



Addressing Illicit Financial Flows on Indonesia Extractive Industries



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Introduction of ASEANSAI



Mission

- ASEANSAI is an autonomous, independent, professional and non-political organization/association established to build capacity, to promote cooperation among its members, and to establish constructive and beneficial relation with ASEAN and other stakeholders

Vision

- To be recognized and trusted as an organized body of Supreme Audit Institutions which promote good governance in the ASEAN Region

Core Value

- Respect
- Professionalism
- Partnership

- ASEANSAI Chairperson 2017 – 2019: Mrs. Viengthong SIPHANDONE (President of SAO of Lao PDR)
- Secretariat for the period of 2018 – 2023: the Audit Board of the Republic of Indonesia



SG 1: To support the implementation of ISSAI and INTOSAI good practices	SO 1.1: To promote safeguarding the independence of member SAIs
	SO 1.2: To assist member SAIs in developing national audit standards and guidelines aligned with ISSAIs
SG 2: To promote good performance of member SAIs	SO 2.1: To support member SAIs to utilize performance related tools and concepts
	SO 2.2: To support member SAIs to progress in auditing through capacity building
SG 3: To support member SAIs to fulfill their role towards the successful achievement of the SDGs	SO 3.1: To encourage and support member SAIs to conduct SDG-related auditing
SG 4: To strengthen ASEANSAI active role within ASEAN agenda	SO 4.1: To support ASEAN and AEC Agenda
SG 5: To improve the cooperation with regional and international partners	SO 5.1: To expand cooperation with international SAI partners and stakeholders
	SO 5.2: To expand cooperation with international donors
SG 6: To strengthen organizational governance of ASEANSAI	SO 6.1: To improve the management and organization of ASEANSAI

Agenda

Overview

Indonesia Extractive Industries

Audit on the Indonesia Extractive Industries

Nature of IFFs on Indonesia Extractive Industries

Lesson Learned



Overview

Advantage Factors

Natural resources have the potential to **generate** huge amounts of **revenue and cash flow**, such as taxes and royalty.

Risk Factors

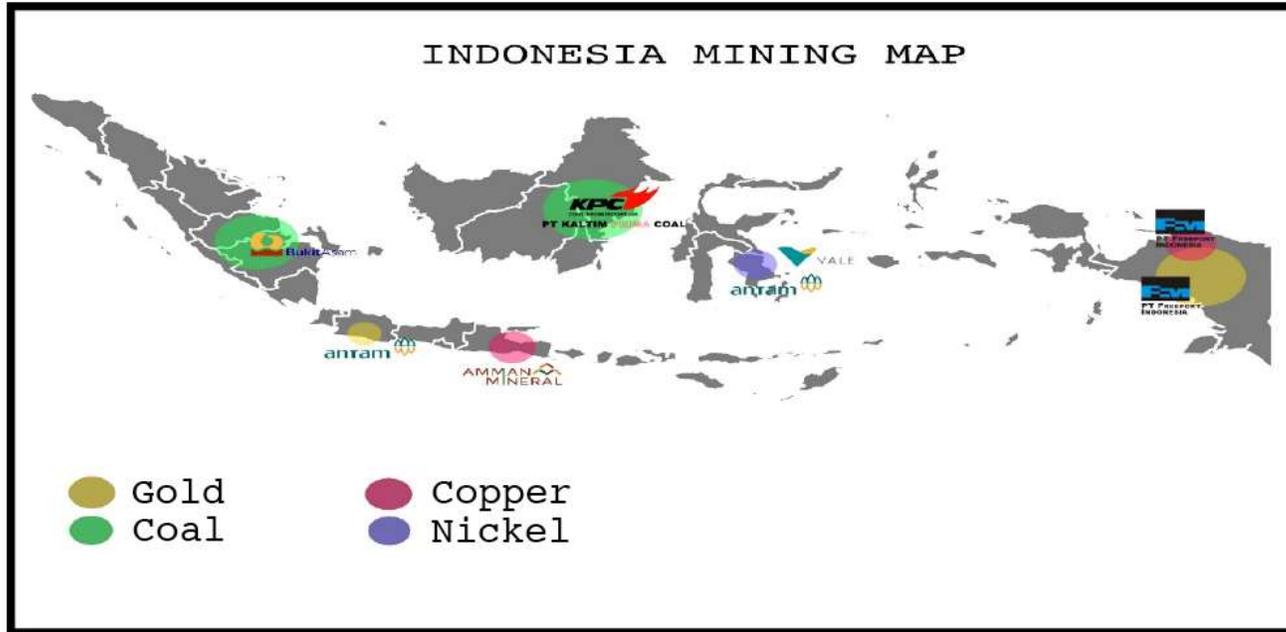
Licenses, concessions and rights conferred by the government have substantial monetary value. This makes them susceptible to **misuse** by corrupt authorities.

