



The Institute of
Internal Auditors
Indonesia

2014 ACIIA CONFERENCE BALI, INDONESIA

ASIAN CONFEDERATION OF INSTITUTE OF INTERNAL AUDITORS

The Stones Hotel - Legian, Bali

24 - 25 November 2014

Organized by:



Supported by:



Management's Expectation for Internal Auditor

Pertamina Experience

Sugiharto – Chairman PT. Pertamina (Persero)

ACIIA Conference

Bali, Nov 25th 2014

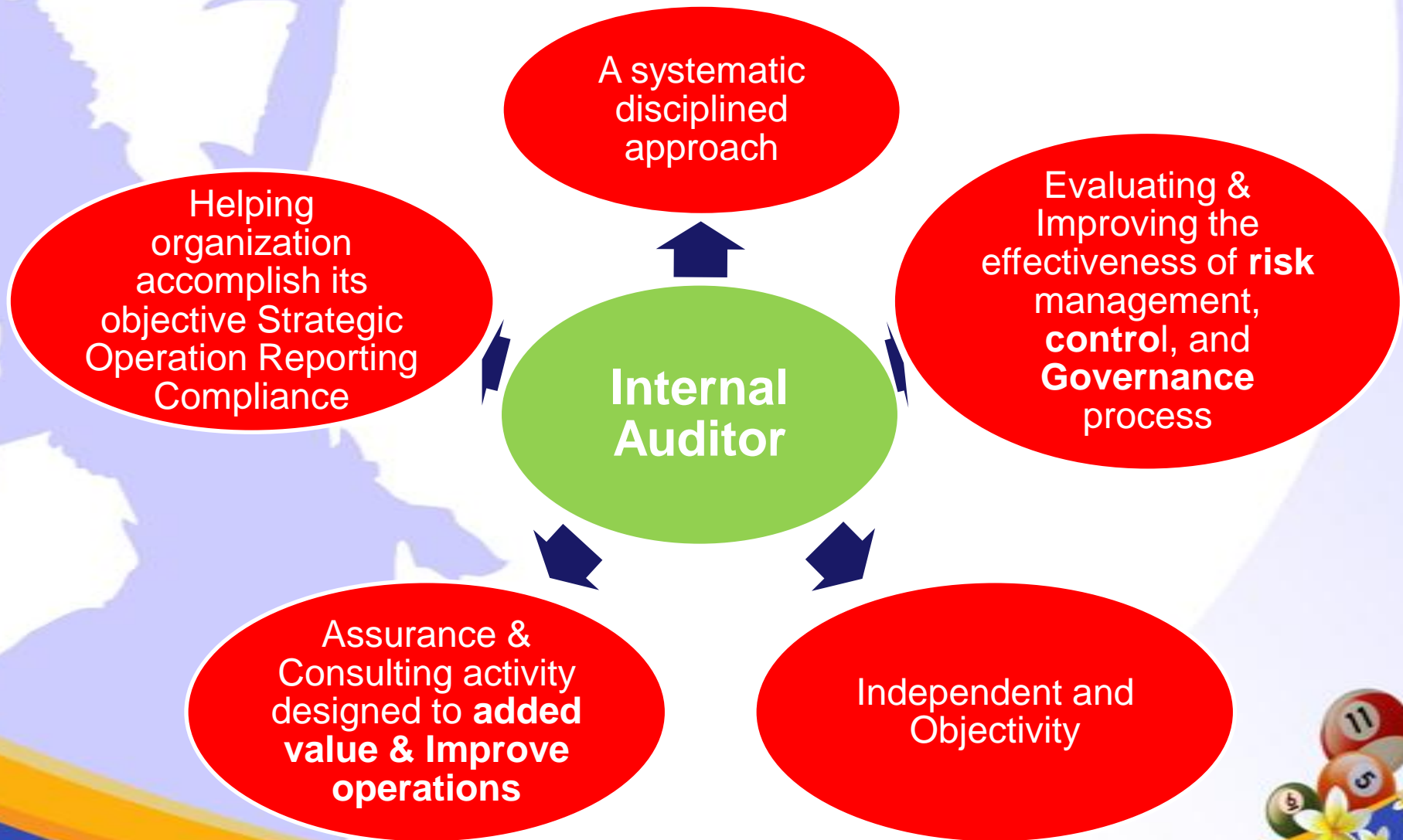




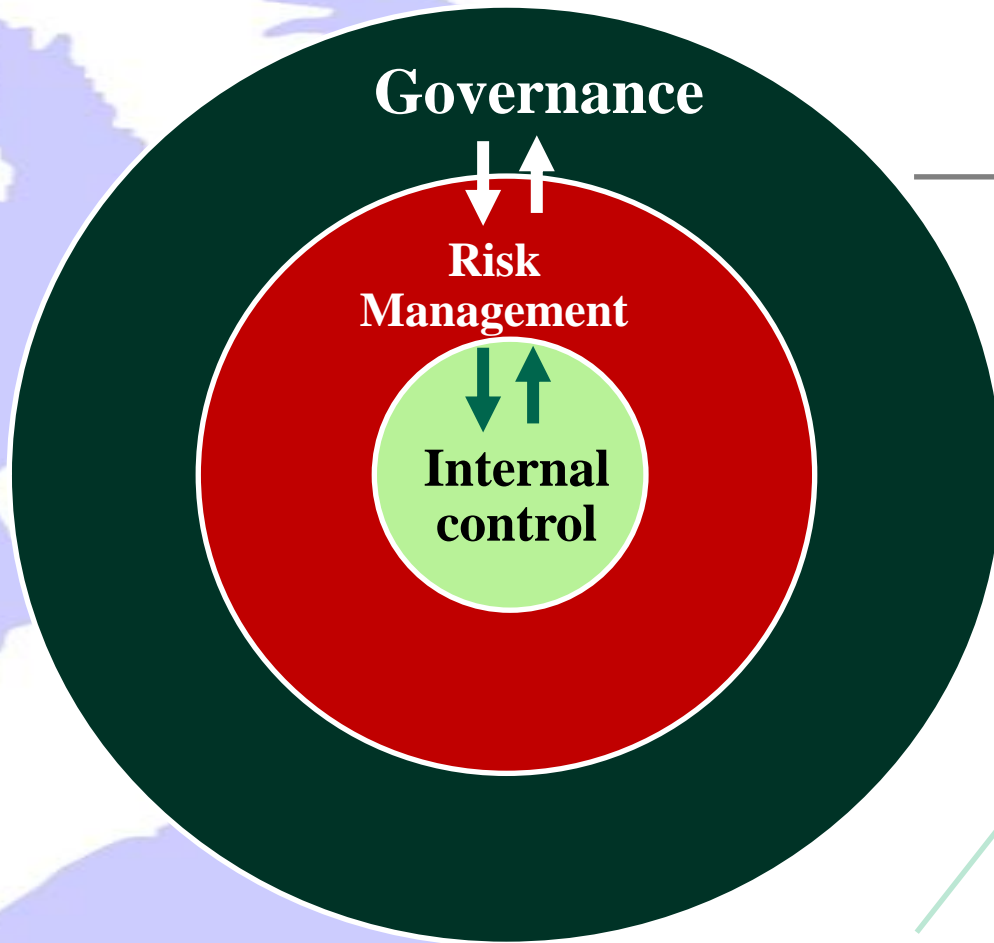
The Role of Internal Auditor



Internal Audit Role



Internal Auditor and Governance



Key Governance Element

Internal Auditor

...helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.



