ANALYSIS OF INTERNAL CONTROL ACCORDING TO SARBANES OXLEY ACT SECTION 404 AT PT TELEKOMUNIKASI INDONESIA (PT TELKOM)

THESIS

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Indah Permata Suryani

ANALYSIS OF INTERNAL CONTROL ACCORDING TO SARBANES-OXLEY ACT SECTION 404 AT PT TELEKOMUNIKASI INDONESIA (PT TELKOM)

ABSTRACT

This research analyses the effectiveness of Internal Control Implementation according to Sarbanes-Oxley Act section 404 at PT Telekomunikasi Indonesia (PT TELKOM). As one of the company listed on New York Stock Exchange (NYSE) PT Telkom has to comply with SOX section 404 about internal control attest. Based on analysis on this research PT Telkom already implemented internal control in three levels, entity level controls, transactional level controls, and IT controls. By implementing SOX section 404, company will have a better internal control system, so the integrity and accountability of financial report will be reliable. In order to identify effectiveness of Internal Control Implementation at PT Telkom researcher show the comparison between the regulation at Sarbanes-Oxley Act Section 404 and implementation of that Act at PT Telkom itself. As the result PT Telkom has implemented Internal Control comply with Sarbanes-Oxley Act Section 404 effectively.

Keywords: Internal Control, Sarbanes Oxley Act (SOX) section 404

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CHAPTER I

INTRODUCTION

1.1 Background

The Sarbanes-Oxley Act of 2002 commonly called SOX is a United States federal law enacted on July 30, 2002.Initiated by Senator Paul Sarbanes (Maryland) and Representative Michael Oxley (Ohio), the Act was approved by the House by a vote of 423-3 and by the Senate 99-0. This Act was promulgated in response to the recent major corporate and accounting scandals including those at Enron, Tyco International, WorldCom (now MCI), Safety-Kleen and Xerox, which also involves several KAP included in "the big five" such as Arthur Andersen, KPMG and PWC (Lukita, 2009, 2). These scandals resulted in a decline of public trust in accounting and reporting practices.

Scandals that led to the loss of dollars for investor's billion's since the collapse of stock prices that affected firms also contributed to the decline of public trust in the stock market. All the scandals is a tragic example of how fraud (fraud schemes) gave very bad impact on the market, stakeholders and employees. The enactment of this law, coupled with some rules implementation of the Securities Exchange Commission (SEC) and some self-other regulatory bodies, is expected to raise the standards of corporation accountability, transparency in financial reporting, minimize the possibility for a company or organization to conduct and conceal the fraud, and make attention to the very high level of corporate governance.

Although SOX is published by US legislators, the effect is spread to almost all other countries, because this Act must be applied by corporation which is listed on the US capital market. If the corporation can not comply with this Act, they may be disqualified or sanctioned. The Act has the potential to bring both benefits, in terms of more transparent disclosure and improvement in corporate governance, and costs, in terms of complying with the new regulation (Engel Ellen et al, 2004).

The Sarbanes-Oxley Act 2002 consists of 11 titles and 66 Section, where each section has different topic. Today, most observers would agree that section 404 of the Act, on the attestation of financial reporting controls, this is momentous provision. Implementation Section 404 has become the top focus of audit committee members and enormous costs of implementation have invited considerable criticism (Khrisnan, 2005, 3). Section 404 of the Sarbanes-Oxley Act (SOX) says that publicly traded companies must establish, document, and maintain internal controls and procedures for financial reporting. It also requires companies to check the effectiveness of internal controls and procedures for financial reporting. In order to do this, companies must

- Document existing controls and procedures that relate to financial reporting.
- Test their effectiveness.
- Report on any gaps or poorly documented areas.

The United States government immediately endorses the Sarbanes-Oxley Act of 2002, the effective date on August 14, 2003. US-SEC was applied for the issuers in the NSYE. Public companies in Indonesia whose stocks are listed on the New York Stock Exchange (NYSE) should refereed to the law in Sarbanes-Oxley Act (SOX), other than referred to the policy made by Capital Market Supervisory Agency- Financial institution (Bapepam-LK). one of the company in Indonesia which is listed in NYSE is PT Telkom.

One of SOX regulations that are relevant with PT Telkom's Business, is the rule at SOX Section 404 which is requires the management of PT Telkom to be responsible for the implementation of internal controls to the adequate financial reporting ("ICOFR") , in order to provide related assurances with reliability of Financial Reporting and the preparation for issuing financial statements based on GAAP. PT Telkom and its subsidiaries have conducted assessments and audits of the effectiveness of the design and implementation ICOFR (Internal Controls Over Financial Reporting), which is integrated in Audit Process of Financial Statements.

Based on the description above, it can be argued that the implementation of SOX in the company can be used to evaluate the performance especially in the implementation of Quality Management System. but because only a few company in Indonesia that is implements it, the writer interested to learn more about the implementation of SOX itself. Although PT Telkom was implement SOX Section 302 (*Disclosure Controls and Procedures*), Section 404 (Internal *Control Attest*) and Section 906 (*Civil Certification by CEO/CFO*). The writer just focuses on Section 404 about Internal Control because this is most momentous provision. PT Telkom also implement this SOX based on decision of Boards of Director NO. KD.49/PW000/KUG-10/2004 October, 29, 2004 about internal control policy within presentation of financial statement according to SOX section 404. It means PT Telkom already implemented SOX since 2004. In order to know how far the implementation of SOX, writer interest to analyze it, based on recent condition.

1.2 Problem Definition

Based on the background stated above, then the problems the writer would like to discuss in this research "How the Effectiveness of Internal Control Implementation according to Sarbanes-Oxley Act Section 404 at PT Telkom?"

1.3 Purpose and Benefits of the Research

The purposes that the writer wants to reach by doing this research are:

1. To know description about policy adopted by the company relating to Internal Control in SOX.
2. To compare Implementation of Internal Control at PT Telkom with internal control according to SOX Section 404.

The benefits of this research are:

1. For the writer, enhance knowledge about internal control based on SOX Section 404, because Internal Control was important aspects to increase Good Corporate Governance in a company and to fulfill the requirement to get S1 degree at Economic Faculty of Andalas University.
2. For Academic, this research can be a reference for further research.
3. For the company, this research can be references for the parties who responsible in internal control at PT Telkom.

1.4 Scope of Analysis

The writer limits the scopes of this research which are:

1. This Research only focus on implementation of Sarbanes-Oxley Act Section 404 about Internal Control assessment at PT Telkom

2. Writer just analyses the information from company which is related to internal control, such as Control and Procedures also Good Corporate Governance Implementation.

1.5 Writing Systematic

Chapter one is Introduction which explains about problem background, problem definition, purpose and benefits of the research, scope of analysis, and writing systematic. Chapter two presents literature review about the concepts of internal control integrating with Sarbanes-Oxley Act Section 404 (Internal Control Attest). It is started with the explanation about internal control, as well as definitions, objectives and the components of Internal Control itself. Based on this thing, we can use this information as a guidance to compare with real situation. Then the next concept explain about the theory of Sarbanes-Oxley Act and also about Sarbanes-Oxley Act section 404 (Internal Control Attest). This information can be the tools for the writer to review and analyze whether the implementation Internal Control at PT Telkom comply with Sarbanes-Oxley Act Section 404.

Chapter three explains research design and method, it consists of introduction, type of the research, type of data used in research, and data collection method. Chapter four contains Analysis. In this chapter writer will analyze the Internal Control Attest according to Sarbanes-Oxley Act Section 404 and the implementation at PT Telkom. Chapter five is conclusion and recommendation, this chapter consists of research conclusions, limitation of the research, and recommendation for the next researchers.

CHAPTER II

THEORITICAL FRAMEWORK

2.1 Internal Control

2.1.1 Definition of Internal Control

Globalization and size of the company causes organization structure become complicated and broader so to oversee the operations; management needs to provide internal control equipments. The tools of internal control were created continuously to prevent and avoid fraud. Internal Control is a tool that can assist managers to supporting their function and responsibilities. Through Internal Controls, managers can assess existing organization structure and activities undertaken.

There are many definitions of internal control, as it affects the various stakeholders of an organization in various ways and at different levels of aggregation. Warren Reeve Fess (2005, 183) discuss the definition of Internal Control are as follows:

"*Internal Controls are the policies and procedures that protect assets from misuse, ensure that business information is accurate, and ensure that laws and regulations are being followed. It means businesses use internal controls to guide their operations, safeguard assets, and prevent abuses of their systems*"

According to Arens, Elder and Beasley (2010, 270) , In the United States, the internal control integrated framework published by the Committee of Sponsoring Organizations of the Tread way Commission (COSO) is the most commonly used criteria to assess the effectiveness of internal control. Under the COSO Internal Control-Integrated Framework, a widely-used framework in the United States,

> *"Internal Control is broadly defined as a process, affected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories Effectiveness and efficiency of operations, Reliability of financial reporting and Compliance with laws and regulations"*

An important consideration in achieving an efficient implementation of a controls assessment project is an understanding of the tasks and the acquisition of the skills before beginning in earnest the assessment process. In order to achieve the efficient implementation of internal controls, we need three key elements in what we call the triangle of efficiency (see the figure below) that we can use to assess the implementation of internal control project, if not we will face the incomplete or incorrect assessment project. It often feels good just to get started on a project and begin to accumulate some evidence of progress. Indeed, that was a clear motivation in companies and auditors beginning to document the detailed activity level controls over transactions before comprehending the scope of the requirements in 2004 when first reporting on controls under SOX.

