
ORDER INSTITUTING DISCIPLINARY
PROCEEDINGS, MAKING FINDINGS, AND
IMPOSING SANCTIONS

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) PCAOB Release No. 105-2017-002

)
) February 9, 2017

*In the Matter of KAP Purwantono, Sungkoro
& Surja, Roy Iman Wirahardja, and James
Randall Leali,*

Respondents.

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By this Order, the Public Company Accounting Oversight Board ("Board" or "PCAOB") is: (1) censuring KAP Purwantono, Sungkoro & Surja ("EY-Indonesia," or the "Firm"), Roy Iman Wirahardja, and James Randall Leali (collectively, "Respondents"); (2) imposing a civil money penalty in the amount of \$1,000,000 on EY-Indonesia, \$20,000 on Wirahardja, and \$10,000 on Leali; (3) barring Wirahardja from being associated with a registered public accounting firm;¹ and (4) limiting Leali's activities in connection with any "audit," as that term is defined in Section 110(1) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), for a one year period from the date of this Order, by prohibiting Leali from serving in certain capacities in any audit as described in Section IV.E. herein.

The Board is imposing these sanctions on the basis of its findings that: (a) the Respondents violated PCAOB rules and standards in issuing, or authorizing the issuance of, unqualified audit reports concerning the December 31, 2011 financial statements and internal control over financial reporting ("ICFR") of PT Indosat Tbk ("Indosat" or the "Company") (the "2011 audit"); (b) Wirahardja and EY-Indonesia through certain of its employees violated PCAOB rules and standards by improperly altering work papers for the 2011 audit in connection with a Board inspection; and (c) EY-Indonesia and Wirahardja violated PCAOB rules by failing to cooperate with a Board investigation.

I.

The Board deems it necessary and appropriate, for the protection of investors and to further the public interest in the preparation of informative, accurate, and

¹ Wirahardja may file a petition for Board consent to associate with a registered public accounting firm after five (5) years from the date of this Order.

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independent audit reports, that disciplinary proceedings be, and hereby are, instituted pursuant to Section 105(c) of the Sarbanes-Oxley Act of 2002, as amended (the "Act"), and PCAOB Rule 5200(a)(1) against Respondents, and also pursuant to PCAOB Rule 5200(a)(3) with respect to EY-Indonesia and Wirahardja.

II.

In anticipation of the institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have submitted Offers of Settlement ("Offers") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over Respondents and the subject matter of these proceedings, which is admitted, Respondents each consent to entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order").²

III.

On the basis of Respondents' Offers, the Board finds³ as follows:

A. Respondents

1. **KAP Purwantono, Sungkoro & Surja** (formerly known as "KAP Purwantono, Suherman & Surja") ("EY-Indonesia" or the "Firm") is the Indonesian affiliate of the Ernst & Young global network ("EY-Global").⁴ EY-Indonesia has offices in Jakarta and Surabaya, Indonesia. EY-Indonesia served as Indosat's independent auditor at all relevant times and issued the audit reports for the 2010, 2011, and 2012

² The findings herein are made pursuant to Respondents' Offers and are not binding on any other person or entity in this or any other proceeding.

³ The Board finds that Respondents' conduct described in this Order meets the conditions set out in Section 105(c)(5), which provides that certain sanctions may be imposed in the event of (i) intentional or knowing conduct, including reckless conduct, or (ii) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

⁴ This matter involves personnel from various EY-Global affiliates. The term "EY" is used herein when referring to personnel from EY-Global affiliates other than EY-Indonesia.



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Indosat financial statements and ICFR. EY-Indonesia is, and at all relevant times was, registered with the Board pursuant to Section 102 of the Act and PCAOB rules.

2. **Roy Iman Wirahardja**, 54, of Jakarta, Indonesia, is a public accountant licensed under the laws of Indonesia (license no. D-29.271). Wirahardja, at all relevant times, was an EY-Indonesia partner in the Firm's Jakarta office. At all relevant times, Wirahardja served as the Professional Practice Director ("PPD") for EY-Indonesia.⁵ Wirahardja was the engagement partner on EY-Indonesia's audits of Indosat's December 31, 2010 through 2012 financial statements and ICFR. In that capacity, Wirahardja led the EY-Indonesia engagement teams, had final responsibility for those audits, and released the audit reports on Indosat's financial statements and ICFR for the years ended December 31, 2010 through 2012. Wirahardja is, and at all relevant times was, an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

3. **James Randall Leali**, 55, of Chicago, Illinois, is a certified public accountant licensed under the laws of Ohio (license no. 19784) and Illinois (license no. 065.42348). Leali is currently a partner with Ernst & Young LLP ("EY-US"). At all relevant times, Leali was a partner in EYEA LLP⁶ and seconded to the PCAOB-registered EY-Global affiliate in Hong Kong where he served as the EY Area Professional Practice Director ("Area PPD")⁷ for the Asia-Pacific region, which included Indonesia. In his capacity as Area PPD, Leali consulted on the audit of the 2011 Indosat financial statements and ICFR. In that capacity, Leali authorized Wirahardja to release the audit reports on Indosat's 2011 financial statements and ICFR. Leali is, and at all relevant times was, an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

⁵ As the EY-Indonesia PPD, Wirahardja, among other things, (a) served as a technical subject matter expert for consultations on auditing and accounting matters; (b) assisted in the development of guidance, training, and monitoring programs and processes; and (c) assessed and assigned engagement partners and engagement quality reviewers to audits.

⁶ EYEA is a Delaware limited liability partnership.

⁷ As the Asia-Pacific Area PPD, among other things, Leali worked with the EY-Global Professional Practice Director to establish and monitor implementation of global audit quality control policies and procedures, including overseeing the country Professional Practice Directors in the Asia-Pacific region.



