IMPACT OF IMPLEMENTATION OF EXPECTED CREDIT LOSS (ECL) IN PSAK 71 ON AUDIT WORKING PAPERS (CASE STUDY AT KAP "X" ON CLIENT "X" WORKING PAPER)

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ABSTRACT

This study aims to evaluate the impact of the implementation of expected credit loss (ECL) in PSAK 71 on audit working paper which should be a concern for the auditor to estimate ECL in the client financial statement by creating audit working papers that are suitable to coup the requirement of calculation of ECL on audit working papers for the client. Perform simulations on audit work papers that calculate the percentage of losses on accounts receivable and the macroeconomic impact on accounts receivable so that a regression analysis of these factors can be carried out on the expected credit loss so can be used to generate the expected credit loss value.

Keywords: *PSAK 71, Expected Credit Loss, Audit Working Paper*

Introduction

The new revenue and leasing criteria aren't the only ones to be concerned about in 2020; there's also PSAK 71, a Financial Instruments to consider. PSAK 71 impacts more than simply financial institution, contrary to popular opinion. This standard might cause major changes to financial reporting for any organization, especially those with long-term loans, equity investments, or other non-traditional financial assets [1]. It's possible that this is true even for an organization who simply holding short-term receivables.

Possible consequences of PSAK 71 include[1]:

1. More income statement volatility. PSAK 71 increases the possibility of more assets being evaluated at fair value, with changes in fair value being reflected in profit and loss as they arise.
2. Trade receivables, including impairment losses on receivables and loans, are recognized earlier. Even if the asset is highly expected to be collected entirely, entities

must begin preparing for projected credit losses in the first reporting period a loan is recorded.

3. Significant new disclosure requirements. Entities may require new systems and methods to collect the required data if significant changes occur.

PSAK 71 also includes significant new hedging requirements. With careful planning, the changes that PSAK 71 introduces might provide an excellent opportunity for balance-sheet optimization or enhanced efficiency of the reporting process and cost savings [1].

Previous Related Research

Previous research consists of researches conducted by previous researchers related to this study. In addition, the research results of the related topic are presented in the table below:

No.	Researcher	Research Title	Research Result
1.	[2]	Application of PSAK 71 and its Impact on Banks' Minimum Capital Adequacy Requirements	Finding of this research, the implementation of PSAK 71 has a positive impact, and it could give relevant information for the user of financial report to give valuation about total, period and uncertainty about future cash flow. But there is some negative impact, such as it will increase CKPN and decrease KPPM (or Capital Adequacy Ratio). There will be about 55,68% increase in CKPN and 0,28% decrease in KPPM. It is crucial for Bank to make good preparation from the strategic aspect, technical and operational aspect because the decreasing of CKPN could impact the Bank's performance, and there will be more risk to be handled for the Bank.
2.	[3]	Evaluation of the Implementation of PSAK 71 Regarding Financial Instruments at PT. Manado's North Sulawesi Venture Facility	The study results found differences in the formation of CKPN in PSAK 55 appearing if an event occurred, which resulted in recognition of defaults and using the LIM Loss Incurred Method but in PSAK 71 CKPN at the beginning of the recognized period, using the ECL Expected Credit Loss method. In conclusion, the application of PSAK 71 to PT The North Sulawesi Venture Facility will begin in 2020 with the finalization of the December 2020 report, but the concrete impact will be on the number of CKPNs that become larger.
3.	[4]	The Analysis and Implementation of Psak71 (Ifrs9): Financial Instruments	The result of this research shows that there is no significant impact on PT X financial statements, specifically its Statement of Financial Position, Income Statement, and Statement of Cash Flow.

		at PT X for the Year 2019	
4.	[5]	Innovation of impairment loss allowance model of Indonesian financial accounting standards 71	The analysis findings found that implementation of lifetime ECL models on PSAK 71 is more prudent than the implementation of incurred loss model in PSAK 55. For the authorities, the enforcement of PSAK 71 will be more accountable to the community as the public funds entrusted in the banks become more secure with the increase in reserves of impairment losses formed.

Literature Review

IFRS 9: Financial Instruments replaces IAS 39 "Financial Instruments: Recognition and Measurement." As an adaptation of the international accounting standard, the Indonesian Accountants Association's Standards Board created Indonesian Financial Accounting Standards (PSAK) 71, which is effective on January 1, 2020. The purpose of PSAK 71 is to present useful and relevant financial information to the user so that they can make a better assessment regarding the timing, monetary value, and the uncertainty of entities' future cash flows, especially to financial assets and liabilities [6]. Under PSAK 71, the impairment method requires entities to measure the loss allowance equal to lifetime expected credit losses (ECL) for all financial instruments with significant increases in credit risk that have existed at the date of initial recognition[7, 8].