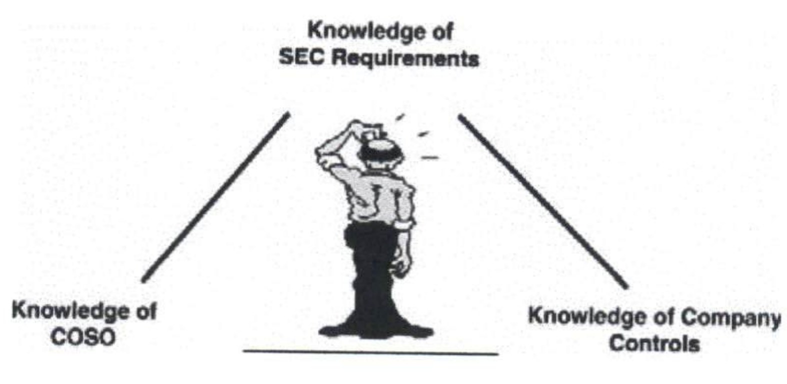


Figure 2.1

Source : Graham 2010

Experience says that if any of the three elements here are lacking, then there will be an impact on the efficiency and effectiveness of the overall project. (Graham, 2010, 25)

Based on those definitions we can conclude that internal control was the important aspects which are need by the company to prevent fraud that can affect the performance of the company and help company to achieve its objective and goals.

2.1.2 Objectives of Internal Control

Based on the previous explanations, the company needs internal control system which can protect assets from misuse, businesses improvement and control the implementation of policy effectively. To achieve the objective efficient an effectively, the company need to oversee the planned activities and implement the economic resources efficiently.

As we know, a system of internal control consists of policies and procedures designed to provide management with reasonable assurance that the company achieves its objectives and goals. Management typically has three broad objectives in designing an effective internal control system (Arens et all, 2006, 270) :

1. *Reliability of Financial Reporting*, management is responsible for preparing financial statements for investors, creditors, and other users. Management also has both legal and professional responsibilities to be sure that the information is fairly presented in accordance with reporting requirements such as GAAP. In this

case the objective of effective internal control over financial reporting is to fulfill these financial reporting responsibilities.

2. *Efficiency and effectiveness of operation,* Controls within an organization are meant to encourage efficient and effective use of its resources to optimize the company goals. An important objective of these controls is accurate financial and nonfinancial information about the entity's operations for decision making.
3. *Compliance with laws and regulations,* section 404 requires all public companies to issue a report about the operating effectiveness of internal control over financial reporting.

Management designs systems of internal control to accomplish all three objectives. The auditors focus in both audit of financial statements and the audit of internal controls is on those controls related to reliability of financial reporting plus those controls related to operations and to compliance with laws and regulations objectives that could materially affect financial reporting. The strength and weaknesses of internal controls / management control will determine the successful of the companies.

2.1.3 Components of Internal Control (COSO Internal Control Integrated Framework)

In 1985, the Committee of Sponsoring Organizations of the Treadway Commission was formed to sponsor the National Commission on Fraudulent Financial Reporting, whose charge was to study and report on the factors that can lead to fraudulent financial reporting. It was motivated by yet another period of time when financial reporting fraud and alleged audit failures were prominent in the news. Since this initial undertaking, COSO has expanded its mission to improving the quality of financial reporting. A significant part of this mission is aimed at developing guidance on internal control. In 1992, COSO published *Internal Control—Integrated Framework*, which established a framework for internal control and provided evaluation tools that business and other entities could use to evaluate their control systems. (Graham, 2010, 27)

Management has to achieve internal controls objectives by applying five internal controls. COSO's *Internal Control-Integrated Framework*, the most widely accepted internal control framework in the United States, describe internal control as consisting of five components that management designs and implements to provide reasonable assurance that it's control objective will be met. Arens, Elder and Beasley (2010, 274).

COSO's Internal Control-Integrated Framework can describe as pyramid, while each of components relate and support to achieve the best structure of pyramid itself. In detail, Each component has a relationship with and can influence the functioning of every other component. To analyses the detail and interrelationship for each component, (see the figure below).

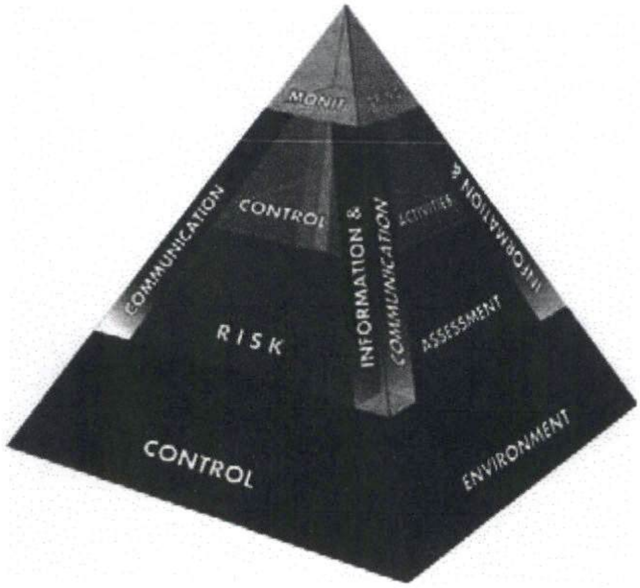


Figure 2.2

Source : The COSO Framework (Graham 2010)

Picture above was represented the relationship of five components at Internal Control. The Control Environment serves as the basic or foundation that should be exist to support other components. Note that the information and communication component is positioned along the edge of the pyramid structure, indicating that this component has close linkages to the other components. It would probably be even more accurate if the component were depicted as affecting all the components, including control environment and monitoring, as it is difficult to envision these components being effective without effective information and communication.

The COSO internal control components include the following:

1. Control Environment

The control environment serves as the foundation for the other four components. Control environment is the important point, without an effective control environment, the other four are unlikely result in effective internal control, regardless of their quality. The control environment consists of the actions, policies, and procedures that reflect the overall attitudes of top management, directors, and owners of an entity about internal control and its importance to the entity(Arens, Elder and Beasley, 2010,274-275). One of factors that influences the control environment is *management's philosophy and operating style* (Warren Reeve Fess, 2010:185). According to Graham (2010, 36) Following is a discussion of the attributes highlighted in the 2006 COSO report that contribute to an effective control environment.

1. *Integrity and Ethical values,* the effectiveness of internal control cannot rise above the integrity and ethical values of the senior management and their expectations for the rest of the company.

2. *Commitment to Competence* includes management's consideration of the competence levels for particular jobs and how those levels translate into requisite skills and knowledge.

3. *Management Philosophy and operating style,* management through its activities provides clear signals to employee about the importance of internal control.

2. Risk Assessment

All organizations face risks. Management should assess these risks and take necessary actions to control them, so that the objectives o internal control can be achieved. Risk assessment for financial reporting is management's identification and analysis of risk relevant to preparation of financial statements in conformity with GAAP. Identifying and analyzing risk is an ongoing process and critical component of effective internal control (Arens, Elder and Beasley, 2010, 277).

3. Control Activities

Control activities are the policies and procedures that help ensure that necessary actions are taken to address risks in the achievement of the entity's objectives. COSO notes that control activities generally relate to policies and procedures that pertain to (1) segregation of duties, (2) information processing, (3) physical controls, and (4) performance reviews (Arens, Elder and Beasley 2010, 278)

4. Monitoring

Monitoring activities deal with ongoing or periodic assessment of the quality of internal control performance by management to determine that controls are operating as intended ad that they are modified as appropriate for changes in conditions. (Arens, Elder and Beasley 2010, 282). It is a company responsibility to monitor controls implementation and effectiveness, and that role cannot be assumed by the independent auditor, even when the independent auditor is charged with evaluating and testing controls as a basis for their opinion. It involves assessing the design and operation of controls on a timely and periodic basis, and taking necessary corrective actions (Graham, 2010, 52).

5. Information and Communication

Information and communication are essential components of internal control. Information about control environment, risk assessment, control activities, and monitoring are needed by management to guide operations and ensure compliance with reporting, legal and regulatory standards (Warren Reeve Fess, 2010:189). The information system relevant to financial reporting objectives, which includes the accounting system consists of the methods and records established to record, process, summarize, and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets and liabilities (Graham, 2010, 50)

2.1.4 Limitations of Internal Control

Internal control provides reasonable but not absolute assurance that an entity will achieve its financial reporting objectives. Even an effective internal control system can experience a failure due to :

1. *Human Error*, the people who implement internal controls may take simple errors or mistake that can lead to control failures.

2. *Management override,* even in an otherwise well-controlled entity, managers may be able to override internal controls for selfish purposes.
3. *Collusion,* two or more individuals may collude to circumvent what otherwise would be effective controls.

Building in internal control requires that management do four things:

1. *Establish business objectives.* For their purposes, those objectives relate to financial reporting.
2. *Identify the risks to achieving those objectives.*
3. *Determine how to manage the identified risks.* The establishment of internal controls is just one of several options.
4. *Where appropriate, establish control objectives as a way to manage certain risks.* Individual controls are then designed and implemented to meet the stated control objectives.