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B. Issuer

4. **PT Indosat Tbk** ("Indosat" or the "Company") is an Indonesian telecommunications network and service provider headquartered in Jakarta, Indonesia. It is incorporated in the Republic of Indonesia and substantially all of its assets, operations, and customers are located in Indonesia. At all relevant times, Indosat filed financial statements with the Securities and Exchange Commission ("SEC" or "Commission") on Form 20-F as a foreign private issuer, and its common stock was registered under Section 12(b) of the Securities Exchange Act of 1934. At all relevant times, Indosat was an "issuer" as the term is defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). The Company delisted its common stock from the New York Stock Exchange on May 6, 2013.

C. Summary

5. This matter concerns Respondents' violations of PCAOB rules and standards in connection with the audit of Indosat's December 31, 2011 financial statements and ICFR. In connection with the 2011 audit, Respondents failed to exercise due professional care and professional skepticism and obtain sufficient appropriate audit evidence in evaluating Indosat's accounting for its over 4,000 leases related to spaces, or "slots," on cellular towers. During the 2011 audit, the partner responsible for performing the cross-border regulatory review of the Indosat audit as required by PCAOB standards (hereinafter, the "Appendix K review")⁸ expressed concern to Wirahardja and the engagement team regarding the sufficiency of Indosat's tower slot lease analysis. In response, Wirahardja and the engagement team repeatedly requested that management complete a properly supported lease accounting analysis. Respondents failed, however, to obtain and evaluate a completed analysis before releasing audit reports on Indosat's December 31, 2011 financial statements and ICFR. And although those audit reports contained unqualified audit opinions, Respondents released the reports based on the audit evidence obtained to date and subject to the requirement that management provide a completed – and properly supported – tower slot lease accounting analysis in the future. Respondents further understood that, depending on the outcome of that analysis, a restatement of the 2011 and prior year's financial statements might be required.

⁸ See SECPS 1000.45, *Appendix K—SECPS Member Firms With Foreign Associated Firms That Audit SEC Registrants*. Appendix K is meant to enhance the quality of SEC filings for companies whose financial statements are audited by international affiliates of U.S. firms. Appendix K provides that financial statement filings of audits performed by a foreign associated firm should be reviewed by a person knowledgeable in accounting, auditing, and independence standards generally accepted in the U.S.



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6. Respondents released the audit reports even though the Appendix K reviewer informed Wirahardja that he did not believe that Indosat's tower slot lease accounting was adequately supported and, thereby, indicated that he was not in a position to conclude that a significant unresolved matter did not exist.

7. The failure to gather sufficient appropriate audit evidence regarding tower slot lease accounting also precluded Respondents from properly evaluating the severity of an identified deficiency related to tower slot lease classification controls. Consequently, Respondents failed to obtain appropriate evidence sufficient to provide reasonable assurance that Indosat's ICFR was effective, as required by PCAOB standards.⁹

8. In the months after the release of the audit reports, Wirahardja and the engagement team pressed management for a properly supported analysis, but they obtained no additional evidence from management to support Indosat's tower slot lease accounting. Ultimately, the proper accounting for Indosat's historical tower slot lease arrangements was not determined until February 2013 – ten months after the 2011 audit reports were released.

9. This matter also concerns Wirahardja and EY-Indonesia's violations of PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS 3") and PCAOB Rule 4006, *Duty to Cooperate with Inspectors*, in connection with (a) improperly creating work papers after the audit documentation completion date and (b) making those documents available to PCAOB inspectors during the 2012 inspection of EY-Indonesia. After EY-Indonesia was notified in late June 2012 that the 2011 Indosat audit would be inspected in December 2012, numerous engagement team members improperly created and added to the audit documentation dozens of new audit work papers. The engagement team members did so without indicating when the work papers were added, who prepared the additional work papers, or the reason for adding them after the documentation completion date.

10. The creation of misleading documentation continued when the PCAOB inspection field work began in December 2012. When the inspectors asked about the existence of a particular memo related to tower slot leases, certain engagement team members, with Wirahardja's knowledge, created the requested memo, added the memo to the work papers, and made it appear as if the memo had been generated during the 2011 audit. Wirahardja then instructed an audit manager to copy-and-paste the memo into a document with a metadata creation date that preceded the issuance of the 2011 audit reports. When a hard copy of the memo was provided to the inspectors, neither

⁹ See Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That is Integrated with An Audit of Financial Statements* ("AS 5").



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Wirahardja nor any other engagement team member disclosed that the document had just been created.

11. Wirahardja also failed to cooperate with a PCAOB Investigation. When PCAOB staff asked him about the memo during his sworn investigative testimony, Wirahardja failed to disclose his knowledge that the memo had been improperly prepared during the PCAOB inspection or his involvement in the memo's improper preparation.¹⁰

12. Finally, the Firm violated PCAOB quality control standards by failing to have an adequate system in place to provide reasonable assurance that its personnel would comply with AS 3¹¹ and by failing to have an adequate monitoring system to provide reasonable assurance that its quality control system as to the preparation and archiving of audit documentation was operating effectively.¹² Additionally, when it came to light that a memo had likely been improperly added to the audit working papers in response to PCAOB inspectors' questions, a member of the engagement team informed a member of EY-Indonesia management that Wirahardja had knowledge of and was involved in the creation of the memorandum. This individual, however, failed to timely follow up on the allegations despite the Firm having commenced an internal investigation into the matter.

D. Background

13. As part of its operations, Indosat owned thousands of cellular towers throughout Indonesia that provided cell coverage for its customers. Generally, Indosat's towers consisted of the physical vertical tower with spaces (*i.e.*, slots) upon which cellular radio antennas could be attached. Based on an April 2012 study of 2,500 Indosat's towers, average capacity was 3.6 slots per tower.

