

# **CHARTER OF THE INTERNAL AUDIT**

**PT LIPPO KARAWACI TBK**



**2022**

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## **CHARTER OF THE INTERNAL AUDIT PT LIPPO KARAWACI TBK**

### **I. LEGAL BASIS**

This Internal Audit Charter was prepared based on the Financial Services Authority (*Otoritas Jasa Keuangan*) Regulation No.56/POJK.04/2015 dated 29 December 2015 on the Establishment and Guidelines for the Preparation of the Internal Audit Unit Charter.

### **II. DEFINITION**

- a. Auditors are staffs/employees of the Company within the Internal Audit Unit who have the scope, roles, responsibilities and authority to carry out any internal investigations in the Company in accordance with the laws and regulations.
- b. Internal Audit is an independent and objective assurance and consulting activity with the aim of increasing value and improving the operation of the company through a systematic approach by evaluating and improving the effectiveness of risk management, control and corporate governance processes.
- c. The Internal Audit Unit is a work unit in the Company which carries out the audit function internally and led by the Head of the Internal Audit Unit.
- d. The Board of Commissioners is a company organ that is in charge of conducting a general and/or specific oversight of both the Company and its businesses in accordance with the Articles of Association as well as providing advice to the Board of Directors.
- e. The Board of Directors is a company organ that has full authority and responsibility for the management of the Company, to fulfill its objectives and also to represent the issuer or public company, both inside or outside the court in accordance with the provisions of the Articles of Association.
- f. The Financial Services Authority ("OJK") is a state institution established under Law Number 21 of 2011 which serves to implement an integrated regulatory and supervisory system for all activities in the financial services sector.
- g. Stakeholders are parties who have an interest in the Company.
- h. Shareholder is a person or legal entity that legally owns one or more shares of the Company.
- i. The Company is PT Lippo Karawaci Tbk.
- j. General is any and all parties outside the Company.

### **III. PURPOSE**

The purpose of establishing the Company's Internal Audit Unit is to assist the Company in carrying out its audit function and providing independent and objective assessments and assurance of the Board of Directors, Board of Commissioners and Audit Committee on the effectiveness of risk management, internal control and comply with the corporate governance processes of each work unit and daily processes.

#### **IV. STRUCTURE, POSITION AND ORGANIZATION OF INTERNAL AUDIT**

- a. The Internal Audit Unit is led by a Head of Internal Audit Unit.
- b. Head of the Internal Audit Unit is appointed and dismissed by the President Director through a Decree of the Board of Directors after obtaining approval from the Board of Commissioners by considering the fulfillment of the requirements to become an internal auditor as stipulated in this Charter.
- c. Head of the Internal Audit Unit is directly responsible and reports to the President Director, in carrying out his/her daily activities, Head of Internal Audit may also coordinate with relevant Directors.
- d. Head of the Internal Audit Unit may also cooperate and report directly to the Audit Committee.
- e. Auditors in the Internal Audit Unit report directly to the Head of the Internal Audit Unit.
- f. Every appointment, replacement, or dismissal of Head of the Internal Audit Unit must be immediately notified to OJK no later than the end of the 2nd (second) business days after the appointment, replacement or dismissal of the Head of the Internal Audit Unit or by following the provisions of the applicable regulations in the Capital Market.
- g. In the event that the Head of the Internal Audit Unit submit his/her resignation, the President Director must appoint a new Head of the Internal Audit Unit.
- h. In carrying out their roles, the Board of Directors and the Board of Commissioners must support the Internal Audit Unit to ensure that at all times they can work professionally, independently and objectively without interference or pressure from any party, except where necessary corporate approval is required either by Company's Articles of Association and/or prevailing laws and regulations.
- i. The Head of the Internal Audit Unit periodically evaluates the organization and composition of the Internal Audit Unit in carrying out its duties in accordance with the Internal Audit Charter.