Table 1

PSAK 71's new model for classifying and measuring financial assets after initial recognition [1].

Loans and receivables (PWC, 2019) "Basic" loans and receivables, where the entity's business plan for realizing these assets is either: Collecting contractual cash flows; or selling these assets and collecting contractual cash flows All other loans and receivables	Amortized cost FVOCI FVPL
Mandatorily redeemable preferred shares and "puttable" instruments[1] (e.g., investments in mutual-fund units)	FVPL
Investments in equity instruments Entity elects to recognize only dividend income on a qualifying investment in profit and loss at the time of initial recognition, with no recycling of changes in fair value accumulated in equity through OCI [1]. Other	FVOCI FVPL
Freestanding derivative financial assets [1] (e.g., swaps with a positive fair value at the balance sheet date, forwards, and purchased options)	FVPL
Note: To avoid an accounting mismatch, FVPL may be used if an asset qualifies for FVOCI	

Table 2

PSAK 71 classification and measurement categories

Amortized Cost	The asset is measured at the amount recognized at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between that initial amount and the maturity amount and any loss allowance. Interest income is calculated using the effective interest method and is recognized in profit and loss. Changes in fair value are recognized in profit and loss when the asset is derecognized or reclassified .
FVOCI	The asset is measured at fair value. Loans and receivables. Impairment gains, losses, interest revenue, and Gains and losses on foreign exchange are recognized in profit and loss on the same basis as assets at amortized cost. Changes in fair value are recognized initially in other comprehensive income (OCI). Fair value changes are first recognized in other comprehensive income (OCI). When an asset is reclassified or derecognized, changes in fair value that were previously recognized in OCI and accumulated in equity are reclassified to profit and loss on the assumption that an asset evaluated at FVOCI has the same effect on profit and loss as if it were valued at amortized cost . Investments in equity instruments. When the entity's entitlement to receive payment is established, dividends are recognized. Economic benefits will almost certainly flow to the entity, and the amount can be accurately calculated. Dividends are declared in profit and loss unless they clearly indicate a partial recovery of the investment's cost, in which case they are recorded in OCI. Even if the asset is sold or impaired, changes in fair value are recognized in OCI and are never converted to profit and loss[1].
FVPL	The asset is measured at fair value. Changes in fair value are recognized in profit and loss as they arise [1].

PSAK 71 makes other changes to the PSAK 55 requirements for classifying and measuring financial assets and liabilities. These include [1]:

1. It allows trade receivables that do not have a significant financing component to be measured at undiscounted invoice price rather than fair value.
2. It eliminates the exemption allowing for measurement at cost rather than fair value of investments in certain non-traded investments in equity instruments and derivatives settled by the delivery of those instruments.
3. Restricting optional FVPL and FVOCI designations.
4. Permitting OCI treatment of changes in the fair value attributable to the issuer's credit risk for liabilities designated as FVPL.
5. Setting new criteria for reclassifying financial assets and liabilities.

While these other changes to classification and measurement requirements pale in significance compared to those discussed earlier, they can affect some companies' financial statements, and their implications need to be evaluated [1].

Under the "expected credit loss" model, an entity calculates the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The allowance is the sum of these probability-weighted outcomes [1]. Because every loan and receivable carries with it some risk of default, every such asset has an expected loss attached to it from the moment of its origination or acquisition [1]. The phrase "expected credit loss" can be confusing to describe the new impairment model. Because expected credit losses represent neither possible outcomes weighted by the probability of their occurrence, these amounts are not necessarily "expected" nor "losses," at least as those terms are generally understood. In effect, they represent measures of an asset's credit risk [1].

PSAK 71 establishes not one but three different approaches for measuring and recognizing expected credit losses [1]:

1. A general approach that applies to all loans and receivables not eligible for the other methods;
2. A simplified approach is required for certain trade receivables and so-called "PSAK 72 contract assets" and otherwise optional for these assets and lease receivables.
3. A "credit adjusted approach" applies to loans that are credit impaired at initial recognition (e.g., loans acquired at a deep discount due to their credit risk). A distinguishing factor among the approaches is whether the allowance for expected credit losses at any balance sheet date is calculated by considering possible defaults only for the next 12 months ("12-month ECLs") or for the entire remaining life of the asset ("lifetime ECLs"). For entities with only short-term receivables less than a year in duration, the simplified and general approach would likely have little practical difference.

Table 3

PSAK 71 approaches for measuring and recognizing expected credit losses.

	General Approach	Simplified Approach	Credit Adjusted Approach
Timing of initial recognition Measurement basis of loss allowance	Same period as the asset is recognized 12-month ECLs unless a significant increase in credit risk occurs, then lifetime ECLs unless the increase reverses	Same as a general approach Lifetime ECLs	Cumulative change in lifetime ECLs since initial recognition of the asset.

