

INTERNAL CONTROL SYSTEM

Telkom should establish, maintain, test, and disclose the effectiveness of internal control over financial reporting, which is in line with SOX Section 404. Besides, the application of Internal Control System (SPI) aims to gain public confidence regarding the effectiveness of financial reporting and preparation of consolidated financial statements following Accounting Standards Finance from the Indonesian Institute of Accountants. Therefore, Telkom has SPI under the supervision of the President Director and the Finance Director, and run by the Directors, management, and other personnel.

INTERNAL CONTROL FRAMEWORK

The 2013 Internal Control-Integrated Framework from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a reference for the implementation of SPI in Telkom. Other than referring to COSO framework, Telkom is also committed to continue to ensure that the Company's policies, compliance, and all business activities are carried out by applicable laws and regulations, both internal and external such as legal advisory, legal opinion, legal review, and litigation. The unit responsible for compliance with legislation is the Legal & Compliance Unit under the Corporate Secretary Department.

Following the COSO Framework, Telkom implements five components of internal control that are bound together at all levels and business units of the Company, namely:

1. Control Environment

- a. Demonstrates commitment to integrity and ethical values.
- b. Exercises oversight responsibility.
- c. Establishes structure, authority, and responsibility.
- d. Demonstrates commitment to competence.
- e. Enforces accountability.

2. Risk Assessment

- a. Specifies relevant objectives.
- b. Identifies and analyzes risk.
- c. Assesses fraud risk.
- d. Identifies and analyzes significant change.

3. Control Activities

- a. Selects and develops control activities.
- b. Selects and develops general controls over technology.
- c. Deploys through policies and procedures.

4. Information and Communication

- a. Uses relevant information.
- b. Communicates internally.
- c. Communicates externally.

5. Monitoring Activity

- a. Conducts ongoing and/or separate evaluations.
- b. Evaluates and communicates deficiencies.

The five components have been applied and applied to Telkom's policies, including the following:

INTERNAL CONTROL IMPLEMENTATION IN TELKOM

Control Environment

- Telkom builds corporate culture as a guide for key role holders in building leadership patterns and strengthening organizational synergies, and enhancing sustainability competitive growth based on the values that have been formulated in The Telkom Way. It is continuously reinforced and sustained which includes four dimensions, namely the spiritual dimension, the emotional dimension, the intellectual dimension, and the physical dimension as well as the great spirit of core values namely 3S: Solid, Speed, Smart.
- Telkom ensures the effectiveness of implemented Internal Audit activities by implementing the SOA 302/404 prerequisites and managed with a risk-based audit approach. Telkom also ensures that effective coordination and co-operation with internal and external parties, and business risks to all business activities are adequately managed with internal control systems.
- Telkom has a Competency Directory that defines the Company's competency needs. One of them is Finance Stream which includes the competence of Corporate Finance with the sub-area of Capital Structure competency and Working Capital Management (Treasury Management). Then, Accounting with sub-area competence of Financial Accounting, Management Accounting, and Corporate Tax. The competency development policy is aimed at creating superior, global quality, and highly competitive employees.

Risk Assessment

- Telkom has several considerations in developing accounting policies such as Statements of Financial Accounting Standards (PSAK), Interpretation of Statements of Financial Accounting Standards (ISAK), International Accounting Standards (IAS), related laws, and changes in impacted internal environments.
- Telkom has a principle of financial assertion in ICOFR planning that is well respected by all relevant employees.
- Telkom manages internal and external corporate risk with established mechanisms.
- Telkom also implements an anti-fraud policy control system and have potential fraud prevention.

Control Activities

- Telkom sets up a Business Process Owner (BPO) and AO (Application Owner) that have duties and responsibilities related to ICOFR.
- Risk determination rules and internal controls refer to the ICOFR policy consisting of segregation of duties, risk determination, and determination of internal controls.
- Telkom has guidelines for the implementation of information systems security that are aligned with company needs and can be implemented on an ongoing basis.

Information and Communication

- Telkom has accounting policies implemented under IFAS and IFRS, outlined following accounting principles and implementation, including information or data related to the process and disclosure of financial reporting, and regulates the components of the consolidated financial statements.
- Telkom has an information technology policy that provides a frame of reference for each process or unit associated with the organization's IT operations in the preparation and implementation of guidelines and procedures. The scope of IT regulations in our Company covers aspects of Governance of IT Governance and IT management.

Monitoring Activity

- Telkom has an Internal Audit Charter that includes the auditor's requirements in the Internal Audit Unit, which has professional integrity and behavior, knowledge of risks and important controls in the field of information technology, knowledge of capital market laws and regulations.
- CEO Telkom always increases awareness from management regarding audit and change management in the form of CEO Notes and establishes Integrated Audit, and forms Probis IFRS.

Telkom has conducted an assessment of the effectiveness of internal control over TelkomGroup financial reporting as of December 31, 2019. This assessment process is in line with the Minister of State Owned Enterprises Regulation Article 26 Paragraph 2 of 2011 and based on the results of its overall assessment, Telkom is not aware of any material matters that would indicate or suggest the existence of an ineffective internal control over financial reporting of the TelkomGroup as of December 31, 2019.