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Unification In Financial Reporting System.

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Financial reporting requirement in Indonesia is currently spread into several sectors and regulations, among others: taxation regulations, financial services authority regulations, ministry of trade regulations, and Bank of Indonesia regulations. Therefore, there is no standardized guideline for the drafting of the financial statement. The lack of standardized guidelines has caused some issues in practice, which is quite troublesome and harmful for interested parties. The most troublesome issue is when a company submits two different financial statements for different purposes, one for submission of an annual tax return to the directorate general of taxation and the other for borrowing money from the banks.

Due to this, the Institute of Indonesia Chartered Accountants (Ikatan Akuntan Indonesia) has been longing for the issuance of law which may be used as an umbrella law, which governs the reporting requirement for all institutions in Indonesia. We understand that a draft of this law, which is called Draft of Law on Financial Reporting (the Draft Law), has been prepared but the House of Representatives has not approved this as a Law yet.

This article will discuss the items that are currently incorporated in the Draft Law.

Reporting Entities and Audit Requirement

The Draft Law regulates reporting entities which will be subject to the regulation, among others: entities with public accountability, state-owned enterprises, regional owned enterprises, foreign investment company, permanent establishment. Some reporting entities may also be subject to auditing requirements.

The Draft Law also stipulates that the financial statement must be prepared by a person having accounting qualification and in accordance with a Financial Accounting Standard (the Standard). The Standard will be prepared by Standard Board, which will be an organ of the appointed accountant professional association.

Supervising Authority

The Draft Law also establishes a new entity to supervise the implementation of the financial reporting. This entity will report directly and be responsible to the Minister of Finance.

The reporting entities must submit the financial statement to the supervising entity by maximum four months after the end of the financial year. The supervising authority will be responsible for reviewing the submitted financial statements, coaching and supervising the reporting entities, evaluating the standard guideline and act as data center for financial statements.

Distribution of the Financial Report

The Draft Law stipulates that the submitted financial statement can be distributed to (i) supervising institution of the reporting entities (e.g. financial services authority, ministry of trade), (ii) other interested parties – parties who have interest in the financial information of the reporting entities, e.g. shareholders, investors, creditors of the reporting entities) and (iii) other governmental institutions pursuant to the relevant regulations.

In addition to the abovementioned, the Draft Law also opens the opportunity for the financial statement to be distributed limitedly to the public. The Draft Law regulates that a certain fees will be charged for the use of the financial statement by public request. Further regulations on this will be regulated in the regulation of the minister of finance.

Sanctions

The Draft Law also regulates sanction for non-compliance with the regulation. The sanctions vary from administrative sanctions (recommendation, written warning, suspension of registration, revocation of registration, penalty) to penal sanctions. Penal sanctions will be given to parties who manipulate, assist in the manipulation, and/or fabricating the data for the financial statement. The penal sanctions are in the form of 5-year imprisonment and a maximum fine of IDR 1 billion (approx. USD 68k). If the crime is committed by a corporation, the penal sanction will be given in the amount of a fine for the maximum amount of IDR 3 billion (approx. USD 204.5k).

Author Commentaries

The idea for the issuance of the Draft Law, which will unify the financial reporting to a single entity and provide the Standard to be used for preparing the financial statement is good. This is also in line with the spirit of Omnibus Law, which was recently passed by the House of Representatives, i.e., to provide an easement for investors in investing in Indonesia. Instead of reporting the financial statement to multiple governmental institutions, the reporting entity should just submit the financial statement to one institution, who will then distribute this financial statement to the other interested parties/governmental institutions – one single submission.

To ensure the smooth operation of this reporting mechanism, we believe it will be better if the Draft Law can also clarify that by the issuance of the law, reporting requirements to other governmental institutions will not be necessary anymore. Otherwise, it will create confusion in practice on whether the reporting entities still need to submit the financial statement to the other governmental institutions.

**Disclaimer: This article is prepared based on the draft of the Law on Financial Reporting. The content of this article may need to be adjusted once the draft has been approved and issued as a Law.*

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