RESEARCH METHOD

[9] stated that research methodology is systematic and objective to collect information or data understudy used as guidelines for conducting research. The object of this research is KAP "X," the study aims to make a systematic, factual, and accurate description and create an audit working paper for the client to estimate expected credit loss.

Data collection technique[10] :

1. Library Research

The research technique is carried out through books, magazines, education, and training to obtain secondary data related to the research.

2. Field Research (Field Research)

The research was conducted by collecting data and information directly at "X" Cooperative as the object of research, including by Observation, namely by making direct observations of the company to obtain actual data and Interview which collecting data by asking questions directly to the management of Cooperative systematically based on research objectives.

RESULTS & DISCUSSION

Expected credit losses are calculated by: (a) identifying scenarios in which a loan or receivable defaults; (b) estimating the cash shortfall that would be incurred in each scenario if a default were to happen; (c) multiplying that loss by the probability of the default happening; and (d) summing the results of all such possible default events. Because every loan and receivable has at least some probability of defaulting in the future, every loan or receivable has an expected credit loss associated with it from the moment of its origination or acquisition.

a. Identifying potential default scenarios for a loan or receivable.

In identifying scenarios in which a loan or receivable defaults, the first step is to make an aging schedule of accounts receivable per month and analyze the aging of accounts receivable per month for eight years as displayed in table 4.

Table 4

Aging Analysis

Date	Current	1-30 DPD	31-60 DPD	61-90 DPD	>90 DPD	Unrecovered
01/31/10	92.839.696					
02/28/10	76.647.848	88.383.391				
03/31/10	78.494.245	72.968.751	84.229.371			
04/30/10	67.514.454	74.805.015	69.466.251	80.186.361		
05/31/10	39.702.403	64.273.760	71.214.375	66.131.871	76.417.602	4.432.221
06/30/10	85.031.465	37.995.200	61.188.620	67.796.085	63.089.875	3.596.123
07/31/10	30.310.017	67.174.857	37.805.224	58.251.566	64.609.669	3.682.751
08/31/10	84.195.077	21.217.012	43.663.657	36.935.704	55.572.055	3.167.607
09/30/10	29.002.772	56.410.702	17.185.780	23.141.738	34.352.631	893.168
10/31/10	94.583.872	23.202.218	50.769.631	12.717.477	22.030.935	8.371.755
11/30/10	60.103.029	58.642.001	19.025.818	30.461.779	12.119.756	1.211.976
12/31/10	90.355.368	41.471.090	43.395.080	12.557.040	29.030.075	3.251.368
01/31/11	98.295.884	72.284.294	33.176.872	25.169.147	11.954.302	3.060.301
02/28/11	52.248.181	62.909.366	57.827.436	28.863.879	23.986.197	4.557.377
03/31/11	76.598.319	44.410.954	44.036.556	50.309.869	27.507.276	5.226.383
04/30/11	42.426.625	55.916.773	25.758.353	34.348.514	14.579.295	4.956.960
05/31/11	24.862.858	31.819.969	36.905.070	15.197.428	32.853.717	13.550.264
06/30/11	75.415.756	19.393.029	24.183.176	25.095.448	9.270.431	3.615.468
07/31/11	17.174.842	58.824.290	11.247.957	15.477.233	16.312.041	6.524.816
08/31/11	37.553.720	9.961.408	35.882.817	6.298.856	12.846.103	5.138.441
09/30/11	5.357.388	22.156.695	6.574.530	27.988.597	5.668.970	1.020.415
10/31/11	31.030.154	4.553.780	19.054.758	3.681.737	14.274.184	2.141.128
11/30/11	47.576.450	17.376.886	2.322.428	12.766.688	2.577.216	386.582
12/31/11	74.665.237	42.818.805	14.422.816	1.718.596	7.660.013	4.059.807
01/31/12	95.889.155	67.198.713	37.680.548	12.547.850	1.013.972	395.449
02/29/12	98.038.574	47.944.578	56.446.919	27.883.606	6.650.360	379.071
03/31/12	5.066.928	85.293.559	27.807.855	34.997.090	18.403.180	1.104.191
04/30/12	63.885.181	3.040.157	52.029.071	13.903.927	28.697.614	4.304.642
05/31/12	72.078.508	33.220.294	1.672.086	32.258.024	11.123.142	4.782.951
06/30/12	22.016.504	57.662.806	28.901.656	1.120.298	18.709.654	1.964.514
07/31/12	18.085.135	15.411.553	29.984.659	24.855.424	761.802	15.236

