Many auditors in Indonesia do not seem to appreciate the importance of proper audit planning and often conduct audits without developing an appropriate audit plan.
- **Documentation.** It appears that among the majority of practicing auditors there is a lack of understanding of what is to be documented and how. Mostly in the audit of small and medium-sized enterprises, documentation practices fail to provide audit evidence to support the audit opinion. Some knowledgeable stakeholders stated that in many cases, even when auditors performed the appropriate procedures, they might not document them in their working papers.
- **Fraud.** Many practicing auditors do not appear to make best efforts to properly apply the procedures for detecting fraud while conducting an audit exercise. The auditors in general need to undergo practical training to understand the essence of relevant international standards and be able to use the fraud risk indicators.
- **Going concern.** In some audits there is a lack of procedures to obtain sufficient audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements.
- **Related parties.** In some audits, the auditors do not appear to be serious about applying rigorous procedures to identify, assess, and respond to the risks of material misstatement arising from the audited entity's failure to appropriately account for or disclose related party relationships, transactions, or balances.
- **Other issues.** Auditors sometimes do not apply necessary procedures and completely rely on management representation regarding fair values, impairment of assets, contingent liabilities, accounting estimates, etc. Also, the auditors are generally found to accept valuation reports, actuarial reports, and other expert opinions/reports without evaluating whether the expert has the necessary competence, capabilities, and objectivity for the auditor's purposes.

³⁴ Interviews conducted during ROSC mission in November 2009

V. Perception of the Quality of Financial Reporting

65. **The in-country stakeholders view that the institutional framework of corporate financial reporting in Indonesia has improved over the past ten years.** However, many observers have expressed concerns about the consistency of accounting policies and practices from one period to another, and the comparability of financial information from one entity to another in a similar business or sector. Particular areas identified for attention were a better understanding of accounting for financial instruments; related party transactions; business segments; employee benefits; and accounting valuations, judgments, and estimates.

66. **Despite the compliance weaknesses identified in this report, investors tend to rely more on the information available in published financial statements audited by the largest four accounting firms in the country.** However, there is also an expressed opinion that increased education, monitoring, and enforcement would assist financial statement preparers and auditors to be better informed with the latest standards as a means to increase the quality and consistency of financial statements. Based on interviews and feedback received from market participants, there is a perception that the users of financial statements place a higher degree of reliance on the financial statements that are audited by the larger accounting firms.

67. **There is a general perception that new graduates with accounting degrees lack professional training or practical skills.** Even though market participants often have an unclear understanding of the latest education system and the involvement of IAI in ensuring high-quality accounting education and training for professional accountants, in general the quality of the accounting curriculum taught at higher education institutions is viewed as better than in the past.

VI. Policy Recommendations

68. The broad policy recommendations made in this ROSC emerge from the review findings and from the valuable inputs received from various stakeholders. The policy recommendations are interrelated and mutually supportive and are designed to collectively improve the financial reporting environment in Indonesia.

69. The guiding principles behind the recommendations are to build on the existing systems of accounting and auditing. The future developments should be carried out in a manner that does not jeopardize the achievements of the framework and systems in place and be implemented through collaboration among the government, financial sector regulatory agencies, accountancy profession, and international development partners.

Statutory framework

70. **Update the statutory framework of accounting and auditing.** In this regard, **immediate** steps should be taken to enact the Financial Reporting Act and a comprehensive Public Accountants' Act.

Financial Reporting Act will provide for the establishment of a Financial Reporting Council (FRC) responsible for issuing accounting standards, and related pronouncements. There should be legal arrangements for ensuring the observance of International Financial

Reporting Standards (IFRS) by public interest entities³⁵, and simplified financial reporting standards by small and medium-sized enterprises. The FRC will also be responsible for monitoring and enforcing the applicable accounting standards through financial statements review and audit quality assurance review. Currently, these functions are fragmented. It would be good to entrust these to FRC.

Public Accountants' Act should provide legal backing to the professional accounting bodies in the country; set the rules for regulating the accountancy profession, including those relating to a professional qualification examination and practical training requirements for licensing of professional accountants and practicing auditors; requirements on compliance with the code of professional ethics; arrangements for continuing professional development; and establishment and functioning of disciplinary mechanisms for investigating and disciplining members of the professional body for misconduct and breach of professional ethics standards.³⁶ The role of Indonesian Institute of Public Accountants (IAPI) with regard to the development of the public accounting profession should be provided in the law. International Standards on Auditing (ISA), International Standard on Quality Control (ISQC) and related pronouncements issued by the International Auditing and Assurance Standards Board (IAASB) of International Federation of Accountants (IFAC) should be followed.