#### **V. AUDITOR REQUIREMENTS**

At all times, Internal auditors in the Internal Audit Unit are required to fulfill the following requirements:

- a. Have an integrity, professional behavior, independent, honest and objective in carrying out their roles;
- b. Have the adequate knowledge and experience to audit as well as other disciplines background that is relevant to the field of work;
- c. Have the adequate knowledge regarding the prevailing laws and regulations including the capital market sector and other industry-specific laws and regulations;
- d. Have the ability to interact and communicate both verbally and in writing effectively;
- e. Meet the professional standards which issued by the Internal Audit association;
- f. Maintain the confidentiality of company information and/or data related to the implementation of the roles and responsibilities of Internal Audit unless required by laws and regulations or court rulings or decisions;
- g. Understand the principles of good corporate governance and risk management;
- h. Willing to continuously improve his knowledge, skills and professional abilities;
- i. Be objective in carrying out tasks and produce the factual assessments;
- j. Comply with the code of ethics of Internal Audit;



## **VI. ROLES AND RESPONSIBILITIES**

In achieving the objectives as stated in this Internal Audit Charter, the Internal Audit Unit cannot work alone without the cooperation and support from other parties, both internal and external parties of the Company. Therefore, each party has their specific roles and responsibilities as follow:

### **a. Internal Audit Unit**

1. Assisting the roles of the President Director, the Board of Commissioners and the Audit Committee to increase the value and improve the company's operations, through a systematic approach, by evaluating and improving the effectiveness of risk management, control and corporate governance processes;
2. Develop and implement an annual Internal Audit's plan;
3. Assessing the independence, efficiency and effectiveness of all functions in the Company;
4. Assessing the effectiveness of the internal control system, including compliance with policies, procedures, guidelines, and established limits;
5. Assess the reporting system and assess the accuracy and timeliness of reporting to the Board of Directors and Audit Committee;
6. Assess the appropriateness and reasonableness of accounting guidelines and practices used and test adherence to established accounting policies and guidelines;
7. Conducting internal audits effectively. The implementation of the internal audit must be supported by an independent, competent and professional Auditors;
8. Examining and assessing the efficiency and effectiveness of finance, accounting, operations, human resources, marketing, information technology and other activities;
9. Provide consulting services at the request of the Board of Directors or Division Heads related to risk management, internal control and corporate governance processes.
10. Provide suggestions for improvements and objective information on the activities examined at all levels of management;
11. Prepare a report on the audit results and submit the report to the President Director and the Board of Commissioners (through the Audit Committee);
12. Monitoring, analyzing and reporting the implementation of the suggested improvements;
13. Cooperating with the Audit Committee;
14. Develop a program to evaluate the quality of internal audit activities;
15. Conduct a specific inspection should there be any indications of fraud, embezzlement and other indications that are detrimental to the Company;
16. In fulfill its roles, it is obligatory to comply with the prevailing laws and regulations to avoid being sanctioned by the competent authority.

In addition to the duties and responsibilities of the Internal Audit Unit as regulated in Article VI letter a above, the Internal Audit Unit also has additional instructions regarding the implementation of the scope of work of the Internal Audit Unit as attached in Appendix 1 which is an integral and inseparable part of this Charter.

**b. Board of Directors of the Company**

1. The Company's Board of Directors provide full support for the Internal Audit Unit to carry out its duties independently without any form of influence.
2. Head of related department/division of the Company that being audited shall provide full support to the Internal Audit Unit in the form of active and cooperative participation in relation to the implementation of internal audits;
3. Provide precise, clear and consistent direction to the Company's environment through written instructions, policies and/or procedures.

**c. Audited Party**

1. Be cooperative with the inspection/audit process in relation to the internal audit activity, among others by providing full and unconditional access to activities, functions, facilities, records, information and personnel;
2. Provide written responses in a timely manner, for all recommendations on the results of the examination including the estimated targets for the implementation of these recommendations;
3. Implement the agreed corrective action program.