2.2 What is Sarbanes-Oxley Act

After investor trust was shaken by corporate scandals, it became clear that some key principles of behavior were missing from the governance strategies of at least a few publicly traded companies. An image of ethical behavior and respect for shareholder money is a vital component of U.S. markets; without it, investment could wane, and the economy would be significantly impacted. SOX are designed to reassure shareholders that their investments are being protected from scandal and deception. To this end, the Act sets forth guidelines that compel companies to provide investors with all of the information that they require to make sound investing decisions. The damaging effects of cheating investors in the past can be rectified in the minds of current investors only if companies portray a consistent and unified commitment to honesty and fairness. SOX was written in the spirit of three key principles: integrity, accuracy, and accountability. (Anand, 2007, 23)

The Regulations of the Sarbanes-Oxley Act are Based on Three Principles:Integrity, Accuracy, and Accountability.

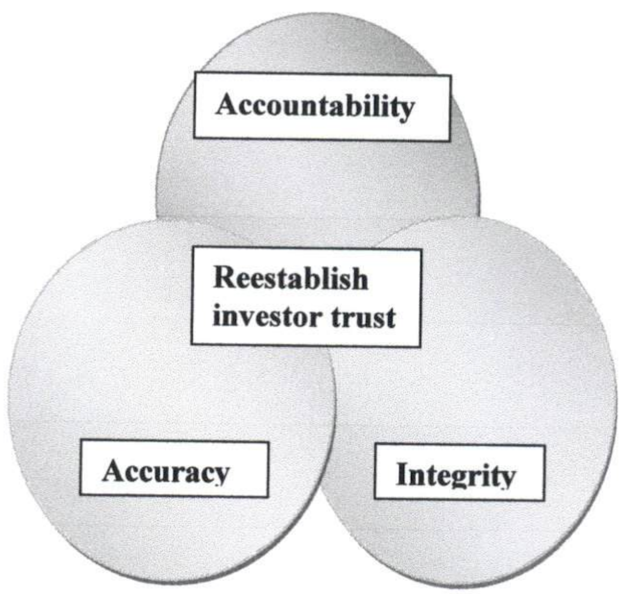


Figure 2.3

Source: Anand (2007)

"*Sarbanes Oxley Act calls for companies to report on the internal control over financial reporting and requires auditors to render an opinion on that report and an opinion on the effectiveness of the internal control. The primary goal of the Sarbanes Oxley Act is to restore investor confidence by improving corporate financial reporting.*" (Bostelman, 2005, 3)

"*The act is an attempt to restore investor confidence in public corporations by improving their corporate governance and control.*" (Jorion, 2006, 640)

The Sarbanes-Oxley Act of 2002 is a United States federal law passed in response to the recent major corporate and accounting scandals including those at Enron, Tyco International, and WorldCom (now MCI). These scandals resulted in a decline of public trust in accounting and reporting practices. Named after sponsors Senator Paul Sarbanes (D-Md.) and Representative Michael G. Oxley (R-Oh.), the Act was approved by the House by a vote of 423-3 and by the Senate 99-0.

The legislation is wide-ranging and establishes new or enhanced standards for all U.S. public company Boards, Management, and public accounting firms. The first and most important part of the Act establishes a new quasi-public agency, the Public Company Accounting Oversight Board, which is charged with overseeing and disciplining accounting firms in their roles as auditors of public companies.

Some of the major provisions of the Sarbanes-Oxley Act's include;

a) Certification of financial reports by chief executive officers and chief financial officers. Auditor independence, including outright bans on certain types of work for audit clients and pre-certification by the company's Audit Committee of all other non-audit work.
b) A requirement that companies listed on stock exchanges have fully independent audit committees that oversee the relationship between the company and its auditor.

c) Significantly longer maximum jail sentences and larger fines for corporate executives who knowingly and willfully misstate financial statements, although maximum sentences are largely irrelevant because judges generally follow the Federal Sentencing Guidelines in setting actual sentences.

d) Employee protections allowing those corporate fraud whistleblowers who file complaints with OSHA within 90 days, to win reinstatement, back pay and benefits, compensatory damages, abatement orders, and reasonable attorney fees and costs.

(The Sarbanes-Oxley Act and Enron, 2007)

The content for this Act is as follows:

Table 2.1

Title I	**Public Company Accounting Oversight Board**
Sec. 101	Establishment; administrative provisions.
Sec. 102	Registration with the Board.
Sec. 103	Auditing, quality control, and independence standards and rules.
Sec. 104	Inspections of registered public accounting firms.
Sec. 105	Investigations and disciplinary proceedings.
Sec. 106	Foreign public accounting firms.
Sec. 107	Commission oversight of the Board.
Sec. 108	Accounting standards.
Sec. 109	Funding
Title II	**Auditor Independence**

Sec. 201	Services outside the scope of practice of auditors.
Sec. 202	Preapproval requirements.
Sec. 203	Audit partner rotation.
Sec. 204	Auditor reports to audit committees.
Sec. 205	Conforming amendments.
Sec. 206	Conflicts of interest.
Sec. 207	Study of mandatory rotation of registered public accounting firms.
Sec. 208	Commission authority.
Sec. 209	Considerations by appropriate State regulatory authorities.
Title III	**Corporate Responsibility**
Sec. 301	Public company audit committees
Sec. 302	Corporate responsibility for financial reports.
Sec. 303	Improper influence on conduct of audits.
Sec. 304	Forfeiture of certain bonuses and profits.
Sec. 305	Officer and director bars and penalties.
Sec. 306	Insider trades during pension fund blackout periods.
Sec. 307	Rules of professional responsibility for attorneys.
Sec. 308	Fair funds for investors.
Title IV	**Enhanced Financial Disclosure**
Sec. 401	Disclosures in periodic reports.
Sec. 402	Enhanced conflict of interest provisions.
Sec. 403.	Disclosures of transactions involving management and principal stockholders.
Sec. 404.	Management assessment of internal controls.
Sec. 405	Exemption.
Sec. 406	Code of ethics for senior financial officers.

Sec. 407 Sec. 408 Sec. 409	Disclosure of audit committee financial expert. Enhanced review of periodic disclosures by issuers. Real time issuer disclosures.
Title V Sec. 501.	**Analyst Conflicts of Interest** Treatment of securities analysts by registered securities associations and national securities exchanges.
Title VI Sec. 601 Sec. 602 Sec. 603 Sec. 604	**Commission Resources and Authority** Authorization of appropriations. Appearance and practice before the Commission. Federal court authority to impose penny stock bars. Qualifications of associated persons of brokers and dealers.
Title VII Sec. 701 Sec. 702 Sec. 703 Sec. 704 Sec. 705	**Studies and Reports** GAO study and report regarding consolidation of public accounting firms. Commission study and report regarding credit rating agencies Study and report on violators and violations Study of enforcement actions. Study of investment banks.
Title VIII Sec. 801 Sec. 802 Sec. 803 Sec. 804 Sec. 805 Sec. 806	**Corporate and Criminal Fraud Accountability** Short title. Criminal penalties for altering documents. Debts no dischargeable if incurred in violation of securities fraud laws. Statute of limitations for securities fraud. Review of Federal Sentencing Guidelines for obstruction of justice and extensive criminal fraud. Protection for employees of publicly traded companies who provide evidence of fraud.

Sec. 807	Criminal penalties for defrauding shareholders of publicly traded companies.
Title IX	**White-Collar Crime Penalty Enhancements**
Sec. 901	Short title.
Sec. 902	Attempts and conspiracies to commit criminal fraud offenses.
Sec. 903	Criminal penalties for mail and wire fraud.
Sec. 904	Criminal penalties for violations of the Employee Retirement Income Security Act of 1974.
Sec. 905	Amendment to sentencing guidelines relating to certain white-collar offenses.
Sec. 906	Corporate responsibility for financial reports.
Title X	**Corporate Tax Returns**
Sec. 1001	Sense of the Senate regarding the signing of corporate tax returns by chief executive officers.

(Sarbanes-Oxley Act, 2002,1)

2.3 Sarbanes-Oxley Act (SOX) Section 404

Section 404 of SOX can be credited with creating most of the Act's controversy. As the Act's most widely termed and broadly spread section, Section 404 tends to consume the majority of first-year compliance efforts and resources. After implementation and throughout SOX's first year, many corporations found themselves pressed to meet the requirements of Section 404 because they initially underestimated the breadth of its scope. Upon discovering the nature of the efforts that would be required to comply with this section, several corporations found that doing so required a significant increase in both their budgets and personnel resources.

In compliance with SOX Section 404, each annual report must include a statement by executive officers to the effect that they are responsible for the establishment and maintenance of the internal control structure and other procedures for financial reporting. In addition, the Internal Control Report must also include an assessment of all internal controls related to the financial information that has been released. This assessment is required to inform investors not only about the structure of the controls, but also about their efficacy.

In complying with SOX Section 404, the executive officers (CEO and CFO) must certify a document that contains these statements and information:

1. *Statement of responsibility for establishing and maintaining internal financial reporting controls.* This statement is similar to that which is required by SOX Section 302 and certifies that the CEO/CFO assumes responsibility and culpability should the internal financial reporting controls not meet standards. By placing the responsibility for the establishment of such controls at the top of the company's hierarchy, SOX is working to ensure that those with the most power also have the greatest responsibility.
2. *An explanation of the framework used to evaluate the efficacy of internal financial reporting controls.* This document serves to educate investors and all other applicable parties about those controls that have been implemented within the company. This information must itself be up-to-date, complete, and accurate. For some investors, certification itself will not be enough to offer assurance that the financial records are accurate. There needs to be a paper trail that establishes evidence of this fact. By

reporting on the framework used to test the controls, companies create a transparent system that fosters investor confidence.