Accounting and auditing standards

71. **Indonesia should achieve full IFRS convergence.** Full IFRS convergence is extremely important for the country's capital market. Also, as a G-20 member country, Indonesia is on the radar of many international parties who are interested to see that Indonesia implements internationally recognized standards and codes, including IFRS, in order to strengthen the country's financial architecture. It is equally important to sustain the convergence. From this perspective, the Government of Indonesia needs to take steps for full IFRS convergence. The convergence of Indonesian accounting standards with IFRS is too important to be left to a private sector organization like IAI, which failed to meet the IFRS convergence target a few times in the past. Since 2009, DSAK, under IAI, made substantial progress in trying to accelerate the convergence process, by dedicating full time staff and allocating workload to working groups with clear targets. However, they lack resources and there is no accountability if the target of full convergence by 2012 is not met. Hence it is important to set up a Financial Reporting Council with that responsibility. In the interim, the Government should provide all possible assistance to IAI DSAK on continuing towards full convergence.

72. **Take immediate steps to translate and issue, all clarified International Standards on Auditing and International Standards on Quality Control published by IFAC in 2009 as local mandatory standards.** IAPI should work on translation of all ISA and ISQC-

³⁵ Public interest entities are defined by the nature of their business, size, and number of employees; or by their corporate status by virtue of their range of stakeholders. Examples may include listed companies, banks and similar financial institutions, insurance companies, and large enterprises. To be considered a public interest entity, the entity should (a) have submitted application for registration or is in the process for submitting registration to securities exchange commission or other regulators, for the purpose of issuing securities in the capital market; and (b) have assets in their custody in fiduciary capacity for public, e.g. banks, insurance companies, security traders/brokers, pension funds, mutual funds or investment banks.

³⁶ The Public Accountant law that passed by Parliament on May 3, 2011 provides legal backing to IAPI, sets rules for regulating the accountancy profession including examination and training requirements, requirements on compliance with the code of professional ethics, arrangement for CPD, and establishment and functioning of disciplinary mechanism.

1, *Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and issuing these standards as mandatory requirements for the audit profession in Indonesia. The PPAJP should take the lead in developing and implementing this arrangement. It is worth mentioning that there is no point in spending time and resources on reviewing the ISA and ISQC-1 for the purpose of evaluating their applicability in Indonesian circumstances; auditing requirements should not be different under different jurisdictions. The requirements set by ISA and ISQC-1 are basically principle based, and there should not be any local circumstances constraining implementation of those requirements. The only authorized modifications are provided by the IAASB policy position on modifications. In the longer term, IAASB pronouncements should be adopted and implemented in an ongoing manner.

73. **Issue practical application guidance on accounting and auditing standards.** IAI and IAPI should prepare respective implementation guidance on applicable accounting and auditing standards. Implementation guidance on the code of ethics for professional accountants should also be prepared and disseminated by IAPI. The guidance should be developed on the basis of illustrative cases in the context of local business environment. In this regard, the technical staff and committee members of IAI and IAPI should regularly consult with the relevant international experts³⁷ and review the implementation guidance developed by relevant organs of IFAC. Arrangements should be developed to ensure that all implementation guidance notes and related learning materials are promptly available to the members of the profession. The technical staff of IAI and IAPI should be capacitated to provide support in guiding and tackling issues arising from the implementation of new accounting and auditing standards.

The profession

74. **Restructure IAI and redefine its role in developing the accountancy profession of Indonesia.** IAI has represented the accountancy profession of Indonesia for several decades. Over the past five years, IAI's role has gradually shifted from a professional body of individual members to a federating organization of various associations. At present, IAI's membership includes various association members and individual members. Under such circumstances, there is a need to redefine the role of IAI. Until a new law is enacted with provision for legal backing to the professional accountancy bodies, arrangements should be made for restructuring IAI as a federation of organizations representing various branches of the accountancy profession—for example, public accountants, management accountants, academic accountants, public sector accountants, etc. IAI should continue its current activities of delivering training programs mainly for the benefit of the members of the accountancy profession. Also, IAI should take the lead in taking steps for improving professional capabilities of the accountants who are responsible for preparing financial statements in corporate entities. In this regard, IAI should put in place a legally backed arrangement for ensuring that appropriately qualified professionals are employed in the corporate sector as corporate accountants and chief financial officers.