Value Proposition of Internal Auditing

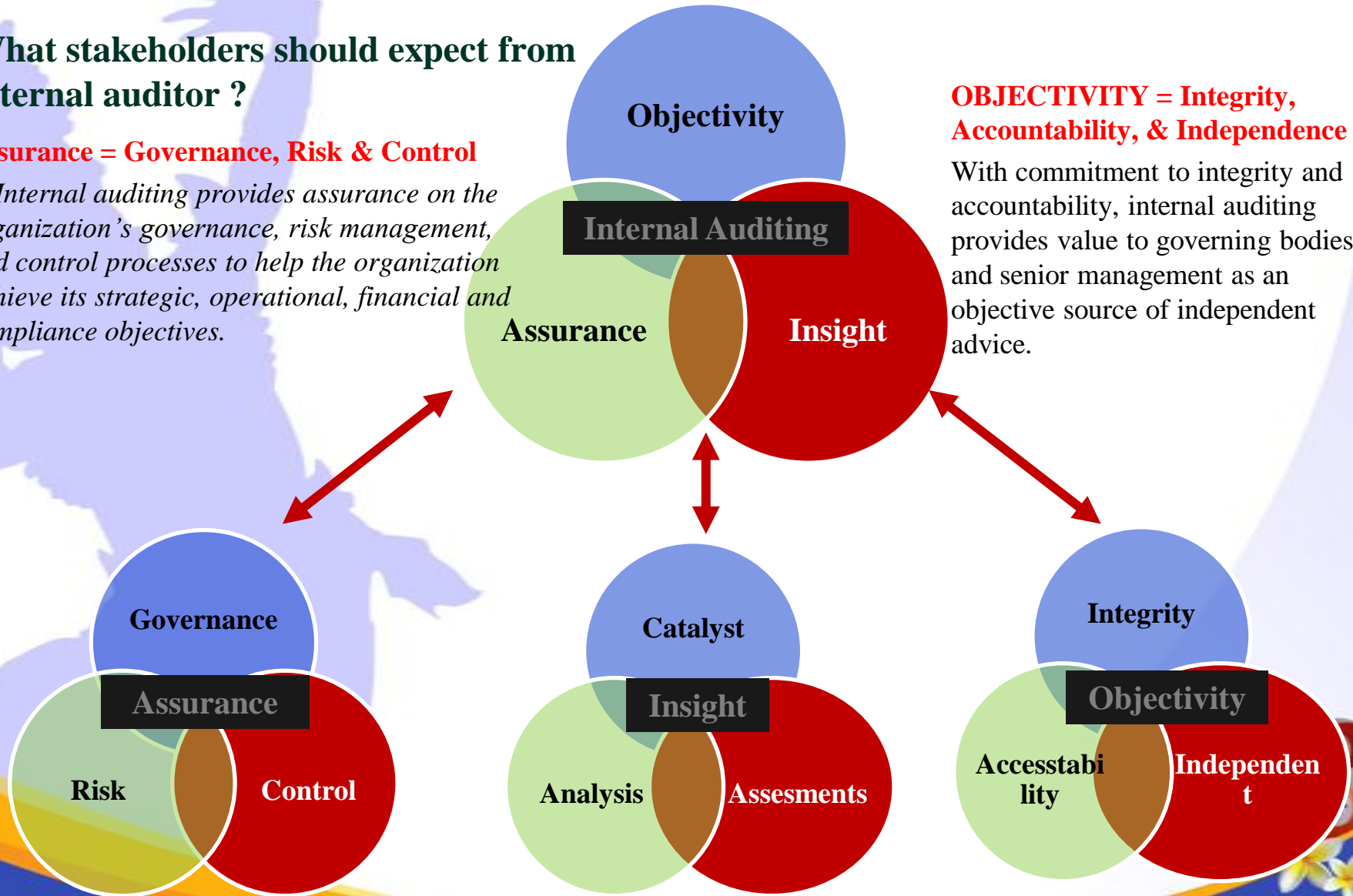
What stakeholders should expect from internal auditor ?

Assurance = Governance, Risk & Control

Internal auditing provides assurance on the organization's governance, risk management, and control processes to help the organization achieve its strategic, operational, financial and compliance objectives.

OBJECTIVITY = Integrity, Accountability, & Independence

With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice.



A light blue silhouette of a person in a dynamic, expressive pose, possibly a dancer or performer, is visible on the left side of the slide. The person's right arm is raised high, and their body is angled towards the right.

Management Expectation



Stakeholders Expectation: GCG Rule & Regulation

Rules & Regulation



SOE Ministerial Decree BUMN:

1. No. PER-01/MBU/2011.
2. No. PER-09/MBU/2012, July 6th, 2012. Implementing of GCG for SOE's

Implementen- -tation

1. Pertamina established GCG Management Division and Komite GCG Committee on January 16th, 2006 as per BOC Memorandum Nomor 10/K/DK/2006.
2. Tranformed GCG Management Division into Compliance Division.

Implementation Basic Principles

Pertamina GCG management \cong Public Listed Company and Corporate Best Practices



Hierarchy Rules & Regulation of GCG PT PERTAMINA (PERSERO)

Undang – Undang Nomor 19 tahun 2003

Undang – Undang Nomor 40 Tahun 2007

Permen BUMN No. PER-01/MBU/2011 tgl 1 Agustus 2011 Juncto Permen No. PER-09/MBU/2012 tgl 6 Juli 2012

Articles of Association (Akta No. 01 tanggal 01 Agustus 2012)

Pertamina Chartered

Basic Principles of Integrity

Code of Corporate Governance (GCG Code)

Board Manual

Code of Conduct

BOD/CEO Policies

SOP

SOFTSTRUCTURE GCG PERTAMINA

1. Pertamina Chartered ----->

2. Company Basic Principles

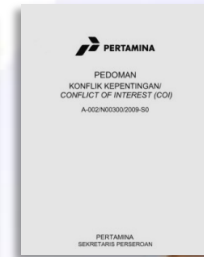
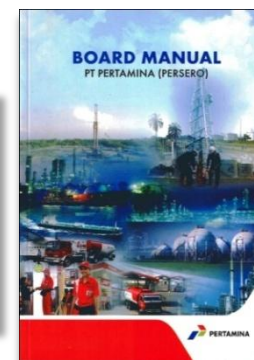
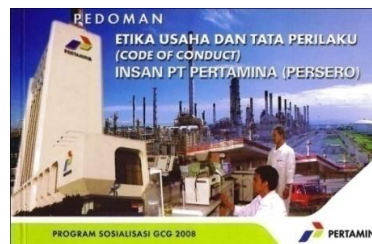
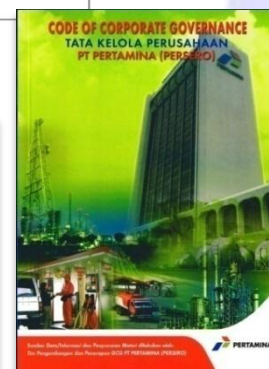
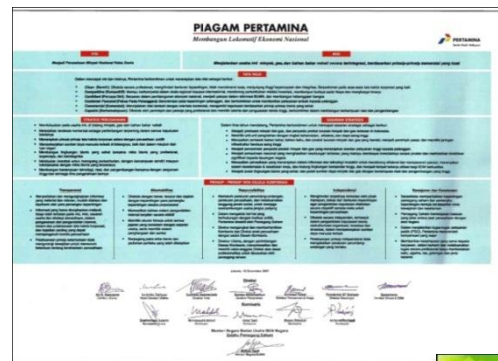
3. Code of Corporate Governance (COCG) ----->