3. *Report on assessment results of internal financial reporting controls for the most recent fiscal year.* In addition to explaining the nature of the internal controls, this document must attest to the fact that these controls have been tested recently and must provide the results of the assessment. This requirement further ensures that the company has taken every measure to ensure the accuracy of the report's information. It is not enough that controls are established; they must be checked and tested routinely to ensure their ongoing efficacy. As the company changes and evolves, these routine tests become even more vital.

4. *Report disclosing significant deficiencies that could result in misstatement.* Finally, the document must release any gaps within the control framework that could result in a misstatement of the financial information. It is understood that no system can ever offer perfect protection, but when significant risks are present, they must be reported. By mandating such a practice, SOX ensures that investors have a complete picture of the company's control system and its efficacy. Depending on their severity, these deficiencies could nullify the CEO/CFO's certification that the internal controls are effective and that the reported information is accurate. In addition to the executive officers' certification that their controls are effective, the auditor must provide a statement to the same effect. By requiring the auditor to second the executive officers' certification, SOX provides multiple levels of checks and balances.

There are one hundred and seventh act that issued and approved on January 23, 2002 by Vice President of United States and President of senates. One of the Act which is implement by PT Telkom was Sarbanes-Oxley Act Section 404, contains as follows :

SEC. 404. MANAGEMENT ASSESSMENT OF INTERNAL CONTROLS.

(a) RULES REQUIRED.—The Commission shall prescribe rules requiring each annual report required by section 13(a) or 15(d) of the Securities Exchange Act of 1934 to contain an internal control report, which shall

(1) state the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and

(2) contain an assessment, as of the end of the most recent fiscal year of the issuer, of the effectiveness of the internal control structure and procedures of the issuer for financial reporting.

(b) INTERNAL CONTROL EVALUATION AND REPORTING.— With respect to the internal control assessment required by subsection

(a), each registered public accounting firm that prepares or issues the audit report for the issuer shall attest to, and report on, the assessment made by the management of the issuer. An attestation made under this subsection shall be made in accordance with standards for attestation engagements issued or adopted by the Board. Any such attestation shall not be the subject of a separate engagement.

(Sarbanes-Oxley Act, 2002, 45)

Section 404 of the Sarbanes-Oxley Act has sent companies scrambling to standardize and update their procedures for SOX documentation compliance. Many companies are discovering that their procedures are incomplete, outdated, or inadequate. To make matters worse, most corporations lack the tools needed to track the effectiveness of procedures and internal controls.

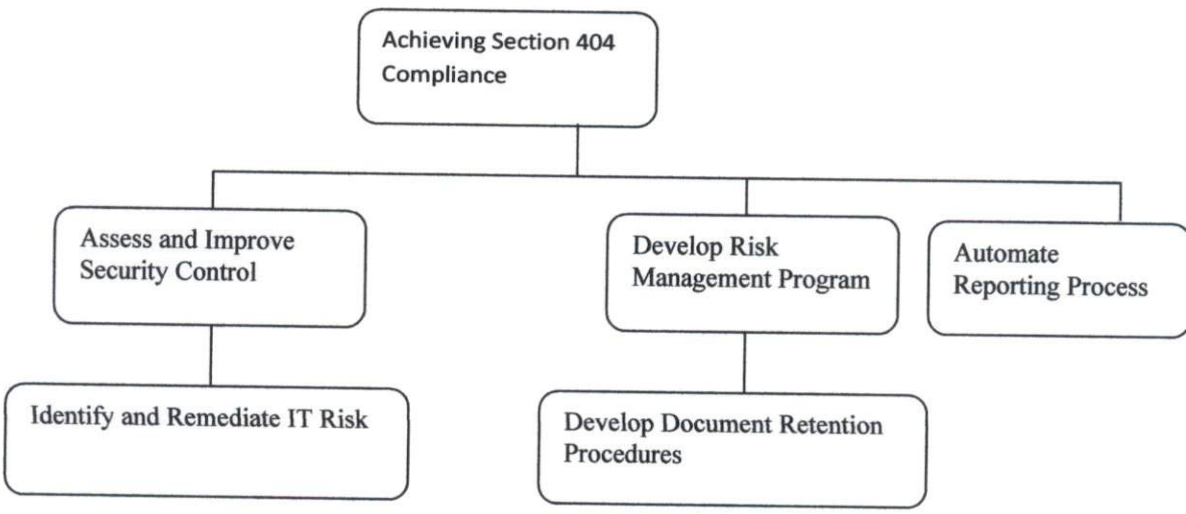
To obtain SOX Section 404 documentation compliance, some key issues must be addressed:

1) *Policies and procedures must be documented.* SOX requires that key financial and accounting processes must be clearly stated and presented. In addition, all financial software applications must be documented.
2) *Tools must be implemented to track the effectiveness and timeliness of the policies and procedures.* This is best handled with content management software. Content management software allows companies to publish and distribute policies and procedures. It also automates the process of tracking employee compliance with the policies and procedures through the use of checklists.

Companies generally proceed with SOX compliance by adopting and internal control framework, Key aspects of this process that are also directly related to Section 404 include:

1) *Assessment and improvement of internal controls*. The first step of any action must always be the development of a plan. By taking inventory of current internal controls, the company is able to identify deficiencies and isolate any areas that create threats to the accuracy of its documents. Included in this step is the development and implementation of plans to either improve or redo the faulty components (see Exhibit below).

Companies Must Take Many Steps to Achieve Compliance with Section 404 of SOX.



Source : Anand 2007

Figure 2.4

2) *Development of risk management programs*. Ensuring the integrity of financial reports requires the identification of all potential opportunities for misrepresentation and error. A risk management program seeks to offer preventions and solutions to

help minimize the possibility that such errors or frauds could occur. The primary component of any risk management program is the establishment of internal controls that protect the integrity of company data and documents.

3) *Automation of reporting processes.* Essentially, automation of reporting processes is a safeguard to protect the final stages of report creation. By automating reporting processes, companies are able to limit the danger of human error and improve efficiency. They also limit the opportunities for purposeful human manipulation of the data.
4) *Identification and remediation of IT risks.* IT is integral to the activities of any organization. The problem is that IT systems found within companies are large, complicated, and often disorganized. This fact provides several exploitable weaknesses that could adversely affect the accuracy of financial reports. For this reason, a large portion of risk identification must be focused specifically on the company's IT systems.
5) *Development of document retention procedures.* Documentation is an integral part of SOX compliance. Not only does Section 404 mandate that financial records be maintained and secured, it also requires that control procedure design and testing documents be maintained. By establishing a clear paper trail, companies are able to follow up on control inefficiencies and identify the weak points for quicker remediation.

(Anand, 2007, 53)

2.4 The Review of Previous Research

To support this Research, the writer also uses the information from other researchers. There are several previous research about internal control related to Sarbanes-Oxley Act Section 404. The first research entitled "Review on Implementation of The Sarbanes-Oxley Act (SOX) Section 404" (Fitri Rahmadhani 2009). Her research used normative-explanatory type of research, It means she only analyses based on literature survey. This research is purposed to review SOX 404's implementation which have invited controversies at the moment. And also investigate the impact of Act's implementation after some years of its sign into law. She explore pro and contra on SOX 404 implementation, analyses the opinion and articles from the previous researchers about the SOX 404 implementation. Based on the research she concludes that many researchers have many positive signs regarding SOX 404's implementation. It has been proved that SOX 404's apparent success has produce significant benefits in improving the quality of reported earning, decreasing firm risk, cost of equity, capital market, improving corporate governance and improving fraud detection and deterrence. Although critics to SOX 404 sound over blown, the benefits are commonly represented.

The next researcher also elaborate the positive sign regarding SOX 404's to the company. This Research is conducted by Chan, Farrell and lee (2007) the title "Earning Management of Firms Reporting Material Internal Control Weaknesses under Section 404 of the Sarbanes-Oxley Act". Objective of these research are to improve the accuracy and reliability of corporate disclosure. Under Section 404 of the SOX, the external auditor has to report an assessment of the firm's internal controls and attest the management's assessment of those firms internal control. Material weaknesses in internal controls must be disclosed in the auditor and management reports. This study also examine if firms reporting material internal control weaknesses under section 404 have more earning management compared to other firms. The result provides mild evidence that there are more positive and absolute discretionary accruals for firms reporting material internal control weaknesses than for other firms. Since the findings of ineffective internal controls by auditors under section 404 may cause firms to improve their internal controls. Section 404 has the potential benefits of reducing the opportunity of intentional and unintentional accounting errors and improving the quality of reported earnings.

The previous researches above told about the positive signs of implemented SOX 404's, the next research will also support and strengthen those opinions. Next research is "Internal Control based on Sarbanes-Oxley Act Section 302 and 404 and implementation at PT Telekomunikasi tbk Kandatel Medan" (Andriani 2006). Although Sarbanes-Oxley Act is United States Federal law, but in practice by publishing this act automatically gave the effect to almost all other countries. As a prove for all of the public company listed on New York Stock Exchange (NYSE) should refereed to the law in Sarbanes-Oxley Act (SOX). In Indonesia just few of the company listed on NYSE, one of them is PT Telkom. PT Telkom and its subsidiaries have conducted assessment and audit of the effectiveness referred to SOX. She analyses the Sarbanes-Oxley Act Section 302 about Corporate Responsibility for Financial Report and Section 404 about Management

Assessment of Internal Control and the implementation of those Act at PT Telkom Kandatel Medan. As the result Implementation of SOX has been improving the control management quality in the company, because the report should be issued quarterly and annually. PT Telkom kandatel Medan already implemented internal control at two levels, internal control for the entity in corporate governance and transactional internal control at business units.