14. On each tower it owned, Indosat placed a cellular antenna for its cellular network. In 2008, Indosat began leasing out open slots to other cellular companies for use in their networks. Slots were not leased on a single-slot basis, but were leased as bundles of slots on multiple towers to build out the lessees' cellular networks. The leases were typically for a period of 10 years with a renewal option by the lessee. Indosat characterized these transactions as "lease-out" arrangements.

¹⁰ See PCAOB Rule 5110, *Noncooperation with an Investigation*.

¹¹ See QC § 20.18, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*.

¹² See QC § 30, *Monitoring a CPA Firm's Accounting and Auditing Practice*.

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15. In 2010, Indosat analyzed these lease arrangements under International Accounting Standard 17, *Leases* ("IAS 17") and concluded that its lease-out arrangements were operating leases, analogous to service arrangements.¹³ In early February 2012, in conjunction with evaluating a pending material cellular tower sale and leaseback transaction, Wirahardja informed management that Indosat needed to perform an analysis of its historical tower slot lease arrangements to assess whether the leases should have been accounted for as operating or finance leases at the time the leases were originated.¹⁴ The distinction between a finance and operating lease for lease-out arrangements was significant because if a lease-out arrangement was determined to be a finance lease, the present value of minimum (future) lease payments ("PVMLP") would be netted against the book value of the leased asset with a potentially material gain (or loss) recorded in income and a portion of the tower asset removed from Indosat's balance sheet. Respondents recognized that, depending on the results of the analysis, a restatement of Indosat's 2009 and 2010 financial statements might be necessary.

16. In order to determine if a lease was a finance or operating lease under IAS 17, management – after consultation with Respondents – focused on two indicators of whether the risks and rewards of ownership had passed to the lessee: the economic life test and the present value test. Under the economic life test, if the lease term covered the major part of the economic life of the asset – 75% or more of the economic life under a guideline Indosat applied – the lease was a finance lease. Under the present value test, if the PVMLP at inception of the lease amounted to substantially all of the fair value of the leased asset – 90% or more of the fair value under a guideline Indosat applied – the lease was a finance lease. Respondents understood that, if either test indicated that a lease was a finance lease, Indosat would likely be required to change its historical and future accounting for the lease.

¹³ Under IAS 17, a lease arrangement had to be analyzed to determine if it was an operating lease or a finance lease. A lease is a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Otherwise, it is an operating lease. A finance lease is accounted for in the same manner as a sale with the leased asset removed from the balance sheet, and any corresponding gain or loss is recorded on the income statement at the time of the transaction. Conversely, with an operating lease, the leased asset remains on the lessor's books and lease payments are recorded as revenue ratably over the life of the lease. *Id.*

¹⁴ Prior to assessing the proposed sale and leaseback transaction, Indosat incorrectly treated the tower as the "unit of account" instead of the individual slot when assessing whether a lease-out arrangement was an operating or finance lease under IAS 17.



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17. In performing the present value test, Indosat management used a discounted cash flow method to estimate the fair value of a slot.¹⁵ The discounted cash flow analysis was based on a number of management assumptions, including an assumption regarding the average utilization rate of slots in Indonesia. The utilization rate was an estimate of the proportion of a tower slot's useful life during which the slot would be leased (*i.e.*, generate rental payments). The utilization rate was significant because, all other things being equal, if a slot was expected to have a higher utilization rate, that slot would have a higher estimated fair value, which, in turn, meant that there was an increased likelihood that a lease-out arrangement for that slot would be categorized as an operating lease.

E. Respondents Failed to Exercise Due Professional Care and Failed to Obtain Sufficient Appropriate Audit Evidence in Connection with the 2011 Indosat Audit

18. Wirahardja led the 2011 Indosat audit as engagement partner. Because Indosat was a foreign private issuer audited by a foreign affiliate of EY-US, the 2011 audit was subject to an Appendix K review. An experienced audit partner and International Financial Reporting Standards ("IFRS") expert working in EY's Capital Markets Group served as Appendix K reviewer for the 2011 audit, as he had for 2010. As Appendix K reviewer, this partner was involved in all significant auditing, accounting, financial reporting, and independence matters, including assessing the auditing of and accounting for Indosat's historical tower slot leases and associated internal controls over tower lease accounting.

19. Indosat's accounting for its historical tower slot lease arrangements was identified by Wirahardja and the audit engagement team as a significant accounting and auditing matter for the 2011 audit. Wirahardja and the engagement team recognized that the application of IAS 17 to Indosat's historical tower slot lease arrangements had the potential to result in a restatement of Indosat's 2010 and prior financial statements. Additionally, they recognized that management's past failure to properly apply the applicable accounting guidance to its tower slot leases was a control deficiency, the severity of which needed to be evaluated under AS 5. As a result, Wirahardja and the Appendix K reviewer consulted with Leali, the Area PPD, at various times throughout the audit.

20. The Appendix K reviewer and Respondents understood that management needed to provide an analysis of Indosat's current tower slot lease arrangements to support its accounting in 2011 and prior years, and that that analysis needed to be

¹⁵ Indosat was required to estimate the fair value of the tower slots it leased out because there was no market for the sale and purchase of individual slots.



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evaluated by the engagement team. Moreover, they understood that a proper analysis required a properly supported utilization rate assumption.

21. Initially, management indicated that a 100% utilization rate assumption was appropriate based on its assertion that all of its existing lease-outs would be renewed at the end of the lease term. The Appendix K reviewer, however, objected to management's asserted utilization rate because he believed that it was not appropriate to consider whether a slot was currently leased when estimating a slot's utilization rate.

22. During the course of the audit, Indosat retained an international telecommunication industry specialist (hereinafter, the "Telecom Specialist" or "Specialist") to conduct a study of the Indonesian cellular tower market to support Indosat's accounting for the pending sale-leaseback transaction. Management also intended for the study to support the accounting for its historical tower slot lease arrangements. On April 13, 2012, the Telecom Specialist completed its draft market study report for Indosat (hereinafter, the "Tower Market Report"). The Tower Market Report provided the Specialist's expert opinion on tenancy forecasts for the Indonesian tower market, which, taking into account the Telecom Specialist's forecast that average available slot capacity was 3.6, evidenced slot utilization rates below 50%.