4. Board Manual (BM)----->

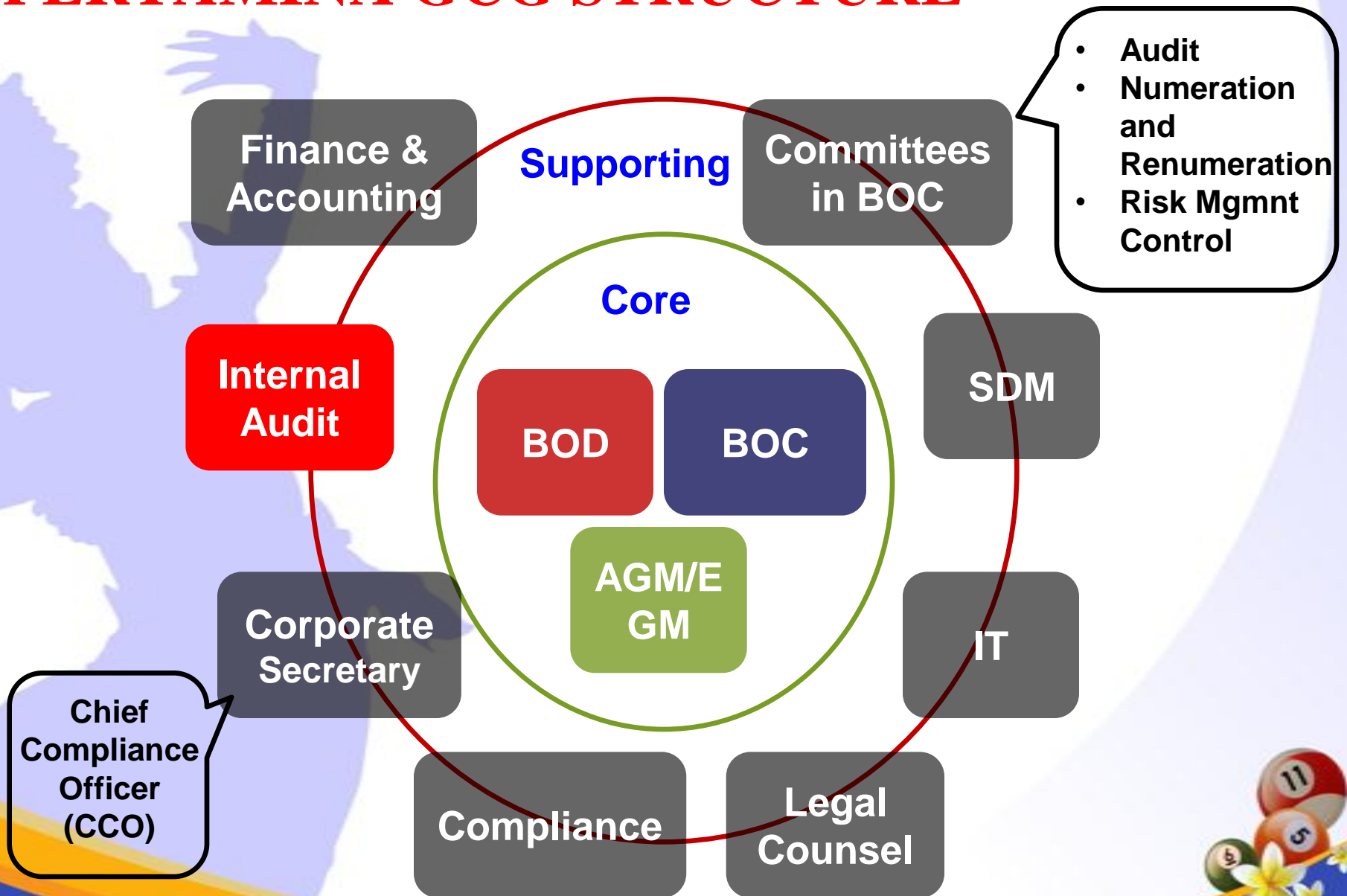
5. Code of Conduct (COC)----->

6. Regulation of Gratification & WBS SOP President Director Directive No. A-002/N00010/2012-S0

7. Regulation of Conflict of Interest President Director Directive No. Kpts 088/C00000/2009-S0 ----->



PERTAMINA GCG STRUCTURE



Implementing of GCG in Pertamina

Cooperation
& Advisory
w/ KPK

Cooperation &
Benchmarking
w/ General
Electric

Cooperation &
Coordinating w/
PPATK

Appointing
Chief
Compliance
Officer (CCO)

Implementation
of WBS

Implementation
of Compliance
Online System

Implementation
of Boundary KPI

Implementas
i LHKPN

Implementation
of GCG in
Subsidiaries

Implementation
of Gratification

External
Assessment
GCG

Benchmarking
w/ other SOE's
& Co's

Implementation
of UPG

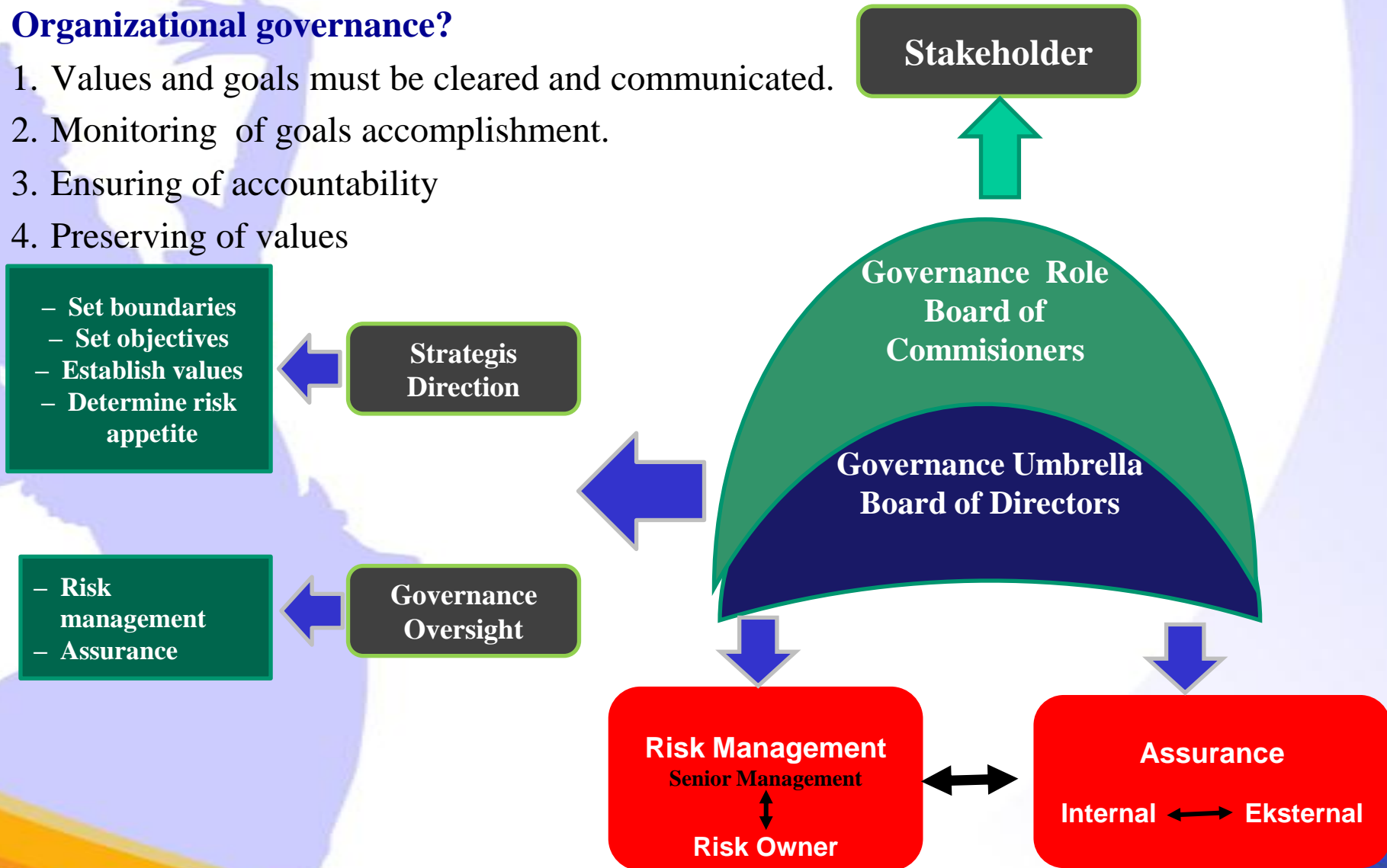


PERTAMINA

Key Governance Oversight

- **Organizational governance?**

1. Values and goals must be cleared and communicated.
2. Monitoring of goals accomplishment.
3. Ensuring of accountability
4. Preserving of values