All of the previous researches are about Sarbanes-Oxley Act especially section 404. The reason caused the Sarbanes-Oxley Act still being controversial issues at the moment. Many researchers has many positive signs regarding SOX 404's implementation. It has been proved that SOX 404's apparent success has produce significant benefits in improving the quality of reported earnings. In Indonesia just few of company listed in NYSE (New York Stock Exchange) that has already implemented SOX, one of them is PT Telekomunikasi Indonesia which has implemented SOX since 2004. As one of the company implemented SOX in Indonesia, writer interesting to know about the implementation of Act itself at PT Telkom, especially Section 404's which is deal with Management assessment of internal control. Based on those previous research writer can get valuable information as a guidance for this research.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

The method used in this research is purposed to analyses the Sarbanes-Oxley Act Section 404 and the implementation at PT Telkom. Writer will analyses how was the implementation of Internal Control at PT Telkom comply with Sarbanes-Oxley Act Section 404.

This research uses qualitative approach and case study method. Qualitative approach is research approach that uses data in the form of sentences written or verbal, behavioral, phenomena, events, knowledge or the object of study (Bogdan and Taylor in Moleong 1990). Use of case study method is intended to research more concentrated and provides a more in depth about the subject or the object of research. A type of case studies used in this thesis is a descriptive case study. This descriptive case study aimed to describe the state of the object or problem in research.

The pattern in developing this research is collecting the previous researches and article which is related to the Sarbanes-Oxley Act Section 404 and the implementation in company which is listed on New York Stock Exchange (NYSE) such as PT Telkom. The aim is to get opinions and evidence about the effectiveness of the implementation of internal control according to Sarbanes-Oxley Act section 404 at PT Telkom itself.

Writer focuses on Sarbanes-Oxley Act Section 404 because SOX 404 plays an important role in increased transparency and causes improved liquidity. Jain and colleagues in Ramadhani (2006) found empirical evidence that SOX improved the liquidity of American capital markets both in the short—term and the long-term. Lastly, Prentice (2007) found that SOX 404 implementation could improve fraud detection and deterrence.

First, writer will explore about the profile and organization structure of PT Telkom by explaining job description for each position related to implementation of SOX 404's such as General Manager, Financial Manager, and another important branch to know how far PT Telkom comply with Sarbanes-Oxley Section 404. In this research, writer just focus in internal control because internal control as a process affected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives.

After getting the information about organization structure and job description of parties related to this research, writer analyses the internal control environment at PT Telkom. Afterwards, writer will compare the implementation of Sarbanes-Oxley Act Section 404 at PT Telkom with the Act itself, by exploring system being applied by PT Telkom in order to comply with SOX 404.

Finally, the analysis of information related to internal control implementation will be presented in order to know the effectiveness of implementation of internal control according to Sarbanes-Oxley Act Section 404 at PT Telkom as one of requirement that should be fulfilled by the company listed in NYSE (New York Stock Exchange).

3.2 The Type and Sources of Data

Type of data used in this study is qualitative data which data that is not expressed with numbers. While the sources of the necessary data from the objects under this study is secondary data is data obtained from the books of theory and literature as well as data in the form of documents or reports from related parties are related and can be relied upon in giving new considerations for the company from the research.

Based on Uma Sekaran (2003) There are several sources of secondary data , including books, and periodicals, government publications of economic indicators, statistical abstracts, data bases, the media, annual reports of companies, case studies and other archival records.

In this research, writer collecting the data published in the accounting and economic journals, from the company website and previous research which topic was related to Implementation of Sarbanes-Oxley Act Section 404 at PT Telkom.

3.3 The Data Gathering Methods.

In order to analyze the problems faced in this writing we need a set of relevant data that could give a description of the condition to be investigated. For this data collection method in this research is:

1. Preliminary investigation

   First step is to conduct surveys from website of the companies with the aim to obtain a general picture of the situation and condition of the company relating to the matter to be investigated in this thesis. According to Uma Sekaran (2003) The nature of information needed by researcher for the purpose could be broadly classified under three headings :

1) Background information of the company.
2) Managerial philosophy, company policies, and other structural aspects related to the research.
3) Perceptions, attitudes, and behavioral responses of organizational members and client systems (as applicable)

Related information which is need by writer such as details of the company, and information related to research obtained from available published records, and the website of the company.

2. Data Collection

   a. Documentation.

   Documentation is a way of collecting data by looking at data and documents on the object being studied and recorded for purposes related to the issues being investigated.

   b. Literature study.

   Namely how to obtain data by reading literature related to the problem so it can be a theoretical basis to solve the problem.

3.4 The Data Analyzing Method

Based on qualitative data collected, the author will do an analysis of data comparing these data with theory has been learned. Results of the analysis of this data are used as a basis for conclusions and give suggestions.

In conducting the researches, the step that writer do to analyze the problem is collecting data related to:

1. Company Profile
2. Good Corporate Governance
3. Organization Structure and Responsibilities for each Manager
4. Segregation duties at PT Telkom
5. Annual Report
6. Internal control system
7. The Implementation of SOX 404 at PT Telkom

Writer also analyses the effectiveness internal control implementations comply with SOX Section 404 refer to *figure 2.4* about the steps need to be face by the company to achieve compliance with the section 404.

Data which is got from the previous research, articles and books would be analyze and compile with another sources of data such as documents, notes, annual report that writer get from the company information. Those data including the steps should be followed by the company to achieve SOX section 404 compliance was useful in support of identifying the effectiveness of Internal Control implementation according to Sarbanes-Oxley Act Section 404.

CHAPTER IV

RESULT AND ANALYSIS

4.1 Company Profile

4.1.1 Company History

PT Telkom is one of the largest telecommunications operators in Indonesia, with 52.47 per cent of shares owned by Indonesian Government and 47.53 percent owned by the public. PT Telkom as a majority state-owned company is Indonesia's leading provider of fixed line telecommunications services. At the same time, PT Telkom's majority-owned subsidiary, PT Telekomunikasi Selular ("Telkomsel") is the largest Indonesian mobile cellular operator. The Company provides a range of other telecommunications services, including interconnection, network, data and internet, and related services. the aim is to operate reliable telecommunications networks and provide high quality telecommunications and information services.

PT Telkom's history started in **1856**, on October 23, with the operation of Indonesia's first electromagnetic telegraph by the Dutch Colonial Government connecting Batavia (Jakarta) and Buitenzorg (Bogor).

In 1884, the Dutch colonial government founded a private company to provide postal and domestic telegraph services and, later on, international telegraph services. Telephony had been introduced to Indonesia in 1882. Telephony services were provided by privately-owned companies under a 25-year government license until 1906, when all postal and telecommunications services in Indonesia were taken over by a government agency established by the Dutch colonial government. In 1961, most of these services were transferred to a newly- established state-owned company. Four years later, in 1965, the Government separated postal and telecommunications services into two state-owned companies, PN Pos and Giro and PN Telekomunikasi.

In **1974**, PN Telekomunikasi was further divided into two state-owned companies. Perusahaan Umum Telekomunikasi ("Perumtel") provided domestic and international telecommunicate ions services, while PT Industri Telekomunikasi Indonesia ("PT INTI") manufactured telecommunications equipment. A further division in 1980 saw the international telecommunications business taken over by the newly established PT Indonesian Satellite Corporation ("Indosat").

The next milestone came in 1991, when Perumtel became a state-owned limited liability corporation and renamed Perusahaan Perseroan (Persero). PT Telkom Up until 1995, PT Telkom's operations were organized along twelve regional operating units known as "Witel". Each Witel had full responsibility for all aspects of business in their respective regions, from the provision of telephone services to property management and security.

In **1995**, PT Telkom reorganized the twelve Witels into seven regional divisions (Division I covering Sumatra; Division II, Jakarta; Division III, West Java; Division IV, Central Java and DI Yogyakarta; Division V, East Java; Division VI, Kalimantan; and Division VII covering eastern part of Indonesia) and one Network Division. Under a series of Cooperation (KSO) Agreements, PT Telkom transferred the right to operate five of its seven regional divisions (Regional Divisions I, III, IV, VI and VII) to private sector consortia. Under these agreements, the KSO partners manage and operate the regional division concerned for a fixed term, build a specified number of fixed lines and, at the end of the term, transfer the telecommunications facilities to PT Telkom for an agreed amount in compensation. Revenues from the KSO operations were shared between PT Telkom and the KSO partners.

Indonesia was severely affected by the Asian economic crisis that began in mid **1997**. Among those impacted were certain KSO partners, who experienced difficulties in fulfilling their obligations to PT Telkom. PT Telkom eventually acquired control of its KSO partners in Regions I, III and VI, and amended the terms of the KSO agreements with its KSO partners in Regions IV and VII to obtain legal rights to control the financial and operating decisions of those regions.

On **November 14, 1995**, PT Telkom shares went on sale through an initial public offering on the Jakarta Stock Exchange and the Surabaya Stock Exchange (which merged in December 2007 to become the Indonesia Stock Exchange). TELKOM's shares are also *listed on the NYSE* and the LSE in the form of American Depositary Shares ("ADSs"), and were publicly offered without listing on the Tokyo Stock Exchange. PT Telkom is now the largest company by market capitalization in Indonesia, with a market capitalization of approximately Rp190,512.0 billion as of December 31 , 2009. The Government retains an aggregate interest of 52.47% of the issued and outstanding shares of PT Telkom. The Government also holds one

Dwiwarna share, which has special voting and veto rights over certain matters.