75. **Strengthen the public accountancy profession through institutional capacity building of the IAPI.** IAPI should put in place arrangements for obtaining membership of the International Federation of Accountants (IFAC), and functioning as a strong professional

³⁷ Refer to IFRIC of IASB, and the IAASB of IFAC.

accountancy body. Steps should be taken to build a strong secretariat of IAPI with adequate technical capabilities. Necessary arrangements should be put in place to ensure a high degree of compliance with the IFAC Statements of Membership Obligations. A twinning arrangement between IAPI and a strong IFAC member body would be helpful for transfer of knowledge to strengthen IAPI's governance system, improve its technical capabilities to support professional development of its members, help it carry out disciplinary activities focusing on its members' performance, and support activities for improving compliance with the applicable financial reporting and auditing requirements. With the help of the twinning partner, IAPI will be able to gain various necessary capabilities to function as a leading professional accountancy body in the Asia and Pacific Region. Some of the possible options for twinning are CPA Australia, The Institute of Chartered Accountants in Australia, New Zealand Institute of Chartered Accountants and The Institute of Chartered Accountants of England and Wales.

76. Provide assistance for capacity building of small and medium-sized audit practices (SMPs). The newly restructured IAI, in collaboration with IAPI and other interested organizations including large practices, should lead an initiative for providing technical assistance to SMPs to develop capacity for providing high-quality professional services. Technical assistance to SMPs in Indonesia should not necessarily concentrate on enhancing their capabilities for providing audit and assurance services. Rather, more emphasis should be given to build their capacity to provide a range of other value-added business advisory services to small and medium-sized enterprises. Many SMPs will be able to provide most if not all of the following services since they are part of the professional accountant's core skill set – or very close to it:

- Prepare financial reports tailored to specific needs of an enterprise;
- Interpret financial reports and suggest solutions to problems;
- Assist with strategic planning and its execution;
- Assist in the formulation of business plans and financial forecasts;
- Help present a business for sale of an enterprise;
- Help control costs of an enterprise through cost accounting;
- Assist in identifying and managing risks;
- Advise on suitable business structures;
- Perform business or business unit valuations;
- Advise on relevant regulations – human resources, safety, and environment;
- Advise family-owned businesses on succession planning.

However, in line with international best practice, the small practices would not provide these advisory services to those clients that they audit.

Monitoring and review arrangements for improving the quality of audit

77. Audit quality assurance review. Until the establishment of the Financial Reporting Council, there is a need to set up an “independent audit review board.” In practice, the audit review board would be expected to focus on the audit quality of public interest entities, and the IAPI's disciplinary mechanism would have more focus on the auditors of non-public

interest entities. Constitution of the independent audit review board and its functioning should follow international good practice.³⁸ In order to build capacity of the board to function efficiently and effectively, it will be necessary to arrange technical assistance from experts who have directly participated in the establishment and operation of a member body of the International Forum of Independent Auditor Regulators (IFIAR)³⁹. Among its primary objectives, the audit review board will promote high-quality corporate accounting and auditing; and contribute to ensuring integrity, competence, and transparency of the public accountancy profession. Among the activities of the audit review board would be the following mandates:

- **Registering statutory auditors of public interest entities.** Practicing auditors who demonstrate adequate technical knowledge and professional competence, would qualify for registration with the audit review board. The board would set requirements for eligibility of accounting firms to audit public interest entities in order to enhance audit quality and increase auditors' accountability.
- **Conducting audit quality assurance review.** The audit review board would be responsible for conducting practice reviews for the auditors of public interest entities, ensuring each audit firm is reviewed at reasonably regular interval. The audit review board should have experienced (full-time) staff with capacity to conduct audit practice review. In order to ensure the audit review board renders unbiased decisions with regard to audit practice review and related activities, it should have transparent and clear procedures; a rapid and confidential investigation system; a risk-based approach reflective of available resources; and adequate authority to take effective enforcement actions.
- **Complaint handling.** Valid complaints against practicing auditors and audit firms, and any irregularities identified from the reviews of financial statements by any regulatory body, should be investigated.
- **Exercising disciplinary power.** The audit review board should have the powers to issue warnings, impose fines and penalties, and restrict specific auditor(s) from carrying out statutory audits of public interest entities. In addition to resorting to the national legal system, the audit review board should be empowered to impose enhanced administrative sanctions against management of enterprises, auditors, and audit firms for their roles in violating accounting, auditing, and financial reporting requirements. The enhanced administrative sanctions would facilitate enforcement without depending entirely on the lengthy legal process.
- **Public disclosure.** The enforcement actions taken by the audit review board against errant auditors, audit firms, and responsible corporate management should be made public in order to facilitate market discipline. This will increase confidence in audited financial information on the part of both domestic and international users of financial statements.