Internal Auditor & Customer Need

What does
customer want



Audit Committee Board

- Safeguarding Assets
- Compliance with Laws and Regulations
- Reliability of Data

**QUALITY OF
INFORMATION**

Operating Management

- Operating Management
- Effectiveness and Efficiency of Operations
- Achievement of Organization

CHANGE AGENT

customer

Audit
Committee



Regulator

Eksternal
Auditor



Auditee

Supplier



BOC Expectation to Internal Audit Function

- Improve SPI staff skills and competencies and their understanding of the business operations
- Provide consulting services
- Improve SPI's communications with key stakeholders
- Provide a value added internal audit function as well as improve the quality of reports
- Provide risk management and control assurance
- Provide regulatory and corporate compliance assurance
- Act as a mediator with external parties

COSO - Internal Control

- Control Environment
 - Risk Assessment
 - Control Activities
 - Information and communication
 - Monitoring
- Function
 - Operation
 - Financial Reporting
 - Compliance



How to meet BOC & Management Expectation

- How to meet the management and stakeholder expectation
 - Internal audit role should be established with a charter approved and reviewed annually at board level.
 - The internal audit charter should describe the internal audit role in the organization it serves, including its purpose, authority, responsibility, and relationships with external organizations.
 - The internal audit charter should be promoted across the organization at all levels and as appropriate across its supply chains and to its stakeholders.
 - Internal audit should have measures in place to demonstrate its level of performance to the organization.
 - Expectation gaps at organization and individual customer levels should be identified, and all performance measures continuously monitored if the full added value of the internal audit role is to be achieved.
 - New dimensions of the internal audit role in an organization should be continuously explored to ensure that it is at the cutting edge of its professional attributes and in its performance.
- Key improvement to meet the management and stakeholder expectation
 - Align Internal Audit with the strategic goals of the organisation.
 - Drive efficiency through integration, talent management and use of data analytics.
 - Maintain a balance between assurance and advisory reviews.
 - Run Internal Audit like a business.



Pertamina Experience



Pertamina Vision, Mission and Values



Vision

To be a world-class national energy company



Mission

To carry out integrated business core in oil, gas, renewable and new energy based on strong commercial principles



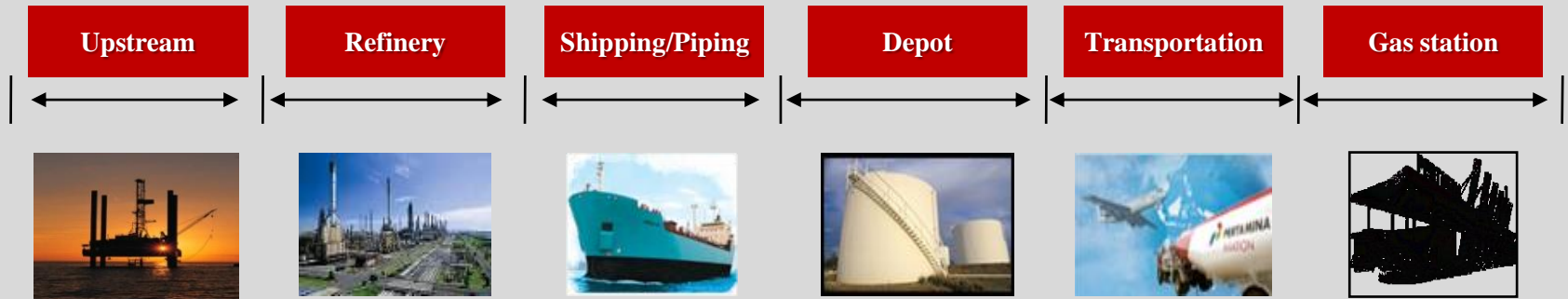
Value

Clean; Confident; Commercial; Competitive; Customer Focus; Capable

6 C



Pertamina's Scope of Business



Upstream

- **Producer of oil and gas domestically and overseas**
 - **Supplier for geothermal energy**
 - **Gas transporter & trader**

Corporate

- **Employees**
- **15,190 persons**
- **Subsidiaries & Affiliates**
- **19 Subsidiaries**
- **13 Affiliates**

Other

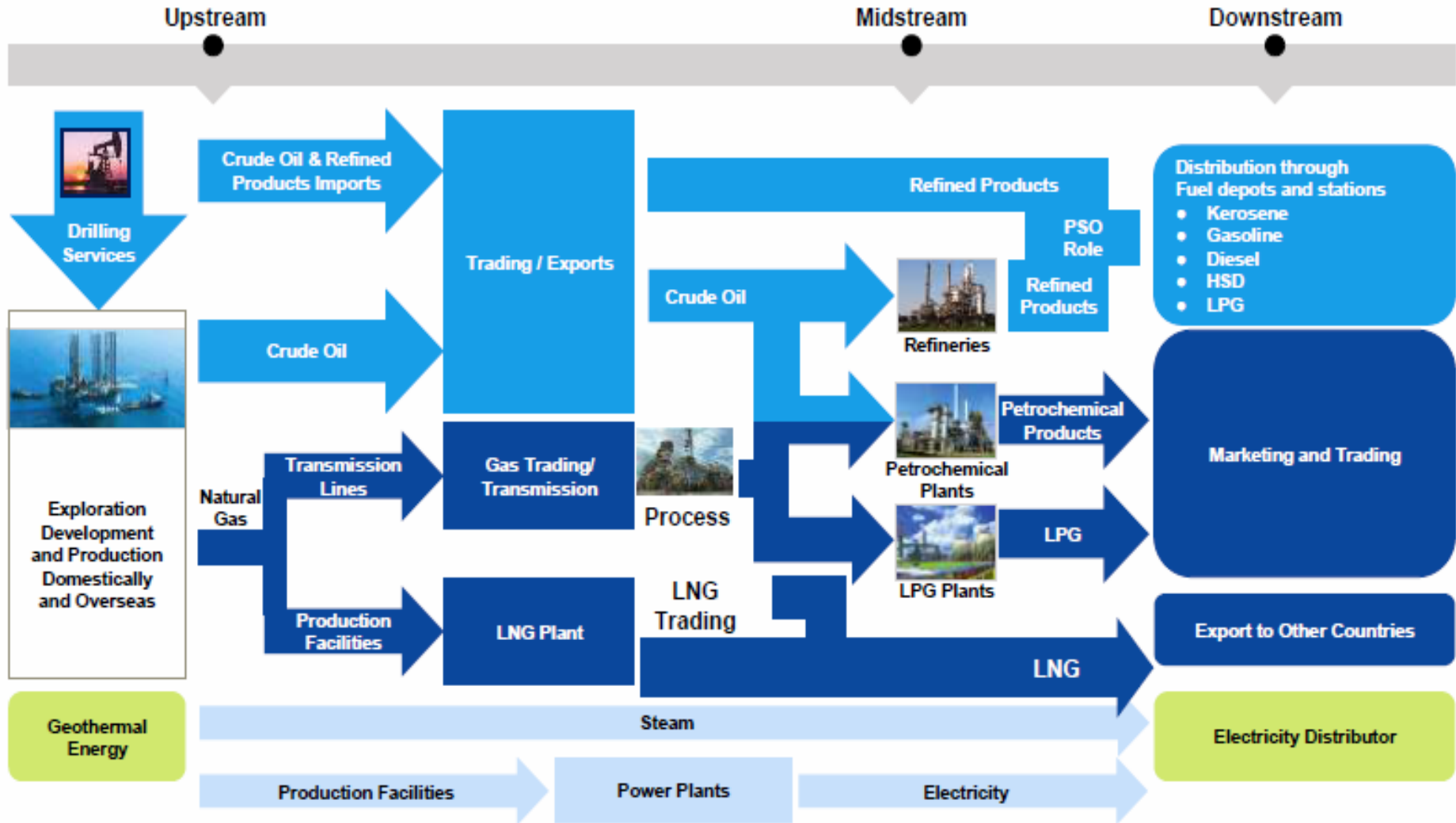
- **Insurance**
- **Hotel**
- **Medical**
- **Venture Capital**