By **1999** the industry landscape had undergone considerable change. Telecommunications Law No. 36 ("Telecommunications Law"), which went into effect in September 2000, specified the framework and guidelines for a reform of the industry, including industry liberalization, facilitation of new entrants and enhanced competition. Among the proposed reforms was the progressive elimination of the joint ownership, by PT Telkom and Indosat, of most of the telecommunications companies in Indonesia. This was intended to promote a more competitive market. As a result, in 2001, PT Telkom acquired Indosat's 35.0% stake in Telkomsel, resulting in PT Telkom owning 77.7% of the shares of Telkomsel, while Indosat acquired PT Telkom's 22.5% interest in Satelindo and its 37.7% stake in Lintasarta. In 2002, PT Telkom sold 12.7% of Telkomsel to Singapore Telecom Mobile Pte Ltd ("SingTel Mobile"), reducing PT Telkom's ownership of Telkomsel to 65.0%.

On **August 1, 2001**, pursuant to the Telecommunications Law, the Government terminated PT Telkom's exclusive right to provide fixed line services in Indonesia and Indosat's right to provide international direct dial services. PT Telkom's exclusive rights to provide domestic local services and domestic long-distance services were terminated in August 2002 and August 2003, respectively. On June 7, 2004, PT Telkom began to provide IDD fixed line services. In 2005, PT Telkom launched Telkom-2 Satellite to replace all satellite transmission services that have been served by previous satellite, Palapa B-4. In addition, to become Telkom's backbone transmission, Telkom-2 satellite will support national telecommunications network to fulfill rural and multimedia telecommunication needs. Therefore, PT Telkom has launched eight satellite (including Palapa-A1), named Palapa-A2 (1997-1985), Palapa-B1 (1983-1992), Palapa B2P (1987-1996), Palapa-B2R (1990-1999), Palapa-B4 (1992-2004), TELKOM-1 (1999-2008). All of these satellites have become a part of Indonesian's Telecommunication's history

To maintain and sustain their growth in this competitive industry, PT Telkom moved from an Information Communication company to become a TIME (Telecommunication, Information, Media, Edutainment) Company by preserving legacy business and diversifying into the "new wave" business. This revitalized company was introduced to the public on October 23, 2009 coinciding with their 153rd anniversary, with a new tagline *'the world in your hand'* and new positioning 'Life Confident'. With the new brand, *"we are committed to provide all our customers with the confidence to live the lives they choose, on their terms and in their time"*

4.1.2 Company's Vision, Mission and Objectives

The Vision of PT Telkom is becoming a leading Telecommunication, Information, Media and Edutainment (TIME) player in the region. To support this vision PT Telkom has missions are provide TIME services with excellent quality and competitive price and being the role model as the best-managed Indonesian corporation. PT Telkom also has the objectives to create superior position by strengthening legacy and growing new wave businesses to achieve 60% of the industry revenue in 2015.

To support the objectives PT Telekomunikasi Indonesia or PT Telkom has some strategic initiatives as follows:

a) Optimizing fixed wireline ("FWL") legacy.
b) Consolidate and grow the fixed wireless access ("FWA") business and manage wireless portfolio.
c) Invest in broadband.
d) Integrate SME, enterprise solutions and invest in wholesale.
e) Invest in IT services including e-Payment.
f) Invest in media and edutainment business.
g) Invest in strategic international opportunities.
h) Integrate Next Generation Networks ("NGN") and OBCE
i) Align business structure and portfolio management.
j) Transforming culture.

4.1.3 Products and Services

PT Telkom transformed their business to defend the leadership position in the domestic telecommunications market. PT Telkom's business has expanded to accommodate the constantly evolving needs of all their customer segments, which range from retail and corporate customers to other licensed operators. At the same time, these dynamic demand trends present them with significant opportunities. As an integrated telecommunications operator, PT Telkom's business development has been strategically based on their core competencies in fixed wireline, fixed wireless, cellular, data and internet, and network and interconnections, with a paradigm shift towards TIME as the future of the telecommunications business in Indonesia.

PT Telkom business portfolio is currently organized as follows: fixed wireline, fixed wireless, cellular, data and internet and network and interconnections. To fulfill the Information Communication Technology ("ICT") needs of enterprise and SME customers, they provide customized solutions under the Telkom Solution Business Partner ("TSBP") brand.

1) **Fixed Wireline**

TELKOMLokal is a service for calls between subscribers within a range of less than 30 km or within the same local boundary, such as area 021 for greater Jakarta or area 031 for Surabaya.

TELKOMSLJJ commonly referred to as SLJJ (*Sambungan Langsung Jarak Jauh*, or Long Distance Direct Dialing), is a service for long-distance calls between a caller and a receiver using different area codes within Indonesia. The charges are dependent on the distance, time and date of the call.

TELKOMSLI-007 is an international direct dial service using access code 007. The service also provides operator-assisted calls through access code 107. When initially launched in June 2004, this service was known as TELKOM International Call ("TIC")

007. PT Telkom changed the name to TELKOMSLI-007 in May 2006.

TELKOMSpeedy is a broadband internet service that provides high speed access of up to 3 Mbps (downstream) using Asymmetric Digital Subscriber Line ("ADSL") technology. Speedy offers data, multimedia and telephone/fax services simultaneously over existing telephone wireline.

2) **Fixed Wireless Access**

TELKOMFlexi is a voice and data telecommunications service based on wireless CDMA (Code Division Multiple Access) 2000-IX technology. This is a limited mobility service, meaning that customers can only use it within a particular area code. Charges are based on residential telephone charges (PSTN TELKOM). TELKOMFlexi offers three main services: voice, SMS and low speed data, as well as value added services such as Ring Back Tones (RBT).

TELKOMFlexi's advantages include clear voice quality, low radiation and a choice of various mobile or fixed terminals. Mobile set users have the option of using either a postpaid (FLEXIClassy) or a prepaid (FLEXITrendy) service, while Fixed Wireless Terminal (FWT) users can access FLEXIHome, a Non Sim Card-based system. One of TELKOMFlexi's most competitive products is FLEXICombo, which enables customers to have two or three Flexi numbers in one card, thus providing inter-city mobility.

In 2010 PT Telkom offered various innovative products and services such as FlexiChatting, FlexiNet Unlimited, Flexi Irit Mingguan, Flexi Irit Mingguan Xtra and Flexi ngROOMpi.

Cellular

Telkomsel's subsidiary provides GSM and 3G-based cellular telecommunications services. Telkomsel offers its *kartuHALO* postpaid and *simPATI* and Kartu As prepaid services. Telkomsel offers various value added services such as SMS, WAP, GPRS, MMS, Wi-Fi, international roaming, mobile banking, CSD and EDGE.

kartuHALO was first introduced in 1995 and is the most widely used postpaid service in Indonesia, with a 45.2% share of the postpaid market and 2.1 million subscribers as of December 31, 2010. *kartuHALO* is the country's most popular postpaid service that provides differentiated solutions for customers across a broad spectrum of interests.

simPATI is Indonesia's most comprehensive rechargeable prepaid service that also offers the best off-peak rates.

Kartu AS is the country's leading 'entry-model' product and the first prepaid brand that offers per second charging. It dedicated to the more cost-conscious market segment, offering an array of innovative and cost effective services.

3) **Data and Internet**

TELKOMGlobal-01017 is a premium international VoIP service for calls over the internet to more than 232 country code destinations by dialing access code 01017. The charge for this service is 25% of the effective rate of IDD charges to all countries and is not based on time bands (i.e. a flat tariff). This service uses a one stage dialing method and does not require any additional equipment to access it.

TELKOMSave is a long-distance and international VoIP service which is similar to TELKOMGlobal- 01017, but uses a two stage dialing method. To make international or long-distance calls, users must first dial an access number, then enter a PIN number, before dialing the desired phone number. TELKOMSave's tariffs are 24% of the effective rate of IDD tariffs. Both postpaid and prepaid customers can make use of this service.

TELKOMNet Instan is a dial-up internet access service that can be accessed without having to subscribe, and is designed for maximum accessibility and ease of use. Customers can access this service by configuring the internet connection on their computer and then entering the dial number, 0809 8 9999. To log in, users simply enter the following user name: telkomnet@instan and password: telkom. Charges are based on duration of usage and appear on the user's phone bill.

plasa.com (www.plasa.com) is a web portal that supports information services and Indonesian-language internet communities with a specific emphasis on the national education community. Among the portal services available are free email services, online web forums, online classified ads services, online blogging for netters, electronic card services, online webchat services and IRC-like webchat, online messaging services, RSS news clips and the Komunitas Sekolah Indonesia, or "KSI" (Indonesian School Community).

i-VAS Card. introduced the i-VAS (*Internet Value Added Service*) Card to support internet users. This is a prepaid micropayment instrument that can be used to access various internet content and services. The i-VAS card aims to provide a secure online payment system to facilitate payments with a relatively small nominal value for which credit cards may not be suitable.

4) Network and Interconnection

TELKOMIntercarrier is an interconnection service for Other Licensed Operators (OLO). TELKOMIntercarrier provides domestic and international interconnection services, satellite services, leased line services, infrastructure and facility sharing, data services and network access services.