08/31/12	11.482. 597	14.287.257	9.863.394	18.590.489	18.641.568	372.831
09/30/12	73.455.659	9.760.207	9.429.589	7.989.349	11.897.913	5.235.082
10/31/12	58.951.855	49.215.292	8.100.972	4.809.091	5.193.077	-
11/30/12	65.064.266	53.056.670	36.911.469	4.941.593	3.029.727	636.243
12/31/12	1.518.746	53.352.698	39.261.935	22.146.881	2.816.708	704.177
01/31/13	44.219.021	1.078.310	34.679.254	28.661.213	19.932.193	797.288
02/28/13	75.518.500	38.912.738	539.155	18.726.797	15.763.667	4.098.553
03/31/13	34.541.939	40.024.805	31.130.191	425.932	10.674.274	629.782
04/30/13	62.209.873	24.179.357	29.618.356	21.791.134	225.744	2.257
05/31/13	31.111.657	34.215.430	12.331.472	25.175.602	11.985.123	3.475.686
06/30/13	9.943.028	24.578.209	25.319.418	6.658.995	14.853.605	89.122
07/31/13	11.082.003	5.766.956	18.433.657	17.976.787	4.128.577	1.238.573
08/31/13	62.128.308	6.649.202	3.460.174	10.138.511	10.606.304	3.181.891
09/30/13	6.631.498	42.868.533	5.917.790	1.903.096	6.285.877	1.382.893
10/31/13	12.002.470	4.244.159	26.578.490	3.669.030	1.522.476	152.248
11/30/13	88.345.929	6.001.235	2.928.470	20.465.437	2.641.701	951.012
12/31/13	4.114.633	60.075.232	4.140.852	2.225.637	11.051.336	948.205
01/31/14	27.360.914	2.962.536	45.056.424	2.940.005	1.513.433	90.806
02/28/14	1.813.091	14.774.894	2.133.026	35.144.011	2.263.804	1.652.577
03/31/14	53.306.480	1.595.520	12.410.911	1.215.825	31.629.610	1.790.236
04/30/14	18.330.245	38.913.730	861.581	10.052.838	1.082.084	346.267
05/31/14	3.309.930	14.114.289	24.515.650	430.790	5.629.589	489.774
06/30/14	57.462.514	2.350.050	9.033.145	19.612.520	366.172	36.617
07/31/14	31.962.532	41.947.635	1.316.028	5.419.887	14.121.014	159.567
08/31/14	87.143.379	22.054.147	29.363.345	881.739	4.064.915	1.504.019
09/30/14	33.717.829	54.028.895	16.540.610	19.967.074	476.139	14.284
10/31/14	12.106.802	20.230.697	39.981.382	14.059.519	14.975.306	149.753
11/30/14	38.266.172	6.779.809	10.924.577	32.784.733	8.998.092	89.981
12/31/14	17.870.061	29.464.952	5.084.857	6.227.009	19.342.993	5.029.178
01/31/15	55.989.748	14.296.049	26.518.457	4.474.674	3.798.475	75.970
02/28/15	33.999.975	48.711.081	7.290.985	14.585.151	2.908.538	494.451
03/31/15	36.178.044	30.599.978	38.968.865	4.447.501	11.668.121	746.760
04/30/15	79.999.687	26.771.753	23.255.983	31.175.092	2.801.925	-
05/31/15	79.401.073	44.799.825	23.826.860	15.348.949	26.810.579	-
06/30/15	75.636.277	66.696.901	28.671.888	17.155.339	10.744.264	-
07/31/15	27.198.474	41.599.952	59.360.242	17.489.852	12.523.397	250.468
08/31/15	39.299.982	24.478.627	21.631.975	46.894.591	9.094.723	545.683
09/30/15	24.018.566	30.260.986	13.952.817	11.032.307	36.108.835	722.177
10/31/15	8.864.479	12.970.026	23.906.179	8.092.634	9.487.784	948.778
11/30/15	49.961.191	6.825.649	8.300.816	19.364.005	6.797.813	475.847
12/31/15	59.511.610	31.975.162	3.958.876	5.644.555	10.262.923	821.034
01/31/16	93.889.605	39.872.779	27.818.391	2.494.092	4.967.209	248.360
02/29/16	93.766.704	76.989.476	27.910.945	13.909.196	1.945.392	427.986
03/31/16	92.569.045	65.636.693	56.202.318	19.258.552	11.961.908	516.754
04/30/16	62.127.609	58.318.498	34.131.080	41.027.692	12.710.644	1.271.064
05/31/16	26.214.884	37.897.841	30.908.804	26.280.932	22.975.507	3.905.836
06/30/16	19.902.850	15.466.782	23.496.662	18.854.371	20.499.127	1.434.939
07/31/16	73.657.601	15.922.280	13.765.436	13.158.131	12.066.797	3.740.707
08/31/16	96.440.255	55.979.777	8.279.586	9.085.187	6.842.228	684.223
09/30/16	79.314.684	48.220.128	48.702.406	4.305.385	7.904.113	1.738.905
10/31/16	80.900.900	50.761.398	35.682.894	25.325.251	2.841.554	539.895
11/30/16	54.915.297	46.113.513	37.055.820	23.907.539	12.915.878	2.454.017
12/31/16	93.351.699	48.874.614	29.973.783	30.015.214	17.213.428	8.950.983
01/31/17	20.640.620	48.542.883	43.009.661	18.883.484	24.912.628	4.733.399