23. Even after receiving the Specialist's Tower Market Report, Indosat management continued to assert that a 100% utilization rate was appropriate for determining the fair value of a slot. Only after the Appendix K reviewer, Wirahardja, and the engagement team continued to object to the 100% rate, did management lower its utilization rate assumption to 80%. But Wirahardja and the engagement team failed to obtain sufficient appropriate evidence to support the reasonableness of this assumption. In fact, as noted above, the Tower Market Report contained information that appeared to contradict management's 80% assertion. Wirahardja and the engagement team, however, failed to evaluate the contradictory information. This failure was troubling because the engagement team had performed a sensitivity analysis, which indicated that a utilization rate below 65% would very likely require Indosat to restate its financial statements.

24. After receiving the Tower Market Report and the information that management was moving to an 80% utilization rate assumption, the Appendix K reviewer continued to press Wirahardja and the engagement team for support for the utilization rate assumption. Wirahardja, in turn, repeatedly requested additional support from management but did not obtain anything more.

25. In evaluating the severity of the identified control deficiency related to Indosat's processes for classifying tower slot leases, Wirahardja and the engagement team concluded that the control deficiency was not a material weakness, but a



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significant deficiency. They did so despite failing to obtain sufficient appropriate evidence for management's asserted utilization rate and despite knowing that a utilization rate below 65 percent could require a restatement.

26. On April 28, 2012, on a conference call with Wirahardja and a member of the Appendix K reviewer's capital markets review team, the Appendix K reviewer informed Wirahardja that he believed that Indosat had failed to provide sufficient analysis to support the assumptions used in its tower slot lease accounting and thereby failed to support the accounting conclusions reflected in the 2009, 2010, and 2011 financial statements. The Appendix K reviewer thereby indicated that he could not conclude – as Wirahardja had – that significant unresolved matters did not exist with respect to the financial statements and management's assessment that its internal control over financial reporting was effective.¹⁶ At the end of the call, the Appendix K reviewer instructed Wirahardja to arrange a conference call with EY-Asia Pacific leadership, starting with Leali, to discuss the situation and to conclude as to the appropriate course of action.

27. After the call with the Appendix K reviewer, Wirahardja and an engagement team manager briefly discussed the situation with the EY-Indonesia Quality & Risk Management Partner. In addition, Wirahardja reached out to Leali via email, text, and telephone. Wirahardja also directed a senior manager on the engagement to gather support for management's utilization rate assumption. The senior manager searched through the night but found nothing to support an 80% utilization rate assumption.

28. On the morning of Sunday, April 29, 2012 (Jakarta and Hong Kong time), Leali retrieved Wirahardja's voicemail, text, and email messages. He immediately called Wirahardja and was told of the Appendix K reviewer's concern regarding the reasonableness of management's utilization rate assumption. After discussing the issue, Leali authorized Wirahardja to release the audit reports subject to Wirahardja obtaining a completed analysis supporting Indosat's lease accounting in the near future and explaining to Indosat management that the support ultimately obtained could require a restatement of Indosat's financial statements.

29. After the call with Leali, Wirahardja informed the Appendix K reviewer that Leali had authorized the release of the audit report and informed Indosat management

¹⁶ The Engagement Quality Reviewer ("EQR") provided concurring approval of issuance of the 2011 audit reports on April 25, 2012. Wirahardja did not inform the EQR that, based on the Appendix K reviewer's position communicated to him on April 28, 2012, significant unresolved matters existed.

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that EY-Indonesia had granted permission for the Company's use of the audit reports in connection with the issuance of the Company's financial statements. On Monday, April 30, 2012, the SEC accepted Indosat's Form 20-F filing that included EY-Indonesia's unqualified reports on the December 31, 2011 financial statements and ICFR.

30. After releasing the audit reports and continuing over the next ten months, Wirahardja and the engagement team repeatedly attempted to obtain additional evidence to support the reasonableness of management's utilization rate assumption and, thereby, the reasonableness of the lease accounting that Wirahardja and Leali accepted on April 29, 2012. Those efforts proved unsuccessful.

31. By mid-June 2012, Wirahardja and the engagement team's efforts to obtain support collided with the need to archive the 2011 audit work papers. Under AS 3, a complete and final set of the work papers needed to be assembled by June 13, 2012.¹⁷

32. In preparing to archive the work papers, the engagement team asked the Appendix K reviewer to sign-off on the EY Review and Approval Summary ("RAS") forms documenting the completion of his Appendix K review. In response, the Appendix K reviewer declined to sign-off on the RAS documents because he disagreed with the decision to release the audit reports on April 29, 2012 due to his disagreement over the sufficiency of the audit evidence supporting management's tower slot lease accounting.

33. Upon learning that the Appendix K reviewer was refusing to sign the RAS forms, Leali suggested that a "qualification" memo be prepared to document the circumstances leading to the Appendix K reviewer's conclusion to not sign-off on the RAS documents. Subsequently, it was decided that the "qualification" memo – which came to be called the "RAS-F memo" – should include Leali and Wirahardja's rationale for releasing the audit reports notwithstanding the Appendix K reviewer's objections.

34. Between June 21, 2012 and July 9, 2012, the Appendix K reviewer, Leali, and Wirahardja drafted the RAS-F memo. Multiple drafts were prepared and edits were made by the Appendix K reviewer, Leali, and certain senior EY personnel.

¹⁷ AS 3 provides that a "complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date (*documentation completion date*)." AS 3 ¶ 15. Wirahardja released EY-Indonesia's audit reports on April 29, 2012; consequently, the documentation completion date for the 2011 audit was June 13, 2012.