**VII. AUTHORITY OF THE INTERNAL AUDIT UNIT**

In carrying out its roles, the Internal Audit Unit is empowered to do the following:

- a. Perform audits of the Company's work units and have access to all data and documents required in accordance with the audit scope stipulated by the policy of Internal Audit Unit to support the implementation of the audit function;
- b. Have a support from all Divisions and Departments by providing information and explanations which needed in carrying out internal audit tasks;
- c. In the event that there are difficulties or limitations on the authority in conducting audit/inspection, and/or finding any material problem/issue, the Internal Audit Unit may report to the President Director and/or the Audit Committee.
- d. Perform coordination with the activities of external auditors;
- e. Hold regular and incidental meetings with the Board of Directors, the Board of Commissioners and/or the Audit Committee;
- f. Communicating directly with the Board of Directors, the Board of Commissioners and/or the Audit Committee.
- g. If necessary, the Internal Audit Unit can report the activities of the Internal Audit Unit or other issues deemed important according to the Internal Audit Unit, including holding a closed meeting with the Audit Committee without the presence of Board of Directors.
- h. Obtain assistance from other divisions/units' personnel to achieve audit objectives;
- i. The Internal Audit Unit, if necessary, may hire the services of experts from outside the Company to assist in its audit assignments so that the audit objectives can be achieved as planned.

## **VIII. ACCOUNTABILITY AND INDEPENDENCE**

- a. To maintain independence and objectivity, the Internal Audit Unit is not directly involved and is prohibited from having direct responsibility or authority over daily transaction processes and other transaction activities in the work unit being examined, for example performing any operational tasks both in the Company and in the subsidiaries of the Company or initiating/approving accounting transactions other than those related to the Internal Audit Unit.
- b. Members of the Internal Audit Unit are prohibited from having concurrent roles and positions related to the operational activities of the Company and its subsidiaries (i.e.: managing the Company's assets).
- c. The Internal Audit Unit is prohibited from providing any work instruction to employees who are not members of the Internal Audit Unit, unless the employee is assigned to assist the activities of the Internal Audit Unit.

## **IX. GUIDELINES AND REPORTING**

- a. As part of the Internal Control System, in determining the position, authority, responsibility, professionalism, organization and scope of roles, the Company's Internal Audit Unit is guided by the Internal Audit Function Implementation Standards and the Internal Audit Code of Ethics which generally accepted;
- b. In providing opinions, assessments and recommendations, the Internal Audit Unit must always follow, maintain and develop norms and ethics supervisory/control, to provide accurate, objective and beneficial assessments for the Company;
- c. Audit Follow-up Reports, both internal and external, are the responsibility of each organizational unit examined for improvement in accordance with Company policy and at the same time become a factor for the Company to assess the performance of these organizational units. In the implementation of supervision/control, the Board of Directors ensures that every result of the inspections will be and or have been followed up by the units being examined;
- d. The Internal Audit Unit must monitor and report the progress of the implementation of the improvements progress that have been made by the audited business unit. The improvements progress consists of:

- 1. Monitoring the implementation of improvements

Monitoring of improvements implementation should be carried out, then the progress can be known and reminded to the audited business unit if it is unable to carry out the improvement's commitment before or within the agreed time limit.

- 2. Analysis of the adequacy of improvements

From the results of monitoring on the implementation of improvements, an analysis of the adequacy of the realization of the commitment to improvement has been carried out by the audited business unit. Furthermore, it is necessary to check the follow-up if there are difficulties or obstacles that cause the improvements to be unable to be carried out properly.



3. The improvement progress report

In the event that the improvement is not carried out by the audited business unit, the Internal Audit Unit will provide a written report to the President Director and the Board of Commissioners (through the Audit Committee) for any further actions.

**X. CODE OF ETHICS**

The Internal Audit Unit uses the Internal Audit code of ethics issued by the Institute of Internal Audit (IIA), the Capital Market Law and the applicable OJK Regulations. Thus, all members of Internal Audit must uphold the Code of Ethics below:

a. Integrity

1. Have to work honestly, carefully and responsibly;
2. Have to comply with the law and make disclosures as required by law or the profession to avoid activities or actions against the law;
3. Have to respect and support the reputation of the Company;
4. Have to prioritize the interests of the Company, shareholders and other stakeholders of the Company.

b. Objectivity

1. Members of the Internal Audit Unit must be impartial, unbiased and avoid conflicts of interest.
2. Not participating in any activities or relationships that could, or could reasonably be suspected of, hinder or diminish the internal auditor's fair and independent judgment. Included in this is any activity or relationship that results in a conflict of interest with the organization;
3. Not accept anything that could, or should be suspected to interfere with professional judgment;
4. In the event that a member of the Internal Audit Unit has a conflict of interest and/or does not meet the elements of independence and objectivity during the internal audit assignment, the party concerned is obliged to disclose the condition to the Head of the Internal Audit Unit.
5. Obligated to disclose all existing material facts and not to hide things that could harm the Company or violate the law.