02/28/17	23.914.102	16.925.308	35.921.734	21.504.830	10.574.751	105.748
03/31/17	11.030.668	17.935.577	9.985.932	21.553.040	18.924.251	946.213
04/30/17	73.658.901	6.397.787	13.092.971	7.189.871	17.889.023	3.452.582
05/31/17	36.289.531	58.927.121	4.414.473	7.070.204	5.248.606	881.766
06/30/17	89.285.990	26.854.253	47.141.697	2.207.237	4.454.229	890.846
07/31/17	82.163.409	51.785.874	21.483.402	25.927.933	1.456.776	276.787
08/31/17	77.786.167	64.087.459	34.178.677	18.260.892	15.038.201	7.519.101
09/30/17	71.421.955	56.783.902	32.043.730	26.317.581	14.973.931	299.479
10/31/17	77.356.494	35.710.978	44.859.283	27.557.607	20.527.713	615.831
11/30/17	25.682.284	44.866.767	26.426.123	37.233.204	20.392.629	611.779
12/31/17	62.626.308	20.545.827	26.022.725	15.327.152	30.158.896	2.412.712

In the second stage, the loss rate calculation for each month contained in the aging analysis for eight years so can calculate the average loss rate percentage and calculate average repayment of receivables percentage per each period of the receivables settlement date.

Table 5

Loss Rates Calculation

Date	1-30 DPD	31-60 DPD	61-90 DPD	>90 DPD	Unrecovered	Loss Rates
01/31/10						
02/28/10	95,20%					
03/31/10	95,20%	95,30%				
04/30/10	95,30%	95,20%	95,20%			
05/31/10	95,20%	95,20%	95,20%	95,30%	5,80%	4,77%
06/30/10	95,70%	95,20%	95,20%	95,40%	5,70%	4,69%
07/31/10	79,00%	99,50%	95,20%	95,30%	5,70%	4,69%
08/31/10	70,00%	65,00%	97,70%	95,40%	5,70%	4,69%
09/30/10	67,00%	81,00%	53,00%	93,01%	2,60%	2,25%
10/31/10	80,00%	90,00%	74,00%	95,20%	38,00%	9,85%
11/30/10	62,00%	82,00%	60,00%	95,30%	10,00%	4,00%
12/31/10	69,00%	74,00%	66,00%	95,30%	11,20%	3,86%
01/31/11	80,00%	80,00%	58,00%	95,20%	25,60%	10,55%
02/28/11	64,00%	80,00%	87,00%	95,30%	19,00%	4,82%
03/31/11	85,00%	70,00%	87,00%	95,30%	19,00%	8,70%
04/30/11	73,00%	58,00%	78,00%	28,98%	34,00%	5,49%
05/31/11	75,00%	66,00%	59,00%	95,65%	41,24%	13,79%
06/30/11	78,00%	76,00%	68,00%	61,00%	39,00%	6,92%
07/31/11	78,00%	58,00%	64,00%	65,00%	40,00%	8,52%
08/31/11	58,00%	61,00%	56,00%	83,00%	40,00%	12,11%
09/30/11	59,00%	66,00%	78,00%	90,00%	18,00%	4,10%
10/31/11	85,00%	86,00%	56,00%	51,00%	15,00%	2,84%
11/30/11	56,00%	51,00%	67,00%	70,00%	15,00%	2,25%
12/31/11	90,00%	83,00%	74,00%	60,00%	53,00%	10,81%
01/31/12	90,00%	88,00%	87,00%	59,00%	39,00%	7,38%
02/29/12	50,00%	84,00%	74,00%	53,00%	5,70%	1,22%
03/31/12	87,00%	58,00%	62,00%	66,00%	6,00%	2,32%
04/30/12	60,00%	61,00%	50,00%	82,00%	15,00%	5,77%
05/31/12	52,00%	55,00%	62,00%	80,00%	43,00%	4,99%
06/30/12	80,00%	87,00%	67,00%	58,00%	10,50%	2,00%
07/31/12	70,00%	52,00%	86,00%	68,00%	2,00%	0,30%
08/31/12	79,00%	64,00%	62,00%	75,00%	2,00%	0,58%
09/30/12	85,00%	66,00%	81,00%	64,00%	44,00%	7,26%