Downstream

- **Refining**
- **Fuel business (kerosene, HSD/Diesel/MFO, etc) for industry**
- **Special fuel business for retail (PertaminaDex, PertaminaPlus)**
- **Aviation business**
- **Lube base business**
- **LPG business**
- **Petrochemical business**
- **Responsible for distributing fuel for Public Service Obligation (PSO), such as kerosene, gasoline, HSD**
- **Executor for kerosene conversion to LPG**



Pertamina Business Process



Pertamina is engaged in a broad spectrum of upstream and downstream oil, gas, geothermal, petrochemical and other energy operations

Performance & Governance

Financial Statement Released



Good Corporate Governance Score



FORTUNE Global 500

| No | Company |
|------------|-------------------|
| 1 | Royal Dutch Shell |
| 3 | Exxon Mobil |
| 75 | Petronas |
| 122 | Pertamina |
| 135 | Unilever |

2013

| No | Company |
|------------|-------------------|
| 1 | Wall Mart |
| 2 | Royal Dutch Shell |
| 69 | Petronas |
| 123 | Pertamina |
| 477 | PLN |

2014

Achievements & Awards : 2013

Compliance

TOTAL
3 AWARDS

GCG Awards

1



“Implementasi *Good Corporate Governance* (GCG)
BUMN Non Terbuka Berdaya Saing Terbaik ke-2”
BUMN Award 2013 – Kementerian BUMN

2



“BUMN yang Telah Menerapkan Sistem Pengendalian
Gratifikasi dengan Total Nilai Laporan Gratifikasi Terbesar
yang Ditetapkan Menjadi Milik Negara Selama Tahun 2013”
dari Komisi Pemberantasan Korupsi (KPK)

3



“Indonesia Trusted Company Based on
Corporate Governance Perception Index (CGPI)”
dari Majalah SWA dan *The Indonesian Institute for Corporate
Governance* (IICG)



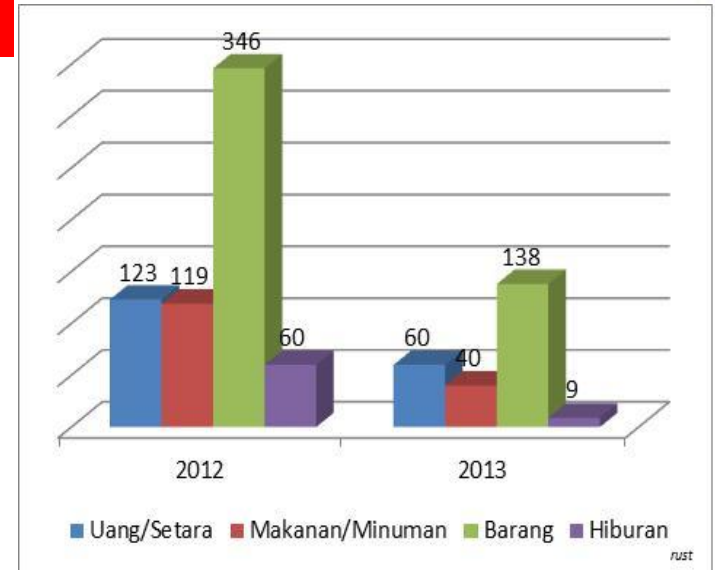
Penyerahan Simbolis 1.094 Laporan Harta Kekayaan
Penyelenggara Negara (LHKPN)
pejabat Pertamina dan anak perusahaan kepada Komisi
Pemberantasan Korupsi (KPK)

Achievements & Awards : 2013

Compliance

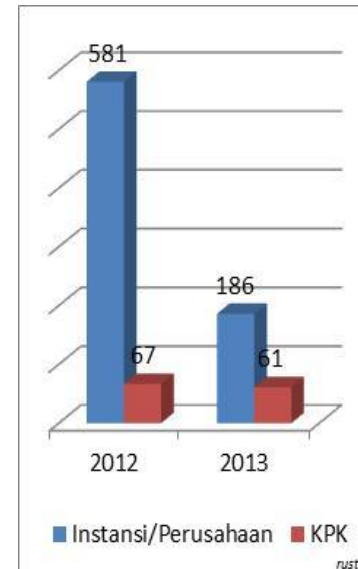
GRATIFICATION

| Type | 2012 | 2013 | % Changes |
|-----------------|------------|------------|----------------|
| Uang/setara | 123 | 60 | ↓ 51,2% |
| Makanan/minuman | 119 | 40 | ↓ 66,4% |
| Barang | 346 | 138 | ↓ 60,1% |
| Hiburan | 60 | 9 | ↓ 85,0% |
| TOTAL | 648 | 247 | ↓ 61,9% |



Action Items

| Domain | 2012 | 2013 | % changes |
|---------------------|------------|------------|----------------|
| Instansi/Perusahaan | 581 | 186 | ↓ 68,0% |
| KPK | 67 | 61 | ↓ 9,0% |
| TOTAL | 648 | 247 | ↓ 61,9% |