Driving Factors of IFFs

The existence of multi-national companies, tax heaven countries, unclear regulations and authority on extractive industries management.



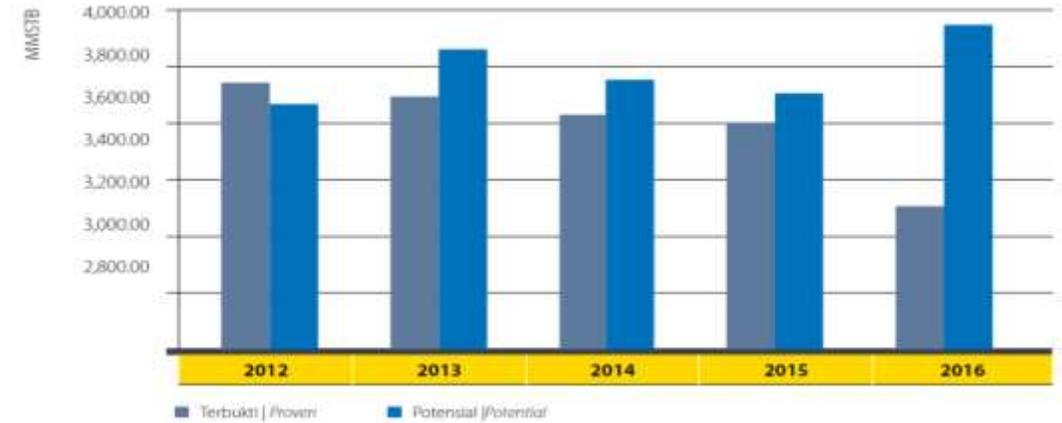
Indonesia Extractive Industries



According to the Energy Ministry's Geological Agency data, coal potential is 120.5 billion tons for open pit mining and 41 million tons for underground mining, with reserves of 31 billion tons. The biggest potential of natural resources and coal reserves in Kalimantan Island is around 57.6% and Sumatra is 42.4%.