10/31/12	67,00%	83,00%	51,00%	65,00%	0,00%	0,00%
11/30/12	90,00%	75,00%	61,00%	63,00%	21,00%	3,52%
12/31/12	82,00%	74,00%	60,00%	57,00%	25,00%	6,13%
01/31/13	71,00%	65,00%	73,00%	90,00%	4,00%	1,09%
02/28/13	88,00%	50,00%	54,00%	55,00%	26,00%	6,95%
03/31/13	53,00%	80,00%	79,00%	57,00%	5,90%	0,97%
04/30/13	70,00%	74,00%	70,00%	53,00%	1,00%	0,15%
05/31/13	55,00%	51,00%	85,00%	55,00%	29,00%	7,86%
06/30/13	79,00%	74,00%	54,00%	59,00%	0,60%	0,12%
07/31/13	58,00%	75,00%	71,00%	62,00%	30,00%	3,59%
08/31/13	60,00%	60,00%	55,00%	59,00%	30,00%	5,11%
09/30/13	69,00%	89,00%	55,00%	62,00%	22,00%	4,44%
10/31/13	64,00%	62,00%	62,00%	80,00%	10,00%	1,53%
11/30/13	50,00%	69,00%	77,00%	72,00%	36,00%	8,58%
12/31/13	68,00%	69,00%	76,00%	54,00%	8,58%	1,53%
01/31/14	72,00%	75,00%	71,00%	68,00%	6,00%	1,37%
02/28/14	54,00%	72,00%	78,00%	77,00%	73,00%	13,77%
03/31/14	88,00%	84,00%	57,00%	90,00%	5,66%	2,03%
04/30/14	73,00%	54,00%	81,00%	89,00%	32,00%	8,42%
05/31/14	77,00%	63,00%	50,00%	56,00%	8,70%	1,79%
06/30/14	71,00%	64,00%	80,00%	85,00%	10,00%	2,02%
07/31/14	73,00%	56,00%	60,00%	72,00%	1,13%	0,30%
08/31/14	69,00%	70,00%	67,00%	75,00%	37,00%	8,21%
09/30/14	62,00%	75,00%	68,00%	54,00%	3,00%	0,43%
10/31/14	60,00%	74,00%	85,00%	75,00%	1,00%	0,26%
11/30/14	56,00%	54,00%	82,00%	64,00%	1,00%	0,28%
12/31/14	77,00%	75,00%	57,00%	59,00%	26,00%	5,77%
01/31/15	80,00%	90,00%	88,00%	61,00%	2,00%	0,23%
02/28/15	87,00%	51,00%	55,00%	65,00%	17,00%	4,08%
03/31/15	90,00%	80,00%	61,00%	80,00%	6,40%	1,95%
04/30/15	74,00%	76,00%	80,00%	63,00%	0,00%	0,00%
05/31/15	56,00%	89,00%	66,00%	86,00%	0,00%	0,00%
06/30/15	84,00%	64,00%	72,00%	70,00%	0,00%	0,00%
07/31/15	55,00%	89,00%	61,00%	73,00%	2,00%	0,69%
08/31/15	90,00%	52,00%	79,00%	52,00%	6,00%	0,68%
09/30/15	77,00%	57,00%	51,00%	77,00%	2,00%	0,91%
10/31/15	54,00%	79,00%	58,00%	86,00%	10,00%	1,25%
11/30/15	77,00%	64,00%	81,00%	84,00%	7,00%	1,75%
12/31/15	64,00%	58,00%	68,00%	53,00%	8,00%	2,09%
01/31/16	67,00%	87,00%	63,00%	88,00%	5,00%	1,03%
02/29/16	82,00%	70,00%	50,00%	78,00%	22,00%	4,83%
03/31/16	70,00%	73,00%	69,00%	86,00%	4,32%	1,03%
04/30/16	63,00%	52,00%	73,00%	66,00%	10,00%	2,14%
05/31/16	61,00%	53,00%	77,00%	56,00%	17,00%	4,16%
06/30/16	59,00%	62,00%	61,00%	78,00%	7,00%	1,53%
07/31/16	80,00%	89,00%	56,00%	64,00%	31,00%	4,04%
08/31/16	76,00%	52,00%	66,00%	52,00%	10,00%	1,10%
09/30/16	50,00%	87,00%	52,00%	87,00%	22,00%	6,63%
10/31/16	64,00%	74,00%	52,00%	66,00%	19,00%	2,71%
11/30/16	57,00%	73,00%	67,00%	51,00%	19,00%	3,33%
12/31/16	89,00%	65,00%	81,00%	72,00%	52,00%	9,28%
01/31/17	52,00%	88,00%	63,00%	83,00%	19,00%	5,97%
02/28/17	82,00%	74,00%	50,00%	56,00%	1,00%	0,13%
03/31/17	75,00%	59,00%	60,00%	88,00%	5,00%	1,72%

