PSC Audit in Indonesia

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African Organisation of English-speaking Supreme Audit Institutions
Agenda

- Audit Mandate
- Development of Oil and Gas Contract in Indonesia
- Staff composition
- Key findings
- Challenges
- Success factors
- Key players
INDONESIA
Cost Recovery Audit Mandate - Indonesia

✓ Constitution mandates BPK to audit Public Finance.
✓ Public Finance includes state budget and realization, and State-Owned Enterprises (SOE).

Legal Basis for Cost Recovery Audit:
❖ Law No. 17, 2003 on State Finances
❖ Law No. 15, 2004 on Audit on Management and Responsibility of State Finance
❖ Law No. 15, 2006 on Supreme Audit Board of Indonesia (BPK)

• PSC Section XV Books and Account
  • 15.2 Audit:
  • Special Task Force (SKK Migas) dan GOI hold the right to annually examine and audit contractor’s book related to Upstream Oil and Gas Contract with GOI.

• GOI Audit conducted by Supreme Audit Board of Indonesia (BPK)
Development of Contract

- Indies Mining Law 1899
- Law No. 44/Prp/1960
- Law No. 8/1971
- Law No. 22/2001

1960
1966
2001

Concession
Contract of Work
Production Sharing Contract
Cooperation Contract
Financial Mechanism Overview

Gross Revenue

FTP

Cost Recovery

ETBS

GOV'T Share

DMO

Contractor Share

Gov't Tax

DMO Fee

Indonesia Share

Net.CS CR

Total.Contractor Share
Staff composition

- 21 Dedicated staff to Oil & Gas Sector (Upstream)

- Staff Experience:
  - 0-5 Years: 5
  - 5-10 Years: 4
  - > 10 Years: 12

- Educational background:
  - Accountants: 16
  - Law: 1
  - Engineering: 2
  - IT Specialist: 2
Types of Audit

AUDITS OF LIFTING AND EQUITY TO BE SPLIT (PROFIT OIL) ARE MAIN DUTY OF SKK MIGAS WITH SUPPORT FROM BPK

To optimize the audit, BPK focus more on Cost Recovery Audit
Structure of audit team - Team composition

- **Official Assignor**
  - Sign the Assignment Letter

- **Person In Charge**
  - To be responsible to all the audit assignment from planning to reporting; Sign the audit report

- **Supervisor**
  - Reviewing Audit Program Draft conformity with related Audit Implementation Guideline
  - Reviewing Audit Methodology; and give directive order related to Individual Working Program (IWP) draft

- **Team Leader**
  - Setting Audit program by preparing materials needed; Draft IWP; Setting up audit schedule including tentative time allocated for field work; Composing initial data/information request; Sending audit notification including audit assignment letter, audit schedule, and initial data request

- **Team Member**
  - Help Team Leader
Key findings

1. Adjustment/correction on cost recovery calculation (e.g. over charge of expenses, claiming the unrecoverable costs, etc.)

2. Procurement process not in accordance to law/regulation (e.g. amendment of proc. Contract after due date, penalty on work delays, etc.)
Challenges in cost recovery audit

a. Limited audit time

b. Contradiction between the laws and the PSA/PSC, for example
   1. regarding income tax,
   2. expatriate personal benefit allowance,
   3. expatriate income limits (PMK 118 vs. PSC)
Success factors

• Staff skilling, competences
• Understand the auditee business process, e.g. asking the auditee to give presentation
• Collaborating with other Government institutions, e.g. SKKMigas, Ministry of Energy
Key players
OIL & GAS CONTRACTORS IN INDONESIA

There are 85 production contractors and 177 exploration contractor in Indonesia
Audit Findings Example:
Contract of Wellpad Infrastructure Preparation Project and Access Roads for Drilling Activities at PSC Contractor “C” Should be Subject to Penalty Due to Delay
Well pad means any area constructed and maintained for use to create a well

PSC Contractor “C”

Access Roads

Drilling
The Project Contract

Start of Project  End of Project  Amended End of Project Date

→ The Justification of Contract Amendment to extend the time period due to the delay of acquisition of access permission to use state land from local government
Also, Project Monthly Report showed that on August, 2017 (already 19 months), the progress were under 60%. Far below the plan.

Because the date of completion would be beyond audit time, the amount of penalty decided to be potentially maximum penalty.
Criteria Used:

Contract of The Project and Work Procedures No. 007 set by SKK Migas

- 1/1000 of the contract value per day penalty should be subjected due to delay
- 5% of the contract value is maximum penalty
As A Result...

→ Cost Recovery Account Overcharged worth USD9,000,000

5% × USD180,000,000 → USD9,000,000
The Cause

Contractor

→ Contractor of The Project did not pay attention to the Contract and the Procurement Regulation
The Recommendation

The cost must be deducted from Cost Recovery in GL and FQR

USD9,000,000