Indonesia as one of the countries that have abundance extractive commodities

Crude Oil Reserve 2012-2016



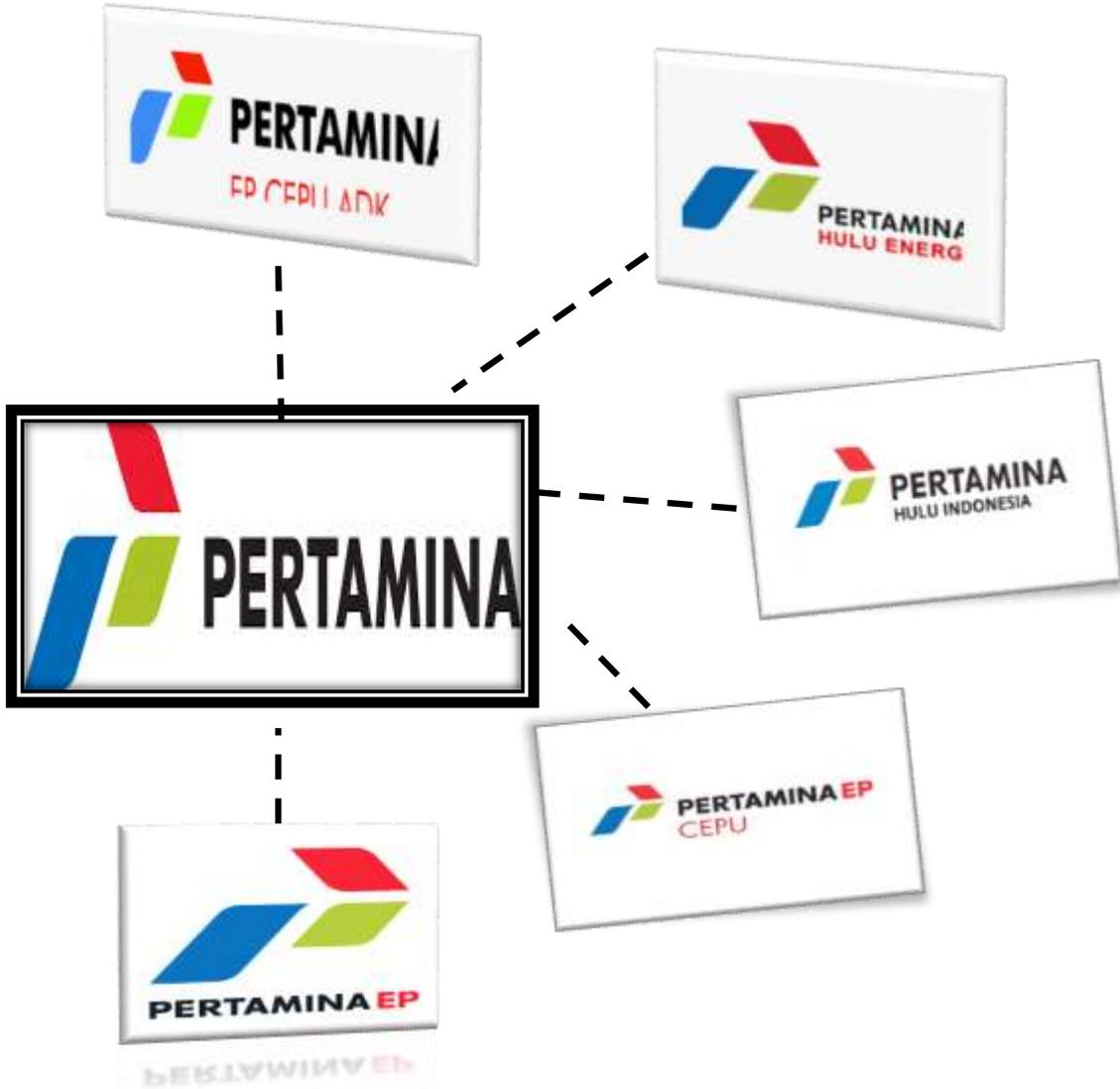
Source: Oil and Gas Statistic 2016, Directorate General of Oil And Gas, Ministry of Energy and Mineral Resources



Grasberg gold mine in the Papua province of Indonesia is currently the world's largest gold mine containing more than 70 Moz of gold reserves.

Stated Owned Enterprise in Extractive Industries (SOEs)

Oil and Gas



Mining



Tin



Gold and Copper

Coal



Nickel, gold, bauxite
and coal



Audit on the Indonesia Extractive Industries



Audit Focus Areas on Extractive Industries, based on
Guideline: Audit Considerations for Extractive
Industries, AFROSAI-E, November 2015



SOEs in Extractive Industries



BPK (SAI of Indonesia) almost carried out the **overall audit focus areas** in extractive industries, especially on audits with specific objectives (compliance audit)



Ministry of Energy and
Mineral Resources



Legal Framework

- BPK evaluates the **process of extending** the work contract of **PT Freeport Indonesia** with the Indonesian Government, and the findings are including boundaries of mining operations, state revenue, environmental aspects, and divestment of shares.
- BPK also reviews legal aspect compared to the PSC contract with cost recovery scheme. BPK found **the non-conformity of cost claims with Government Regulation Number 27 of 2017**, comparing with PSC Contract arrangement.