TELKOM Solution Business Partner ("TSBP").They provide customized solutions to their Enterprise and SME customers. TSBP services cover all products and services and those of the TELKOMGroup and supporting partners. TSBP offers connectivity services that are frequently used by Enterprise and SME customers, consisting of network (XPDR, IDR,VSAT, Leased Line), DATAKOM (VPN IP, VPN Frame Relay, Dinaccess, Infonet, Metro Ethernet, ADSL Link, ISDN), and internet access services (IP Transit, Astinet, Speedy). To complement these connectivity services, also provide various ancillary solutions in collaboration with their subsidiaries and strategic partners such as:

a. Application solutions appropriate to their customers business, such as SATU (*Sarana Transaksi Keuangan*, or Financial Transactions Facility), which is a core banking systems that can be used by Community Credit Banks (BPR) as part of their service to customers, Pawn applications, Enterprise Resource Planning (ERP) applications and the SIAP Online (Education Administration Information System) application. These applications are provided by PT Telkom's subsidiaries (Sigma, Finnet, Metra, AdMedika) and other strategic partners.

b. Customer Premises Equipment (CPE) (router, switch, hub, PABX, video conference terminal, IP phone terminal, video surveillance, automatic meter reading, tracking device). Ancillary services (consulting, project management and training)

5) Others

TELKOMVision is the pay TV service operated by one of our subsidiaries, PT Indonusa Telemedia. Services include cable TV, fast internet access and satellite TV. The cable TV service utilizes Hybrid Fiber Coaxial ("HFC"), a technology that comprises two means of physical access, fiber optic and coaxial cable. Premium TV channels such as HBO, Cinemax and Star Movies are provided within a single package without charging additional fees.

4.1.4 Organizational Structure

In line with PT Telkom vision, mission and strategic initiatives, and as part of the transformation into a TIME provider, PT Telkom reorganized a number of units, particularly their fixed line business. These organizational changes focused on the following management issues:

1) Modifying customer management arrangements by:

a. Developing customer segment management by establishing the Business Service Division to respond to developments in the SME market segment.

b. Making customer segment management more focused by establishing the Consumer Service Division, which focuses on enhancing growth in business from fixed wireline customers by capturing opportunities in the convergence of the broadband business and other new services based on high bandwidth access. This Consumer Service Division has evolved out of the Regional Divisions.

2) Modifying service management arrangements by:

a. Forming a service/product supply unit by transforming the Multimedia Division from a business unit focusing on managing PT Telkom's new business to an organizational unit that performs service integrator, content aggregator and platform management functions.

b. Integrating the service planning and strategy and tariff management functions into the IT strategy management unit, by transferring service planning and tariff management from the Network and Solution Directorate to the IT and Supply Directorate, which is now known as the IT, Solution and Supply Directorate.

3) Modifying infrastructure management arrangements by fully implementing the transfer of network access management from the Regional Divisions to the Network Access Division (the Regional Divisions have already been replaced by the Consumer Service Division and the Network Access Division).

4) Alignment of the support functions related to organizational change in the Regional Divisions and the formation of other organizational units, including (implemented in 2010) changes in the organization of the Finance Directorate and Financial Center. These changes represent the organizational alignment of financial management activities with changes in the business units they support. The Finance Center has now become the Finance, Billing and Collection Center.

Organization Structure

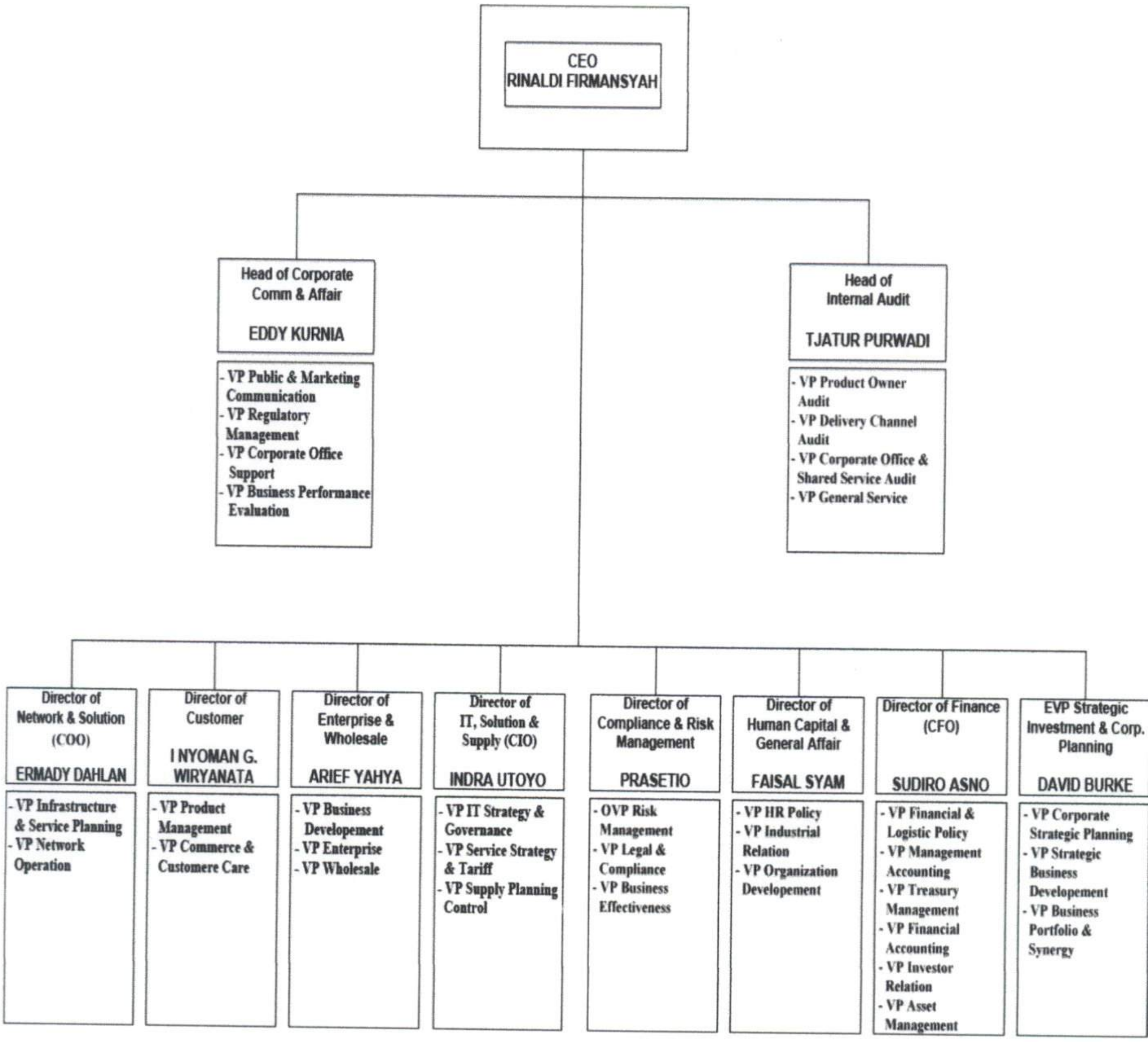


Figure 4.1

Sources: Annual Report 2010 of PT Telekomunikasi Indonesia

Board of Directors

Scope and responsibilities of the Board of Directors

Subject to the Company's Articles of Association, the primary responsibility of the Board of Directors is to lead and manage PT Telkom's operations and control and manage PT Telkom's assets under the supervision of the Board of Commissioners.

The BoD also has the right to act for and on behalf of the Company inside or outside a Court of Law, on any matter and for any event, with another party.

1. President Director

   Scope and responsibility:

   a. To lead and manage the company in line with Company's goals and objectives
   b. To improve the company's efficiency and effectiveness
   c. To maintain and manage the company's assets; and
   d. To take responsibility for management and ownership, including agreements with third parties.

2. Director of Finance

   Scope and responsibility:

   a. To implement corporate functions related to the Finance Directorate; and
   b. Responsible for carrying out a centralized financial function, including managing financial operations in all business units through the finance billing & collection center, and assuring control in all investments in subsidiary companies.

Audit Committee

The Audit Committee operates under the authority of the Audit Committee Charter (as amended by BoC Decree No. 20 KEP/DK/2006 on September 11, 2006). The Audit Committee Charter is regularly evaluated and, if necessary, amended to ensure compliance with Bapepam-LK and SEC requirements and other relevant regulations. During 2010, there were no amendments.

The Audit Committee Charter outlines this Committee's purpose, function and responsibilities. It provides that the Audit Committee is responsible for:

1) Overseeing PT Telkom's financial reporting process on behalf of the BoC;
2) Providing recommendations to the BoC regarding the selection of PT Telkom's external auditor, subject to shareholder approval
3) Discussing with the internal and external auditors on the overall scope and plans of their respective audits;
4) Discussing the Consolidated Financial Statements and the effectiveness of Telkom's internal controls (ICOFR);
5) Meeting on a regular basis with the internal and external auditors, without management, to discuss the results of their examinations, their evaluation of PT Telkom internal controls and the overall quality of their financial reporting and
6) Carrying out additional tasks that are assigned by the BOC, especially on financial and accounting-related matters as well as other obligations required by SOX.

The Audit Committee may engage an independent consultant or other professional advisers to assist in carrying out its functions. In addition, the Audit Committee receives and handles complaints.

4.2 Internal Controls

PT Telkom has designed and employed internal controls based on the COSO Internal Control framework. Conceptually, the design and implementation of their internal controls refer to the key concepts of the COSO Internal Control framework, as follows:

1. Internal control is a process, thus in applying it PT Telkom has designed operational guidelines that contain internal controls;
2. Internal control is affected by people, thus in applying it PT Telkom understand that the key is not how well or complete the designed processes are, but whether these processes are applied by the employees;
3. Internal control is not an absolute value but that PT Telkom must understand that they apply internal controls to be able to provide reasonable assurance that they have the means to guarantee the achievement of their objectives; and
4. Internal control is one of the drivers in achieving PT Telkom's objectives and does not differ from or oppose or conflict with the process of managing the Company.