04/30/17	58,00%	73,00%	72,00%	83,00%	19,30%	3,70%
05/31/17	80,00%	69, 00%	54,00%	73,00%	16,80%	4,27%
06/30/17	74,00%	80,00%	50,00%	63,00%	20,00%	3,73%
07/31/17	58,00%	80,00%	55,00%	66,00%	19,00%	2,51%
08/31/17	78,00%	66,00%	85,00%	58,00%	50,00%	10,21%
09/30/17	73,00%	50,00%	77,00%	82,00%	2,00%	0,83%
10/31/17	50,00%	79,00%	86,00%	78,00%	3,00%	0,69%
11/30/17	58,00%	74,00%	83,00%	74,00%	3,00%	0,74%
12/31/17	80,00%	58,00%	58,00%	81,00%	8,00%	3,10%
Average	71,76%	71,54%	68,75%	72,19%	16,40%	3,81%

Note: DPD is Day Past Due

In the third stage, make the provision matrix form the result of calculating the percentage of average loss rate and calculating the percentage of average repayment of receivables percentage per period of the receivables settlement date.

Table 6

Provision Matrix Calculation

Aging Bucket	1-30 DPD	31-60 DPD	61-90 DPD	>90 DPD	Unrecovered	Loss Rates
Current	71,7642%	71,5362%	68,7473%	72,1917%	16,4036%	4,1794%
1-30 DPD		71,5362%	68,7473%	72,1917%	16,4036%	5,8238%
31-60 DPD			68,7473%	72,1917%	16,4036%	8,1411%
61-90 DPD				72,1917%	16,4036%	11,8421%
>90 DPD					16,4036%	16,4036%

b. Estimating the cash shortfall incurred in each posibility if a default were to happen.

The scenario estimating the cash shortfall incurred from an estimate the macroeconomics variable trend for each period that may impact receivable that the unemployment rate, local currency to USD, change % in GDP, Change % in NPI, and inflation rate.

Table 7

Macroeconomics Variable Trend

Date	Loss Rates	Unemployment Rate	PHP to USD	Change % in GDP	Change % in NPI	Inflation Rate
06/30/10	4,7329%	8,0000%	46	8,9000%	0,01	3,600%
09/30/10	3,8777%	7,0000%	44	7,3000%	(0,02)	3,800%
12/31/10	5,9019%	7,1000%	44	6,1000%	0,00	3,600%
03/31/11	8,0219%	7,4000%	43	4,6000%	0,04	4,900%
06/30/11	8,7303%	7,2000%	43	3,2000%	0,01	5,200%
09/30/11	8,2446%	7,1000%	44	3,1000%	(0,07)	4,700%
12/31/11	5,3002%	6,4000%	44	3,8000%	(0,00)	4,200%
03/31/12	3,6413%	7,2000%	43	6,2000%	0,04	2,700%
06/30/12	4,2524%	6,9000%	42	6,1000%	0,01	2,600%
09/30/12	2,7158%	7,0000%	42	7,0000%	0,01	3,500%
12/31/12	3,2169%	6,8000%	41	7,3000%	(0,46)	2,700%
03/31/13	3,0019%	7,1000%	41	7,6000%	0,05	2,700%
06/30/13	2,7089%	7,5000%	43	7,9000%	0,01	2,500%
09/30/13	4,3818%	7,3000%	44	6,7000%	0,03	2,300%
12/31/13	3,8797%	6,5000%	44	6,1000%	0,01	3,800%
03/31/14	5,7214%	7,5000%	45	5,6000%	(0,07)	3,500%
06/30/14	4,0750%	7,0000%	44	6,8000%	0,01	3,800%

09/30/14	2,9787%	6,7000%	45	5,6000%	(0,00)	3,900%
12/31/14	2,1044%	6,0000%	45	6,6000%	0,01	1,900%
03/31/15	2,0870%	6,6000%	45	5,1000%	(0,05)	1,500%
06/30/15	0,0000%	6,4000%	45	6,0000%	0,03	0,600%
09/30/15	0,7613%	6,5000%	47	6,4000%	(0,00)	-0,400%
12/31/15	1,6977%	5,6000%	47	6,7000%	(0,01)	0,700%
03/31/16	2,2988%	5,6898%	46	6,7000%	0,01	0,600%
06/30/16	2,6087%	6,0645%	47	7,0000%	(0,08)	1,300%
09/30/16	3,9252%	5,3879%	48	7,1000%	0,01	1,700%
12/31/16	5,1086%	4,6646%	50	6,7000%	0,00	2,200%
03/31/17	2,6072%	6,5578%	50	6,5000%	(0,01)	3,100%
06/30/17	3,8985%	5,7188%	50	6,6000%	(0,01)	2,500%
09/30/17	4,5142%	5,5785%	51	7,2000%	0,00	3,000%
12/31/17	1,5120%	4,9972%	50	6,5000%	0,01	2,900%
Average	3,8228%	6,5632%	45	6,2903%	-1,5629%	2,7613%
Stdev	2,0352%	0,7945%	3	1,2679%	8,8124%	1,3348%

c. Multiplying that loss by the probability of the default happening

Using regression calculations to see the effect of each macroeconomic variable on the loss rate if the variable did not influence, the variable must be eliminated and then recalculate the regression for the remaining variable.