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35. On July 9, 2012, after all those involved in the drafting and review process had approved its language, the final RAS-F memo was signed by the Appendix K reviewer, Leali, and Wirahardja. Wirahardja and Leali's signatures evidenced their "agreement with the facts as set forth [in the RAS-F memo] and with the decision to release the Reports."

36. As set forth at the beginning of the final RAS-F memo, the purpose of the memo was to document:

the facts and circumstances relating to a) the conclusion with respect to the completion of procedures required by the [EY] Global Assurance Policy Manual 3.9 related to the offering review, cross-border IFRS review and regulatory review ... that caused [the Appendix K reviewer] to qualify his signoff on the RAS-F relating to the issuance of EY-Indonesia's reports related to IndoSat's financial statements and internal control included in IndoSat's 2011 Form 20-F (hereinafter referred to as "the Reports"); and b) the conclusion of EY-Indonesia Engagement Partner/EY-Indonesia PPD Roy Wirahardja and EY-Asia Pacific Area Professional Practice Director Randy Leali to issue the Reports, dated April 25, 2012, notwithstanding the aforementioned qualification.

37. The RAS-F memo documented that "[s]ignificant analysis was still required to confirm the utilization factor rate and other portions of the lease analysis" as of the date of EY-Indonesia's audit opinions.

38. In documenting the circumstances leading to Leali and Wirahardja's decision to release the audit reports, the RAS-F memo states:

On April 29, 2012 (Jakarta-time), Wirahardja and Leali discussed the release of the Reports covering the 2011, 2010, and 2009 periods to be included in the 2011 Form 20-F for IndoSat. In the course of that discussion, Wirahardja and Leali concluded that while additional work was required to complete the Company's assessment of the utilization factor and its accounting implications, it appeared that sufficient appropriate audit evidence had been obtained to reduce audit risk to an acceptably low level, and thereby enable them to a [sic] draw reasonable conclusion regarding materiality to base the opinions in the Reports. Wirahardja and Leali further considered that even if there was an error, it was most likely to be in the form of an unrecognized gain

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rather than a loss. Leali and Wirahardja concurred that it was prudent not to recognize gains that were unsupported at the time.

At the conclusion of that discussion, Leali authorized the release of the reports by EY-Indonesia, subject to the following:

- EY should continue to press IndoSat management for completion of the lease analysis in the near future. As of the date of this memo that analysis is ongoing.
- EY should explain to IndoSat that if the result of ongoing work substantiated a utilization factor materially different from 80% a restatement of the previously issued financial statements and internal control assessment could be required. This was communicated to the company in call and meetings on April 29, 2012 and May 2, 2012.
- EY should communicate to IndoSat that there was a significant deficiency in its internal control over financial reporting relating to these matters. This was communicated to the company during the Audit Committee meeting on April 25, 2012 and then reiterated during phone calls through April 28, 2012.

39. As noted in the RAS-F memo, the lease analysis necessary to support the 2011 financial statements, and any evaluation by the engagement team of that analysis, was still not finished as of July 9, 2012. And by the end of July, Wirahardja, Leali, and the Firm knew that it still was not done.

40. Ultimately, an appropriately supported lease analysis was not completed until February 2013. Although that lease analysis would have resulted in 88% of Indosat's historically leased-out tower slots being classified as finance leases, Indosat did not record the gains associated with the finance leases because it concluded that, under the new methodology adopted, the expenses associated with each leased slot could not be measured reliably and, therefore, under IAS 18, *Revenue*, the gains could not be readily determined and recognized at inception. Indosat therefore classified all of its historical lease-out arrangements as operating leases.

Respondents' Audit Violations

41. In connection with the preparation or issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply

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with the Board's auditing and related professional practice standards.¹⁸ An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed an opinion on the basis of an audit performed in accordance with PCAOB standards.¹⁹

Failure to Exercise Due Professional Care and an Attitude of Professional Skepticism

42. PCAOB standards require auditors to exercise due professional care in planning and performing an audit.²⁰ Due professional care requires an auditor to exercise professional skepticism.²¹ Professional skepticism requires a questioning mind and a critical assessment of audit evidence.²² An auditor must gather and objectively evaluate the audit evidence during the audit.²³ And to do so, the auditor must consider the competency and sufficiency of the evidence.²⁴ Finally, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest.²⁵

43. Wirahardja failed to exercise due professional care and professional skepticism in connection with his role as engagement partner on the 2011 audit. At the time he released the 2011 audit reports, Wirahardja was aware that (1) significant analysis was still required to support management's tower lease accounting; (2) a

¹⁸ See PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*; PCAOB Rule 3200T, *Interim Auditing Standards*. All references to PCAOB standards are to the versions of those standards in effect at the time of the audits.

¹⁹ See AU § 508.07, *Reports on Audited Financial Statements*.

²⁰ See AU § 150, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*; see also Auditing Standard No. 8, *Audit Risk* ("AS 8") ¶ 3.

²¹ See AU § 230.07.

²² Id.

²³ Id.

²⁴ Id. at .08.

²⁵ Id. at .09.

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restatement could result from the completed lease analysis; and (3) the Appendix K reviewer disagreed with the conclusion that a significant unresolved matter did not exist.

44. Leali also failed to exercise due professional care and professional skepticism in connection with his role in the 2011 audit. Leali authorized Wirahardja to release the 2011 EY-Indonesia audit reports without a sufficiently supported lease analysis over management's tower slot lease accounting.²⁶ As Leali was aware, depending on the outcome of a supported lease analysis, a restatement of the 2011 financial statements could have been required. As the Area PPD, Leali was supposed to ensure that the EY-Global policies and applicable professional standards were followed. Rather than do so, Leali failed to meet his professional obligations by authorizing Wirahardja to release the 2011 audit reports.