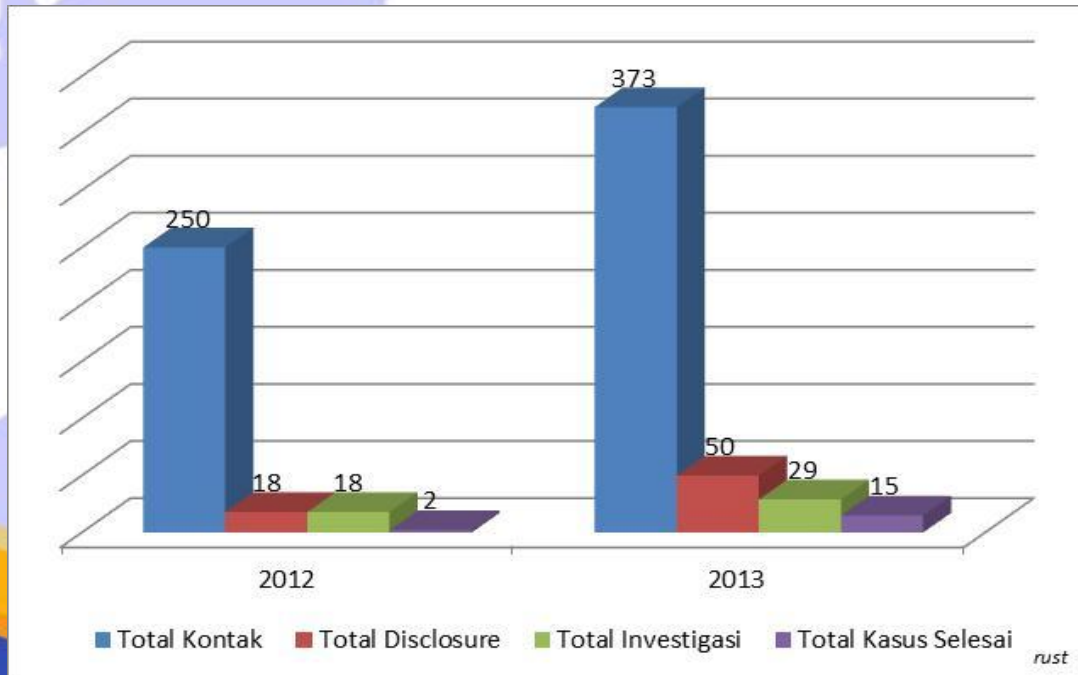
Achievements & Awards : 2013

Compliance

WHISTLE BLOWER SYSTEM Report

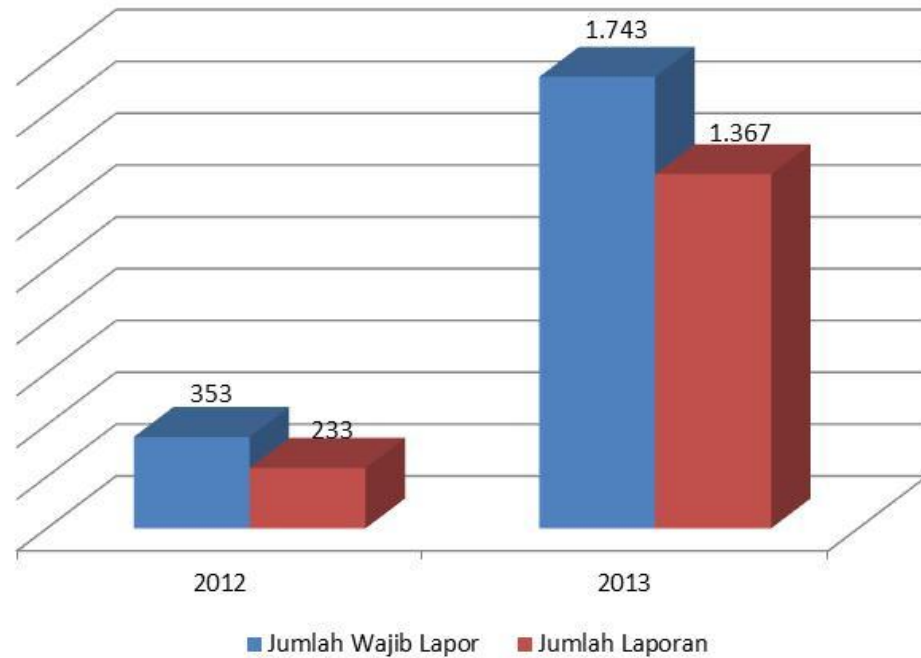
| Keterangan | 2012 | 2013*) | % Perubahan |
|----------------------|------|--------|-------------|
| Total Number of WBS | 250 | 373 | ↑ 49,2% |
| Total Disclosure | 18 | 50 | ↑ 177,8% |
| No. Of Investigation | 18 | 29 | ↑ 61,1% |
| No. Of Case Closed | 2 | 15 | ↑ 650% |

*)Data 2013 s.d 30 November



LHKPN REPORTS

| Keterangan | 2012 | 2013*) | % Perubahan |
|-----------------------|-------|--------|-------------|
| No. Of LHKPN | 353 | 1.743 | ↑ 408,2% |
| No. Of LHKPN reported | 233 | 1.367 | ↑ 486,7% |
| Percentage | 72,4% | 78,4% | ↑ 6,0% |



*)Data 2013 s.d 21 Desember

Overview of Pertamina

Awards 2014

| FORTUNE Global 500 | |
|-----------------------|------------------------------|
| 117 | Walgreen |
| 118 | Zurich Insurance Group |
| 119 | Peugeot |
| 120 | WallPoint |
| 121 | Johnson & Johnson |
| 122 | China Development Bank |
| 123 | Pertamina |
| 124 | Manubeni |
| 125 | Banco do Brasil |
| 126 | Repsol |
| 127 | American International Group |
| 128 | Ping An Insurance |
| 129 | State Farm Insurance Cos. |
| 130 | RWE |
| 131 | MetLife |
| 132 | Nippon Life Insurance |

Pertamina

Rank: 123
Previous rank: 122
CEO: Karen Agustian

Headquarters:
Jl. Medan Merdeka Timur 1A
Jakarta, 10110
Indonesia
62-21-381-5000
website: www.pertamina.com

■ Fortune Global 500 2014

Pertamina ranked No. 123 with revenues of \$71.1 billion

■ Corporate Governance Asia 2014

- Outstanding Companies on Corporate Governance
 - Asian Corporate Director of The Year Award”
 - Asia’s Best CEO (Investor Relations)
 - Asia’s Best CFO (Investor Relations)
- Best Investor Relations by Indonesian Company
 - Best CSR
 - Best Environmental Responsibilities

■ Finance Asia 2014

- Indonesia Best Borrower

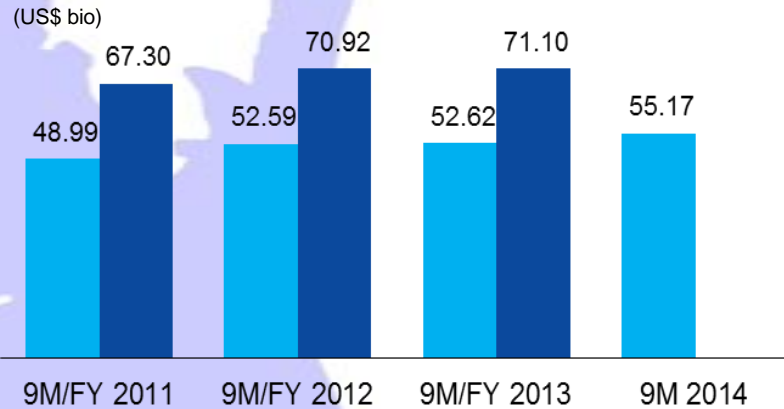
- Best Sustainable Business Innovation in Developing Alternatives Energy



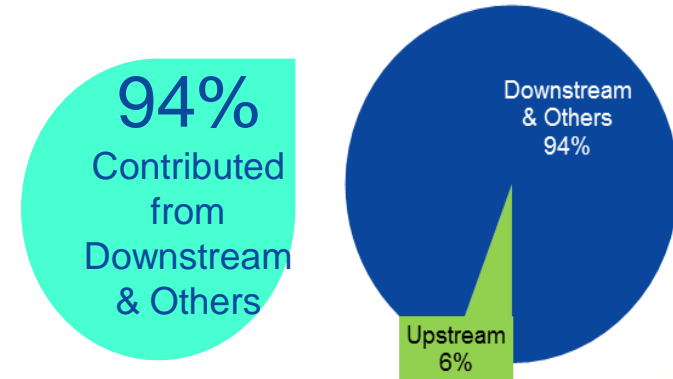
Financial Highlight

Pertamina has consistently delivered growth in revenue and cash flow generation, within the backdrop of fluctuations in oil and gas prices

Revenue



Revenue by Segment ⁽¹⁾ = \$55,170m



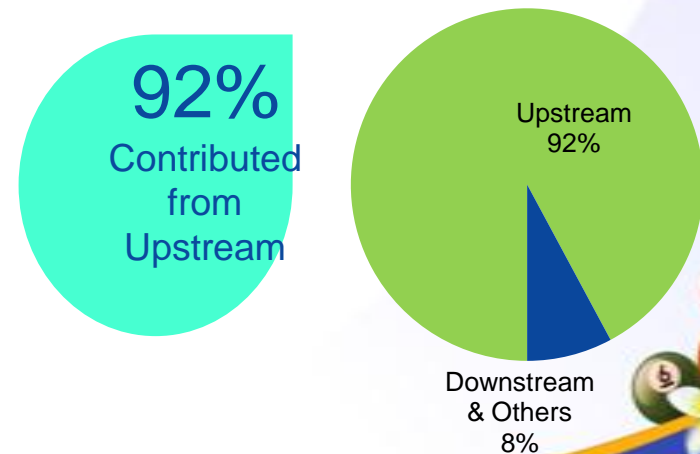
78%

Revenue for 9M 2014 is equal to 78% of FY2013

5%

Revenue for 9M 2014 increased 5% compared to revenue 9M 2013

Income from Operations by Segment = \$3,821m



Source: Company financials.
(1) Based on segment results.