³⁸ In this regard, the experience of Public Company Accounting Oversight Board in the United States, and the Financial Reporting Council in the United Kingdom would be helpful.

³⁹ More information about IFIAR may be found at the following web site: www.ifiar.org

- **Formation of an advisory committee of key stakeholders.** An advisory committee could be formed to support activities of the audit review board. Such an advisory committee would ensure a cohesive cooperation among various stakeholders including the financial sector regulators, IAPI, the investor community, academia, and relevant government agencies. This would help to develop a strong corporate financial reporting regime.

78. **Improve the capacity of Bapepam-LK and Bank Indonesia for the review of financial statements.** Bapepam-LK should engage additional professionally qualified and experienced accountants and train existing staff to further enhance the effectiveness of the financial statements reviewers in the Corporate Finance Bureau to detect sophisticated manipulations of accounting and financial reporting policies. Bank Indonesia should continue its effort to improve the training syllabus for the accounting specialist core group established in each banking directorate. This is to ensure that members of the accounting specialist core groups are always updated with the latest issues and knowledge on accounting.

79. **Ensure that bank auditors have strong quality assurance arrangements.** Only high-quality audit service providers should be appointed as auditors of commercial banks and rural banks in the country. Bank Indonesia should collaborate with the independent audit review board at Bapepam-LK for the purpose of preparing and maintaining the list of authorized auditors for the banking sector. In this regard, the banking regulator may need to work very closely with the staff of the audit review board in order to ensure that the audit quality assurance reviews of bank auditors take into account various specificities relating to the banking industry. Taking into consideration the importance of rural banks to the rural economy, Bank Indonesia is encouraged to continue its effort to monitor compliance and consistency in the implementation of requirements applied to rural banks' auditor. This is to ensure that auditors constantly maintain and enhance their transparency, accountability and governance in conducting audits of rural banks, as well as remain capable of providing high quality auditing services.

Professional education and training

80. **Simplify and upgrade the procedure for obtaining license by professional accountants and practicing auditors.** IAPI, with the help of its international twinning partner, should streamline its membership procedure by simplifying and modernizing professional examination and training arrangements in line with the relevant IFAC-issued International Education Standards. All relevant education standards must be implemented, including the standards for issuance of audit practice certificate to the prospective audit practitioners. All trainee public accountants, prior to being issued a practice certificate, should be required to undergo a rigorous evaluation focused on specialized professional education, experience, and practical auditing skill.

81. **Strengthen arrangements for practical training of prospective IAPI members.** The IAPI should require practical training of its prospective members to be provided by the authorized practical training providers. This is important to ensure that members of the professional body have acquired the necessary practical knowledge. The IAPI should screen audit firms before allowing them to accept any audit trainees. In order to qualify as an authorized audit-training provider, an audit firm should prove that it complies with all ISQC and ISA requirements. Also, the training provider should have sufficient capacity to enable the trainees to gain exposure to the practical aspects of all applicable standards and codes.

The IAPI should maintain a list of authorized audit training providers, and update the list on the basis of periodic assessment and make it publicly available. Following international good practice, the IAPI should also recognize practical training providers outside the auditing industry. These institutions could be used by those trainee public accountants who are not seeking an audit practice certificate. IAPI should ensure that its CPD system meets all requirements of IES.

82. Incorporate IFRS, ISA and the IFAC Code of Ethics in academic programs of universities throughout the country. Review and update the accounting curricula of universities to incorporate IFRS, ISA and the IFAC Code of Ethics. Teaching should focus on the practical implementation aspects of these standards using illustrations and actual case studies in Indonesia. In order to support this initiative, it will be necessary to arrange train-the-trainer programs with the participation of university and college teachers.

Next Steps

83. These primarily principle-based recommendations take a holistic approach and could be used as input for preparation of a comprehensive country action plan aimed at further strengthening the institutional framework for accounting, auditing, and financial reporting in the country.