45. Finally, EY-Indonesia, through the actions of its PPD Wirahardja, failed to exercise due professional care and skepticism and further violated PCAOB standards through its 2011 audit reports which incorrectly stated that the audits were performed in compliance with PCAOB standards when, in fact, they were not.²⁷

Failure to Obtain Sufficient Appropriate Audit Evidence

46. PCAOB standards require auditors to plan and perform the audit to obtain appropriate audit evidence sufficient to support the opinion expressed in the auditor's report.²⁸ As the risk of material misstatement or the risk associated with an internal control increases, the amount of evidence that should be obtained also increases. The higher the quality of the evidence obtained, the smaller the need for additional corroborating evidence.²⁹ And, to be appropriate, audit evidence must be both relevant and reliable.³⁰ Furthermore, the auditor should consider all relevant audit evidence, regardless of whether it corroborates or contradicts management's assertions in the financial statements.³¹ Finally, if audit evidence obtained from one source is

²⁶ See Auditing Standard No. 14, *Evaluating Audit Results* ("AS 14"); Auditing Standard No. 15, *Audit Evidence* ("AS 15").

²⁷ See AU § 508.07.

²⁸ AS 15 ¶ 3.

²⁹ *Id.* at ¶ 5.

³⁰ *Id.* at ¶ 6.

³¹ AS 14 at ¶ 3.

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inconsistent with that obtained from another, or if the auditor has doubts about the reliability of information to be used as audit evidence, the auditor should perform the audit procedures necessary to resolve the matter and should determine the effect, if any, on other aspects of the audit.³²

47. PCAOB standards require auditors to evaluate the results of the audit to determine whether the audit evidence obtained is sufficient and appropriate to support the opinion to be expressed in the auditor's report.³³

48. PCAOB standards also establish requirements for auditors who audit, and express an opinion regarding, an issuer's ICFR.³⁴ Among other things, "the auditor must plan and perform the audit to obtain appropriate evidence that is sufficient to obtain reasonable assurance about whether material weaknesses exist" in the issuer's internal control as of the date specified in management's internal control assessment.³⁵ PCAOB standards provide that "a company's internal control cannot be considered effective if one or more material weaknesses exist."³⁶ In order to obtain reasonable assurance about whether a material weakness exists, the auditor must also evaluate the severity of each control deficiency that is identified during the audit "to determine whether the deficiencies, individually or in combination, are material weaknesses."³⁷

49. As a result of the conduct described above, Respondents failed to obtain sufficient appropriate audit evidence to support the opinions expressed in the audit reports on Indosat's 2011 financial statements and Indosat's ICFR as of December 31, 2011. Specifically, by failing to gather sufficient appropriate audit evidence regarding the reasonableness of the utilization rate assumption and the associated lease classification for tower slots, the Respondents were not in a position to properly conclude as to whether the financial statements were materially misstated. For the same reasons, they were not in a position to determine the severity of the deficiency related to the tower slot lease classification control, and thereby conclude as to whether it represented a material weakness.

³² AS 15 at ¶ 29.

³³ See AS 14 ¶ 2.

³⁴ See PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with an Audit of Financial Statements* ("AS5").

³⁵ AS 5 ¶ 3 (footnote omitted).

³⁶ Id.

³⁷ Id. at ¶ 62.

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50. Lastly, by failing to obtain and evaluate a completed tower slot lease analysis prior to releasing the audit opinion on Indosat's 2011 financial statements, the Respondents also failed to properly evaluate whether the utilization rate assumption provided a reasonable basis for the fair value measurement of the tower slot, and thereby, the determination of lease classification, as required by PCAOB standards.³⁸

F. The Firm and Wirahardja Violated PCAOB Rules and Standards Relating to Audit Documentation, Work Paper Alteration, and Cooperation with PCAOB Inspections.

The Engagement Team Failed to Timely Archive the Audit Work Papers and Improperly Altered and Created Audit Documentation After the Archive Date.

51. Under PCAOB standards, prior to releasing the audit reports on April 29, 2012, EY-Indonesia was required to "have completed all necessary auditing procedures and obtained sufficient evidence to support the representations in the auditor's report."³⁹ And the work papers documenting the 2011 audit had to "contain sufficient information to enable an experienced auditor, having no previous connection with the engagement... [t]o understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, and ... [t]o determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review."⁴⁰

52. The engagement team, under Wirahardja's supervision, was required to assemble a "[a] complete and final set of audit documentation ... for retention as of a date not more than 45 days after the report release date (*documentation completion date*)."⁴¹ And if audit documentation was added after the documentation completion date of June 13, 2012, the documentation had to "indicate the date the information was added, the name of the person who prepared the additional documentation, and the reason for adding it."⁴²

³⁸ AU § 328.28, *Auditing Fair Value Measurements and Disclosures*.

³⁹ AS 3 ¶ 15.

⁴⁰ *Id.* at ¶ 6.

⁴¹ *Id.* at ¶ 15.

⁴² *Id.* at ¶ 16.



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53. In addition to failing to complete all necessary audit procedures and failing to obtain sufficient appropriate audit evidence before releasing the audit reports, Wirahardja and the engagement team failed to assemble the 2011 audit work papers for retention by the documentation completion date. In fact, the 2011 work papers were not archived until July 16, 2012. Archiving was delayed because the audit team was still compiling, creating, and modifying work papers in late June and July 2012.

54. When the Firm learned that the 2011 Indosat audit would be subject to PCAOB inspection, it reiterated the need for Wirahardja and his team to comply with AS 3. On June 29, 2012, EY-Indonesia's CEO directed Wirahardja to ensure that the file was archived because the Firm had just learned it would be inspected in 2012. Because of the pending inspection, Leali also specifically instructed Wirahardja to follow EY-Global documentation protocol.