c. Confidentiality

1. Obligated to be careful in using and keeping the information obtained while carrying out their roles;
2. Not using information to obtain for personal gain and gain, or in any way that is against the law or is detrimental to the Company.



d. Competence

1. Only involved in providing services that require the knowledge, skills and experience;
2. Obligated to provide internal audit services in accordance with the Internal Audit Function Implementation Standards;
3. Obligated to continuously improve skills, effectiveness and quality of services on an ongoing basis by conducting training according to the applicable standard.

**XI. AUDIT STANDARD**

The Internal Audit Unit in carrying out their role and responsibilities as internal auditors will always refer to the audit standards issued by the Institute of Internal Audit (IIA), the Capital Market Law and the applicable OJK Regulations.

**XII. PROTECTION**

The company is obliged to provide protection to the Internal Audit Unit which carries out the Internal Audit activities, including providing legal protection, providing any necessary protection against threats and/or violence as well as providing additional insurance as deemed necessary.

**XIII. CLOSING**

- a. This Internal Audit Charter is effective from the date it is stipulated by the Board of Directors after obtaining approval from the Board of Commissioners.
- b. This Internal Audit Charter must be uploaded on the Company's website.
- c. This Internal Audit Charter can be reviewed periodically or updated if deemed necessary to be further refined by taking into account the prevailing laws and regulations and approved by the Company's Board of Commissioners.

**XIV. APPROVAL BY THE BOARD OF COMMISSIONERS AND BOARD OF DIRECTORS**

Adopted by the Board as of 27 July 2022

## APPENDIX 1

### ADDITIONAL INSTRUCTIONS REGARDING THE IMPLEMENTATION OF THE SCOPE OF WORK OF THE INTERNAL AUDIT UNIT

Additional instructions for the Internal Audit Unit related to the implementation of its work are as follows:

1. The Internal Audit Unit will give priority to high-risk areas, where the examination will be directed to activities that are considered as high-risk and have a significant effect on improving the efficiency, economic value and effectiveness of the Company's operations.
2. The Internal Audit Unit is required to have the adequate frequency of inspections, where inspections of the internal control system in each division/unit will be carried out at appropriate time intervals to ensure that internal control has been carried out effectively and consistently, in accordance with the existing policies and procedures as well as the direction of the Board of Directors.
3. At the request of the Audit Committee or the Board of Directors, Internal Audit may conduct the review of significant contracts, including review of the terms and conditions of important contracts entered into with external parties. The Internal Audit Unit may also review the implementation of these important contracts.
4. The Internal Audit Unit may also conduct reviews in relation to the Company's information technology and computerized systems, including but not limited to:
  - a. Upon request, the Internal Audit Unit may participate in meetings related to the planning, designing, developing and implementing of important information technology and computerized systems to ensure:
    - i. Sufficient control and security have been implemented in the system;
    - ii. Adequate testing at the stages deemed important;
    - iii. Documentation on the developing the system is complete and accurate.
  - b. Conduct regular inspections of data processing activities and evaluation after implementation of important data processing systems to determine whether the use of the system is in accordance with the intent and purpose of the system.
5. The Internal Audit Unit may coordinate with the external auditors to reduce the duplication of the audit work so that the audit planning process can be more efficient and the Internal Audit Unit can become a counterpart to the external auditor.
6. Special inspections, the Internal Audit Unit may carry out special inspections in accordance with the request of the Board of Directors/Head of Divisions and/or in the event that there are indications of fraud, embezzlement and other indications that are suspected to have the potential to harm the Company.
7. The Internal Audit Unit is required to follow up on the implementation of audit recommendations through:
  - a. Conduct an evaluation on every corrective action either planned or taken to follow up on the audit findings. If the improvement plan is deemed insufficient, further discussion is required to achieve a better follow-up plan;
  - b. Monitoring the implementation of follow-up on audit results to ensure that there are no deviations that occur from all actions that have been taken.