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Presented based on Guideline: Audit Considerations for Extractive Industries, AFROSAI-E, November 2015

Fiscal Systems, Contracts and Licenses

2

- BPK has carried out audit on the compliance of the parties in the **process of issuing licenses**. As a result, there are differences in licenses data issued by the Regional Government with those maintained in the Energy Ministry database.
- BPK also audit the suitability of the implementation of the **profit sharing scheme** agreed in the Production Sharing Contract (PSC) in calculating the profit sharing of mining operations

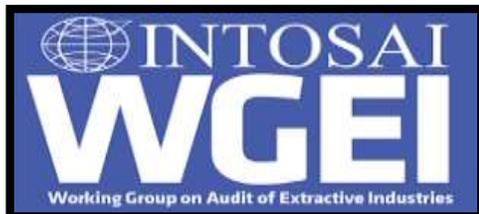


Presented based on Guideline: Audit Considerations for Extractive Industries, AFROSAI-E, November 2015

Monitoring of Operations

- BPK has carried out audit on **Follow-up on changes in legislation** in the management of mining business. For example, since the enactment of Law Number 23 Year 2014 concerning Regional Government, the mechanism for transferring the authority to issue licenses from the District/City Government to the Provincial Government has not been implemented adequately.
- BPK also conducts audit on **monitoring implementation of the supply chain management activities** concerning of Upstream Oil and Gas Business Activities by The Special Task Force for Upstream Oil and Gas Business Activities (abbreviated: SKK Migas).

3



Presented based on Guideline: Audit Considerations for Extractive Industries, AFROSAI-E, November 2015

Collection of Taxes and Royalties

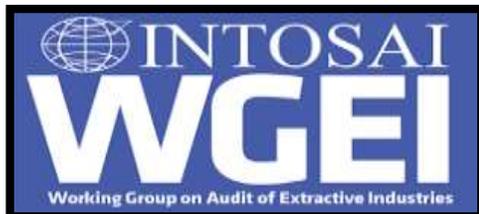
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- BPK conducts audit on the compliance of the contractor in **fulfilling the obligation** to pay taxes and royalties, including the imposition of fines for late payment of taxes and royalties.

Revenue Distribution

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- BPK conducts audit on compliance for saving fund to fulfillment of **post-mining guarantees / guaranteed reclamation** by the contractors.
- The BPK also **analyzes the impact of the delay in the construction** of mining material **purification facilities** (e.g. for nickel) for increasing state revenue.

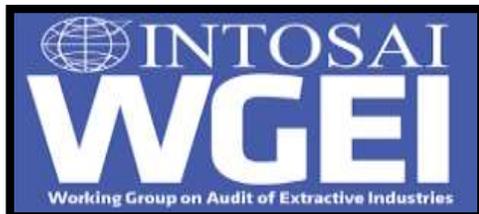


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Implementation of Sustainable Policies

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- The BPK audits the compliance of the process of **using protected forests and conservation forests as concessions** for oil and gas, also mineral and coal mines.
- The BPK audits the **impact of disposal of mining operational waste** on terrestrial, river and sea ecosystems.
- The BPK conducts audit on - **management of permits for hazardous and toxic materials** by Extractive Industries.
- BPK also conducts audit on **fulfilling Corporate Social Responsibility (CSR) fund obligations** to help maintain / improve the welfare of local residents



Presented based on Guideline: Audit Considerations for Extractive Industries, AFROSAI-E, November 2015

Nature of IFFs on Indonesia Extractive Industries

Extracted from the results of BPK audit in Indonesia extractive industries in

First, many **rent-seeker** (actors in **multi-level governance**, politicians, and businessmen) which influence the non-transparent granting mining licenses and tender process. This is reflected in the number of mining business licenses that are **not clear and clean**.

Second, the multi-level governance context produce **different sets of revenue data** that indicated the existence of data manipulation, **trade misinvoicing**, and the **loss of tax revenue**. Beside that, lack of transparency in data on oil and gas, can trigger errors or manipulation in the determination of **percentage of gross production split** schemes, as alternative of cost recovery scheme.

Third, regulatory vulnerability, including the **cost recovery scheme**. Many problems concerning with cost recovery scheme including charging of **irrelevant cost and do not comply** with government regulations, and also **cost mark ups** by contractors.



Lesson Learned

- **Fair accountability and responsibility** between central and local government in term of licenses issuing process.
- **Data integration** among central (including custom) and local government concerning mining production, taxes and other compensation paid by contractors.
- **Fair and conformity of law** between production sharing cost (PSC) contract and government regulation on cost recovery scheme.
- **Fairness bidding and benchmarking** in the selection of contractors.
- More objective audit **concerning environment** aspect.
- **Better coordination** on bilateral and multilateral to promote EI Transparency.



**For Your Kind
Attention**



**For Your Kind
Attention**

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