Pertamina Internal Auditor

The Internal Audit's objective :

- to give additional value and increasing operational Company through assurance activity and independent consulting.
- helping the Company reaching its goal by using the systematic approach to evaluate and increase the efficiency of risk management, controlling, and management process.

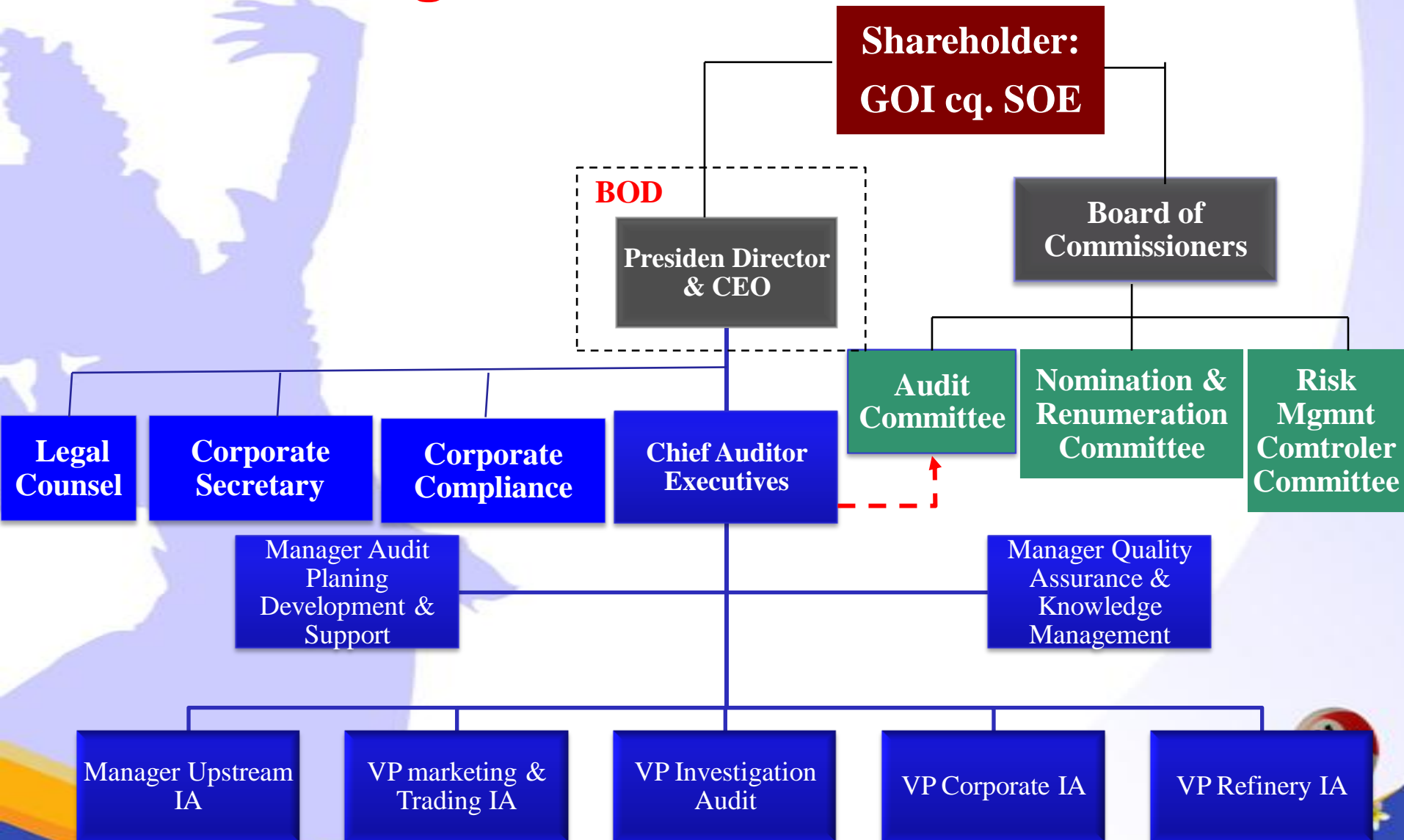
The role of Internal Audit :

- to provide independent assurance regarding the effectiveness of internal control, risk management and corporate governance processes
- as a catalyst in helping the management to evaluate and improve the effectiveness of risk management, internal control and corporate governance
- as a strategic partner in providing strategic improvement to the management, starting from activity planning processes.

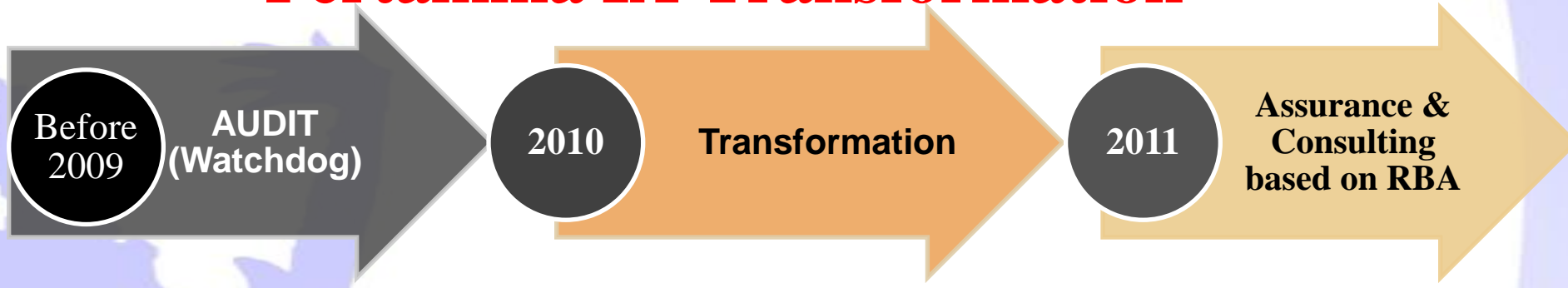
- Number of Internal auditor 148 people with
 - 133 QIA (Quaified Internal Auditor),
 - 7 CIA (Certified Internal Auditor),
 - 6 CISA (Certified Information Systems Auditor),
 - 27 CFE (Certified Fraud Examiners),
 - 15 CRMP (Certified Risk Management Professional).



Organization Structure



Pertamina IA Transformation



Management Need *Transformation to be World Class Internal Audit*

- Analysis Current Condition**
- Determine Value Driver
 - Define Current Condition of IA
 - Derive IA Roadmap for performance development and IA function

Roadmap

| Area of Improvement | |
|--|--|
| <ul style="list-style-type: none"> • Organization • HR Management • Working practices • Communtation and Reporting | <ul style="list-style-type: none"> • Quality Assurance • Knowledge Management • US of IT Audit Software |

IA Pertamina Transform to Best Practice

- Assurance and Consulting by implementing Risk Based Audit with Audit Management Systems tools
- Stabilization and implementation of Internal auditor reposition by continuing evaluation
- Increasing quantity of human resources by new recruitmen
- Increasing quality of human resources by training and certification.