55. Notwithstanding Leali's instruction that the work papers were not to be changed, over the next five months, numerous members of the engagement team systematically – and improperly – created or modified, and added without proper disclosure, dozens of documents to multiple areas of the 2011 audit work papers. Improperly adding to or modifying the work papers was likely easier because the Firm's work paper system relied heavily on hardcopy work papers. Moreover, contrary to EY policy, access to the hard copy work papers was not adequately restricted or monitored after the documentation completion date, after the archiving date, or after notification of a PCAOB inspection in order to prevent the improper addition or alteration of documentation.

56. When the 2011 audit work papers were officially archived on July 16, 2012, numerous documents that were added after the documentation completion date did not include proper AS 3 disclosure. For example, the final version of an analysis attempting "to determine whether an 80% utilization rate [wa]s appropriate using qualitative and quantitative analysis," was added to the archived work papers on or after July 16, 2012, but was dated April 24, 2012. And spreadsheets summarizing the impact of tower slot lease arrangements were improperly finalized and added to the work papers without any disclosure that they were added after the documentation completion date.

57. After the work papers were officially archived, the engagement team continued to improperly alter the work papers. Documents improperly added to the 2011 work papers after archiving included documents related not only to the tower slot lease issue, but also to fixed assets, journal entry testing, receivables and payables, revenue, expenses, and income taxes. Engagement team members also requested and obtained a backdated legal letter not obtained during the audit.

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58. Much of the improper work paper alteration was done with the knowledge that the altered work papers would likely be reviewed by the PCAOB inspectors. In many instances, work papers related to particular audit areas were improperly added to the audit documentation shortly after the Firm was notified by PCAOB inspectors of the selection of those audit areas for inspection.

59. In early November 2012, Wirahardja and the engagement team learned from certain EY personnel that journal entry testing would likely be a focus of the pending PCAOB inspection. While Wirahardja reminded the engagement team, at the time, that the work papers were not to be changed, over the course of November and early December, at least eight different engagement team members participated in the improper creation and alteration of journal entry work papers. As a result, approximately 60 journal entry work papers were improperly created and/or modified in advance of the PCAOB inspection.

The Engagement Team Created an AU 336 Memo with Wirahardja's Knowledge and Participation.

60. The creation of misleading audit documentation did not end when the PCAOB inspection began. During the course of the inspection, the PCAOB inspectors asked whether the engagement team had prepared a memorandum documenting the engagement team's evaluation of the qualifications of the Telecom Specialist hired by Indosat under AU § 336, *Using the Work of a Specialist*. In response, engagement team members stated that an AU 336 memo existed and that it would be provided to the inspectors.

61. In reality, a memo did not exist. But, rather than tell the inspectors, engagement team personnel, with Wirahardja's knowledge and participation, created a memo evaluating the Telecom Specialist and presented it to the inspectors as if it had been created during the 2011 audit. While the memo was given to the inspectors in hard copy, Wirahardja instructed that the memo be cut-and-pasted into an electronic document with a creation date from the 2011 audit period. In addition, Wirahardja printed out information about the Telecom Specialist and directed that it be attached to the hard copy.

62. Wirahardja, by participating in the improper creation of the AU 336 memo, violated PCAOB standards.⁴³ And by allowing the memo to be given to the PCAOB inspectors without disclosing to them when the memo had been prepared, Wirahardja violated PCAOB Rule 4006.

⁴³

AS 3 ¶ 16.

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63. As the independent auditor of Indosat's 2011 financial statements and internal controls, EY-Indonesia was required to comply with PCAOB standards in its audits. The Firm – through multiple personnel knowingly creating misleading audit documentation – failed to comply with AS 3. In addition, the Firm – through Wirahardja and numerous other members of the Indosat engagement team – violated its duty to cooperate with the PCAOB inspectors by making misleading work papers available to the inspection team.

G. EY-Indonesia Violated the Board's Quality Control Standards.

64. PCAOB rules require that a registered public accounting firm comply with the Board's quality control standards.⁴⁴ Accordingly, EY-Indonesia was required to have a system of quality control that provided the Firm with "reasonable assurance that its personnel comply with the applicable professional standards and the firm's standards of quality."⁴⁵ Among other things, the Firm's system of quality control needed to include the element of monitoring.⁴⁶ Monitoring was necessary to provide the Firm with reasonable assurance that its quality control policies and procedures were suitably designed and were being effectively applied.⁴⁷

65. An effective quality control monitoring system includes policies and procedures that provide a firm with reasonable assurance that its auditors comply with the requirements of AS 3. EY-Indonesia's quality control system did not provide reasonable assurance that its engagement personnel would comply with audit documentation requirements. Nor did it provide reasonable assurance that audit work papers would be archived timely or that hardcopy work papers would not be improperly altered after archiving.

H. The Firm and Wirahardja Failed to Cooperate with the Board's Investigation.

66. Section 105(b)(3)(A) of the Act authorizes the Board to sanction an associated person of a registered public accounting firm for "refus[ing] to...cooperate

⁴⁴ PCAOB Rule 3100; PCAOB Rule 3400T, *Interim Quality Control Standards*.

⁴⁵ QC § 20.03.

⁴⁶ *Id.* at .07

⁴⁷ *Id.* at .20; see also QC § 30.



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with the Board in connection with an investigation."⁴⁸ Board rules include procedures for implementing that authority.⁴⁹ Noncooperation with a Board investigation includes (a) "knowingly mak[ing] any false material declaration or mak[ing] or us[ing] any other information, including any book, paper, document, record, recording, or other material, knowing the same to contain any false material declaration;" and (b) "abus[ing] the Board's processes for the purpose of obstructing an investigation."⁵⁰

67. As discussed above, Wirahardja knew of, and participated in, the creation of the AU 336 memo in December 2012. During the investigation of this matter, PCAOB staff asked Wirahardja about the creation of the AU 336 memo. In response, and under oath, Wirahardja failed to disclose his knowledge that the memo had been improperly prepared during the PCAOB inspection or his involvement in the memo's improper preparation. Wirahardja thereby failed to cooperate with a Board investigation.