Table 8

Summary of regression results

Variable	Intercept	Coefficient	Multiple R	R Squared	Adjusted R Squared
Unemployment Rate	(0,0323209)	0,3604851	0,8266848	0,6834077	0,6200892
PHP to USD	(0,0323209)	0,0010993	0,8266848	0,6834077	0,6200892
Change % in GDP	(0,0323209)	(0,4758934)	0,8266848	0,6834077	0,6200892
Change % in NPI	(0,0323209)	(0,0072287)	0,8266848	0,6834077	0,6200892
Inflation Rate	(0,0323209)	0,9770092	0,8266848	0,6834077	0,6200892

Variable	P-value	Expected Sign	Passed Qualitatively?	Passed Quantitatively?	
Unemployment Rate	0,4401253	+	YES	NO	NOT PASSED
PHP to USD	0,3779247	+	YES	NO	NOT PASSED
Change % in GDP	0,0294735	-	YES	YES	PASSED
Change % in NPI	0,7904465	-	YES	NO	NOT PASSED
Inflation Rate	0,0001283	+	YES	YES	PASSED

Table 9

Summary of regression results

Variable	Intercept	Coefficient	Multiple R	R Squared	Adjusted R Squared
Change % in GDP	0,0367684	(0,4271923)	0,8201006	0,6725649	0,6491767
Inflation Rate	0,0367684	1,0260226	0,8201006	0,6725649	0,6491767

Variable	P-value	Expected Sign	Passed Qualitatively?	Passed Quantitatively?	
Change % in GDP	0,0333227	-	YES	YES	PASSED
Inflation Rate	0,0000046	+	YES	YES	PASSED

d. Summing the results of all such possible default events.

The first step is to calculate the forward-looking rate then calculate the overlay that multiplying percentage average loss rate to forward-looking rate. The overlay is the possibility of default items to be occurrences. So if the overlay value is 0.915, it means that possibility of default items to be occurrences is 0.915%. It also means that if the outstanding receivable is PHP 100.000, the future expected credit loss is PHP 915.

Table 10

Summary of Calculation of Forward-looking Rate and Overlay

		Regression Summary		
Variable	Intercept	Coefficient		
Change % in GDP	0,0367684	(0,4271923)		
Inflation Rates	0,0367684	1,0260226		
Loss Rate Summary				
Average	3,8228%			
Forecasted Macroeconomic Indicator				
	Change % in GDP	Inflation Rates		
Forecast	6,5200%	2,5400%		
Change % in GDP	Inflation Rates	Forward-looking Rate	Overlay	
6,520%	2,540%	3,498%	0,915	

Note :
Forward-looking rate is from regression formula that is Y = a + bx1 + cx2 + … + e so the equation is Forward-looking rate = 0.0367 – 0.4271 Change % in GDP + 1.0260 inflation rates.
Overlay is form the formula forward-looking rate multiply by percentage average loss rate.

ECL calculation shown in table 11, the formula for the overlay is forward-looking overlay multiply by percentage loss rate per period day post due, the formula for ECL per period day post due is overlay multiply by the outstanding balance on each period day post due, so total ECL for the client X that enter in the journal ECL is PHP 11.614.909.

Table 11

Expected Credit Loss Calculation Summary

ECL Calculation Summary				
Aging Bucket	Loss Rates	Outstanding Balance	Overlay	Expected Credit Loss
Current	4,18%	62.626.308	3,82%	2.394.783
1-30 DPD	5,82%	20.545.827	5,33%	1.094.776
31-60 DPD	8,14%	26.022.725	7,45%	1.938.334
61-90 DPD	11,84%	15.327.152	10,83%	1.660.663
>90 DPD	16,40%	30.158.896	15,01%	4.526.353
		154.680.907		11.614.909

CONCLUSION

The impact of the implementation of expected credit loss (ECL) in PSAK 71 on audit working paper should be a concern for the auditor to estimate ECL in the client financial statement by creating audit working papers that suitable to coup the requirement of calculation of ECL on audit working papers for the client. Perform simulations on audit work papers that calculate the percentage of losses on accounts receivable and the macroeconomic impact on accounts receivable so that a regression analysis of these factors can be carried out on the expected credit loss so can be used to generate the expected credit loss value.

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