**EVALUATION OF
GOVERNANCE &
RISK;
ASSURANCE OF
INTERNAL CONTROL
EFFECTIVENESS**



Step in Reposition IA



2009 – AREA OF IMPROVEMENT

1. Organization
2. Human Resources
3. Working Practice
4. Use of IT
5. Knowledge Management
6. Communication & Reporting
7. Quality Assurance



2009 – CATEGORIZING

- Workstream (Area 1,2)
- Workstream (Area 3,6)
- Workstream (Area 5,7)
- Workstream (Area 4)



2010 – DELIVERABLES

- Vision & Mision
- Internal Auditor Charter
- Organization Structure
- Working Practice
- IT Audit
- Risk Based Audit
- Audit Management Systems
- Knowledge Management
- Auditor Competence
- Quality Assurance



2011 – RESULT

- Vision & Mision Auditor
- Internal Auditor Charter
- Organization structure
- Audit Universe
- Working Practice
- SOP Risk Based Audit
- Knowledge Management Function
- Implementing RBA & AMS

Strategic plan to achieve a world-class IA

Area of Improvement

QUALITY ASSURANCE

- To develop a comprehensive Quality Assurance and Improvement Program

KNOWLEDGE MANAGEMENT

- Leverage technology to synthesize knowledge and make information readily available to both SPI staff and the auditees

COMMUNICATION AND REPORTING

- To communicate with clarity, brevity, accuracy and with

USE OF IT

- Enhance audit processes by integrating technology solutions into multiple aspects of SPI's operations

WORKING PRACTICES

- Improve SPI's processes to increase efficiencies and value delivered

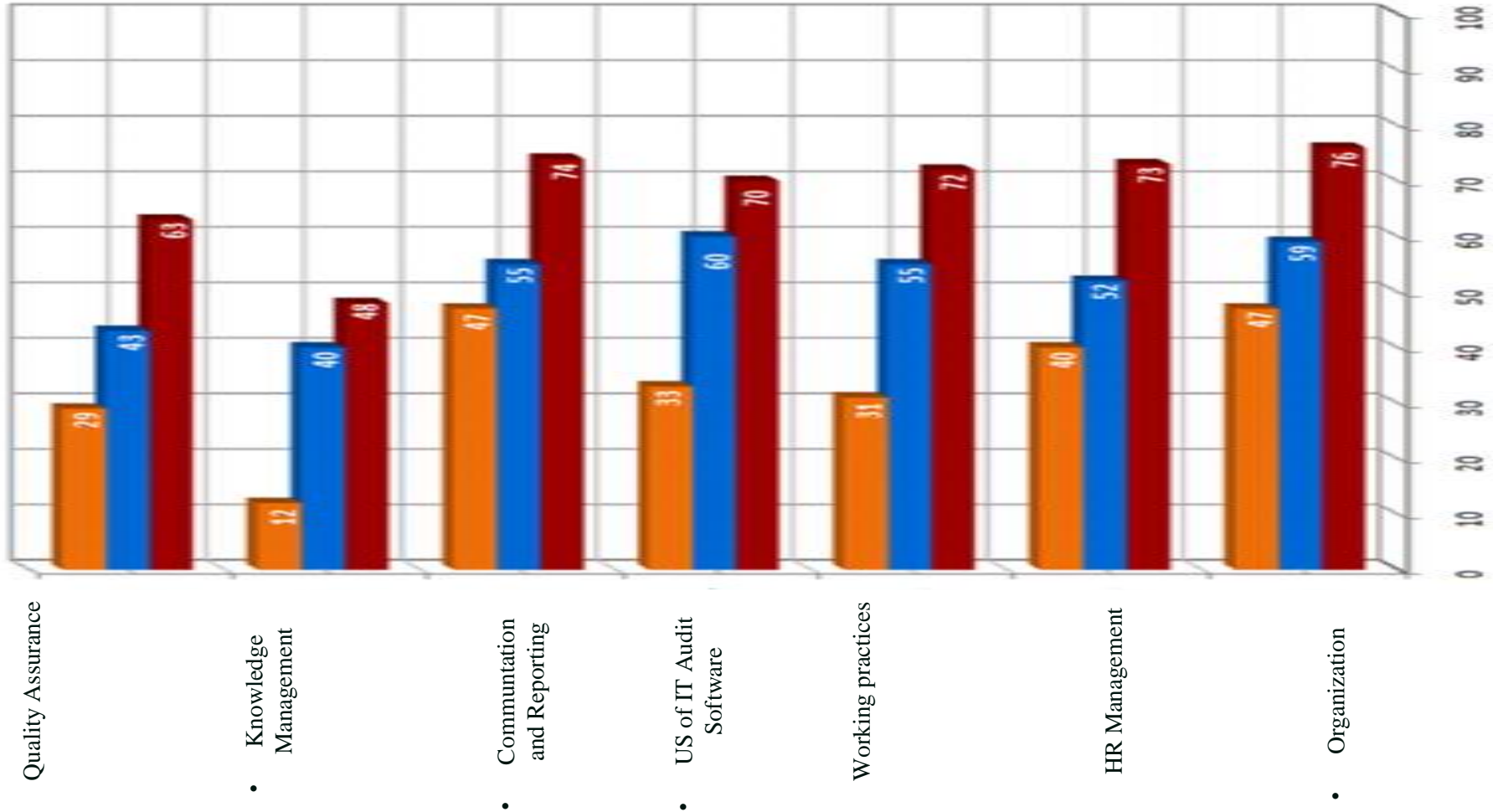
HUMAN RESOURCES

- Maintain and bring in the right people to support the needs of Pertamina's business

ORGANISATION

- To re-align function to business processes and risks and build reputation

Progress in Area of Improvement



As Marc 2009



as Feb 2011



best practice

Strategic Internal Audit Planning 2014-2018

ROADMAD PERTAMINA

STAKEHOLDER EXPECTATION

VISION & MISION

SWOT ANALYSIS

**WATCHDOG
TO
STRATEGIC
BUSINESS
PARTNER**

| N0 | Strategic Plan | Model 75 | Timelines |
|-----------|---|---------------------|------------------|
| 1. | Refining the vision and IA Charter | Strategy | 2014 |
| 2. | Optimality of quality assurance role, including evaluation on the implementation of IA Code of Ethics | Sytem, shared Value | 2014-2018 |
| 3. | Improvement on the methodology of Risk Based Audit (RBA), including planning, implementation, and reporting | System, Style | 2014-2018 |
| 4. | Implementation of Continuous Auditing methodology | System | 2014-2018 |
| 5. | Reorganization of IA a. Group Control Function b. BG M&T IA Function c. Upstream IA Function | Structure | |
| 6. | KPI of Integrated Audit/Secondment | System | 2014-2018 |
| 7. | Implementation of auditor competency development system in a continuous manner | Staff, Skill | 2014-2018 |
| 8. | ICoFR Testing | System | 2014-2018 |
| 9. | Implementation of RBA in Subsidiaries | System | 2014-2018 |

**TO BE
STRATEGIC
ADVISOR**

2013

2014

2015

Key Achievement

Key Achievement

The Implementation of Assurance and Consulting

- conducted on 59 areas/ activities of the company

Initiatives of the Internal Audit

- Internal Control Framework
- Developing Continuous Controlling System (CCS);
- Implementation of Internal Control Over Financial Reporting ICoFR
- Fraud Prevention Program

Internal Audit Image

- Performance Improvement Programme

Professionalism Improvement

- by pursuing the international & national certification program and training program.

Coordinates with External Auditors

- Government Auditor (BPK), Government Internal Auditor (BPKP) and External Auditor





THANKS YOU