68. EY-Indonesia also failed to cooperate with the Board's investigation by failing to timely disclose its full knowledge of the improper document creation including Wirahardja's involvement. Soon after the PCAOB investigators made EY-Indonesia aware of information suggesting that audit work papers may have been improperly altered, the Firm commenced an internal investigation.⁵¹ During the course of that investigation, the engagement team member who was directed by Wirahardja to copy-and-paste the AU 336 memo into a document with a creation date during the 2011 audit period and improperly alter the memo informed a member of the Firm's senior leadership that Wirahardja was involved in the improper alteration of the AU 336 memo. The member of senior leadership did not promptly follow up on that information or inform those performing the internal investigation. Instead, the member of senior leadership allowed the internal investigators to conclude – and to inform the PCAOB staff – that no evidence existed that any senior Firm personnel – including Wirahardja – knew of or participated in the improper conduct. Only after the PCAOB investigative staff informed the Firm that it had learned from the engagement team member of

⁴⁸ 15 U.S.C. § 7215(b)(3)(A).

⁴⁹ See PCAOB Rules 5110, 5200(a)(3).

⁵⁰ PCAOB Rule 5110(a).

⁵¹ Throughout the course of its internal investigation, the Firm voluntarily disclosed its findings to the PCAOB investigative staff, including its findings that improper creation and alteration of work papers occurred beyond the scope of the improper creation raised by the PCAOB investigative staff.

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Wirahardja's involvement and senior management's knowledge,⁵² did EY-Indonesia conduct a further internal investigation and then make its own disclosure to the PCAOB investigative staff regarding the scope of Wirahardja's involvement and senior management's knowledge.⁵³ Through its actions, EY-Indonesia obstructed the Board's investigation.

IV.

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondents' Offers. The Board, in determining the appropriate sanctions as to EY-Indonesia, has taken into account the remedial steps taken by the Firm beginning in November 2014 to improve its system of quality controls.⁵⁴ Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(b)(3)(A)(iii) and 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5) and (b)(1), EY-Indonesia and Roy Iman Wirahardja are hereby censured;
- B. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), James Randall Leali is hereby censured;
- C. Pursuant to Section 105(b)(3)(A)(i) and 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2) and (b)(1), Roy Iman Wirahardja is barred from

⁵² The engagement team member – who was no longer with the Firm – provided substantial assistance to the PCAOB investigation by confirming the scope of the improper document alteration and identifying those at the Firm who were involved in or had knowledge of it.

⁵³ In addition, the Firm disclosed that the member of senior management who was told of the improper conduct would be removed from leadership as a result of the internal investigation.

⁵⁴ In response to the findings of its internal investigation, the Firm took measures to improve its quality controls related to AS 3 compliance and took disciplinary action against several individuals (including terminating five senior personnel).

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being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);⁵⁵

- D. After five (5) years from the date of this Order, Roy Iman Wirahardja may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- E. Pursuant to Section 105(c)(4)(C) of the Act and PCAOB Rule 5300(a)(3), for a period of one year from the date of this Order, James Randall Leali's role in any "audit," as that term is defined in Section 110(1) of the Act and PCAOB Rule 1001(a)(v), shall be restricted as follows: Leali shall not (1) serve, or supervise the work of another person serving, as an "engagement partner," as that term is used in the Board's Auditing Standard No. 10 or AS 1201, *Supervision of the Audit Engagement*; (2) serve, or supervise the work of another person serving, as an "engagement quality reviewer," as that term is used in the Board's Auditing Standard No. 7 or AS 1220, *Engagement Quality Review*; (3) serve, or supervise the work of another person serving, in any role that is equivalent to, but differently denominated from, engagement partner (such as "lead partner" or "practitioner-in-charge") or engagement quality reviewer (such as "concurring partner"); (4) exercise authority, or supervise the work of another person exercising authority, either to sign a registered public accounting firm's name to an audit report, or to consent to the use of a previously issued audit report, for any issuer, broker, or dealer; (5) serve, or supervise the work of another person serving, as the "other auditor," or "another auditor," as those terms are used in the Board's Interim Auditing Standard AU Section 543 or AS 1205, *Part of the Audit Performed by Other Independent Auditors*; (6) serve, or supervise the work of another serving as, a professional practice director; and

⁵⁵ As a consequence of the bar imposed in this Order, the provisions of Section 105(c)(7)(B) of the Act will apply with respect to Wirahardja. Section 105(c)(7)(B) provides: "It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any issuer, broker, or dealer in an accountancy or a financial management capacity, and for any issuer, broker, or dealer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission."

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- F. Pursuant to Section 105(c)(4)(D) of the Act and PCAOB Rule 5300(a)(4), civil money penalties in the amount of \$1,000,000 payable by EY-Indonesia; \$20,000 payable by Roy Iman Wirahardja; and \$10,000 payable by James Randall Leali are imposed. All funds collected by the Board as a result of the assessment of these civil money penalties will be used in accordance with Section 109(c)(2) of the Act. EY-Indonesia, Roy Iman Wirahardja, and James Randall Leali shall pay these civil money penalties within 30 days of the issuance of this Order by (1) wire transfer in accordance with instructions furnished by Board staff; or (2) United States Postal Service money order, bank money order, certified check, or bank cashier's check (a) made payable to the Public Company Accounting Oversight Board, (b) delivered to the Controller, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington D.C. 20006, and (c) submitted under cover letters which identify each as a Respondent in these proceedings, set forth the title and PCAOB Release number of these proceedings, and state that payment is made pursuant to this Order, a copy of which cover letters and money orders or checks shall be sent to Office of the Secretary, Attention: Phoebe W. Brown, Secretary, Public Company Accounting Oversight Board, 1666 K Street, N.W., Washington, D.C. 20006.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown
Secretary

February 9, 2017