PT Telkom began implementing internal controls at the same time as applying the provisions of (SOX) section 404 on internal control over ICOFR, namely in 2002. The focus of the internal controls applied in operational procedures is to ensure that their financial statements are reliable and free from misrepresentation and error. However, ICOFR is designed and applied on the basis of risks, which are not limited to quantitative risks related to the reliability of financial reporting but include qualitative risks related to strategic, business and other operational risks.

Internal control activities in 2010 continued to refer to the COSO Internal Control framework and placed more emphasis on maintenance to ensure that the design continues to fit, given the changes in the industry and the transformation of PT Telkom's organization in 2010.

4.2.1 Internal Control and Procedures

Under Bapepam requirements, PT Telkom is required to disclose the internal controls that they employ to achieve good corporate governance. The controls and procedures that PT Telkom employ are the COSO Internal Control framework, COSO Enterprise Risk Management Framework, and COBIT (Control Objectives for Information and Related Technology) related to IT based internal control.

With reference to the COSO Internal Control framework, internal controls to guarantee the reliability of the financial statements are applied at the following levels of control:

1. Entity Level Control
2. Transactional Level Control
3. IT Control

(Annisa, 2009)

In the design process, controls are determined on the basis of risk, where risks are managed to prevent error and fraud resulting from misstatements in the financial statements. This is not limited to financial reporting risks; controls also take into account other risks including other business and operational risks:

Entity Level Controls

Internal control at entity level is the internal activities conducted by director to influencing internal control effectiveness in transactional level consist of create the good environment internal control such as commitment on management's behavior, responsibilities, consistency of procedure and policies or fraud and misstatement preventive in the organizations. (Andriani, 2006, 39)

According to The Institute of Internal Auditors (2008, 16) Entity-level activities generally operate at a corporate level, and typical examples are corporate policies, the activities of the board of directors, and the period-ending financial close

Entity Level Control actions that have been taken include:

a) Formulating policy on the design and implementation of ICOFR and disclosure controls and procedures pursuant to SOX Sections 404 and 302, PCAOB, Audit Standard No. 5, covering PT Telkom and its Consolidated Subsidiaries in Decree of the Board of Directors No. 13 Year 2009;
b) Building commitment to running the company ethically and with proper governance by implementing business ethics, preventing conflict of interest, whistle blowing, applying risk management in each unit, implementing a fraud program, integrity pact, etc

c) Conducting regular risk assessments and risk profiling as an early detection system; and
d) Performing audits to ascertain the effectiveness of the application of Entity Level Control.

Transactional Level Control

Hard control/physical control is control in the process and systems to initiate, record, implement and report transactions that have been made. In other words, transaction level control involves a series of activities that are generally aimed in ensuring that all significant accounts and their associated risks and controls have been identified, implemented, and adequately tested so that its effectiveness can be measured.

Based on Andriani (2006, 44) Transaction level control is control conducted at every business processes in the activities of the authority, verification, reconciliation and other activities such as prevention and identification of errors or fraud and the effort to securing company assets.

Transactional Level Control actions that have been taken include:

a) designing business processes by utilizing risk based control and implementing clear separation of authority by referring to the segregation of duties principle;
b) enforcing work discipline in accordance with the stipulated business processes;
c) continually correcting/redesigning business processes to ensure that they remain consistent with changes in policy and the

organization, the demands of the business and follow up on audit findings; and

d) Performing audits to ascertain the effectiveness of the application of Transactional Level Control.

IT Control

Control over the application and system software maintenance and security of access to the application program and data company, which is adjusted to the role and responsibilities of employees.

IT based control actions that have been taken include:

a) IT Entity Level Control — formulating IT policy and master plan to ensure IT Governance;
b) IT General Control — ensuring the developments and changes in IT applications and operations can proceed in line with the provisions of IT Governance; and
c) Application Control — ensuring that the use of applications complies with the provisions on authorization and access rights, such as password management, end user computing, audit trails, etc.

Apart from this, as a foreign private issuer subject to Exchange Act requirements, PT Telkom is obligated to comply with certain provisions of the Sarbanes-Oxley Act and related regulations under the Exchange Act as-well as the Foreign Corrupt Practices Act of 1977.

4.3 Implementation Sarbanes-Oxley Act Section 404

The Sarbanes-Oxley Act 2002 consists of 11 titles and 66 sections. The company listed on New York Stock Exchange can adopted some sections which are related to the internal system they used. PT Telkom already implemented 3 sections of Sarbanes-Oxley Act, they are section 302, section 404, and section 906. PT Telkom just implemented those sections by considering it can be a first step to implement *Sarbanes Oxley Act*. As for other sections, probably will be implementing in the future step by step. By considering whether the company's performance was good by implementing the three sections and based on management's consideration towards gained benefits.

SOA section 404 (*Internal Control Attest*)

Bostelman (2005,15-16) PT Telkom *presentation to* HCGA (Human Capital and General Affairs (2007:5) describes that *Sarbanes Oxley Act* section 404 contains :

1. Management's Responsibilities towards *internal controls over financial reporting* (ICOFR)
2. Management Attest towards effectiveness of *internal control over financial reporting* (ICOFR) based on the tested.
3. Auditor should attest and report evaluation of management report.

According to Bostelman (2005:31),

> "*Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.*"

Bostelman (2005:15) was certified those internal controls *over financial reporting*) should included the three elements:

1. Maintaining documentation is accurate, fair, and in sufficient detail that reflect transactions and dispositions of assets

2. Reasonable assurance of recording transactions in accordance with generally accounting principles
3. Reasonable assurance to the prevention or detection actions on the right acquisition, use, or disposition of corporate assets

Sarbanes-Oxley Act Section 404 requires management PT Telkom to be responsible for the implementation of internal control over financial report thereby ensuring adequate reliability of PT Telkom's Financial Reporting and the preparation issuance of financial statements in line with GAAP. So far, PT Telkom and its subsidiaries has committed to Assess and comprehensive audit to ensure the design and implementation of Internal Control Over Financial Reporting an effective and integrated Companies in the financial statements (Andriani, 2006)

In attempt to implement internal controls based on Sarbanes-Oxley Act is done by following these steps:

1. Establish units of SOX management
2. Implement the duties and responsibilities of each function associated with the design, implementation and management of corporate internal controls
3. Establish criteria for the reliability of internal control and the target company time achievement.
4. Requires all units, departments, sections to evaluate the design and implementation of internal controls which is its responsibility
5. Documenting, reporting and provide a written statement concerning the evaluation of the effectiveness of internal control or outcome control self-assessment (CSA) on SOX management units every month.

6. Measure the performance of the internal control Responsible quarterly scorecard through internal controls that contain performance indicators :percentage of effective implementation of control activities, percentage of completion of improvements on audit findings and attainment level of reliability of internal control

4.4 Result Analysis

4.4.1 Result analysis towards Internal Control

As one of the company listed in local and foreign stock exchange, PT Telkom is committed to fully develop and implementing policies and practices of corporate governance in accordance with the standards of world capital markets. It realizes the importance of the principles of good corporate governance (GCG) as a tool to improve corporate performance and accountability to the public.

PT Telkom has recognized the importance of corporate governance principles as a means of maintaining corporate assets and long-term stakeholder value. Companies' views on good corporate governance are the company's efforts to:

1. Maximizing long-term stakeholder value through the institutionalization of transparency, independence, accountability, responsibility and fairness as an effort to improve the competitiveness of companies in both domestic and international markets.
2. Ensure the companies is professionally managed and accountable, while continuing to attempt to satisfy the relevant

authorities as well as maintain the independence of the General Meeting of Shareholders (GMS), the board of commissioners and board of directors.

3. Provide the same reference to the commissioners and directors as a basis for making decisions and implementing corporate policy.

Governance policies that already exist, equipped also with the policy implementation of Good Corporate Governance in PT Telkom. Core of the policy is for the parties that play a role in running the GCG consistent with the roles and responsibilities, including shareholders, board of directors, committees, directors, unit manager and employees. in addition, there is also the working mechanism between the Board of Commissioners with the Board of Directors, Standards of Business Ethics, Internal control, risk management and oversight committee has been appointed the implementation of GCG. as a follow-GCG translation of guidelines have been established several policies including policies on business ethics, work ethics and business ethics.

Policy and company work ethics demands every employee to understand the vision and mission of PT Telkom, having seven primary values: honesty, transparency, commitment, teamwork, discipline, care and responsible. Employees are encouraged to understand the five primary behaviors: Stretch the goals (reach higher targets), simplify (work efficiently and effectively), involve everyone (cooperate and synergize), quality is my job (prioritize quality) and reward the winner (give respect and honor) (Telkom Business Ethics)

To strengthen the implementation of company business ethics, solidify togetherness and develop healthy learning environment among employees, done through several revisions, so that it is expected to form understanding and uniform movement in all aspect and sustainable corporate functions.

PT Telkom also develops a comprehensive business ethics policy that encourages employees to understand and practice principles of transparency, independence, accountability, responsibility, and fairness in every routine activity. Business ethics policy provides company guidelines, management and employee behavior and relate to other parties. The policy provides direction on how an employee should behave to preserve good relationships with other regulators and stakeholders and the develop healthy and transparent business ethics.

Business ethics is also regulated in the operations of PT Telkom continues to adhere to a moral business principles with a commitment and is always a relationship to fulfill the rights of customers in providing appropriate services SLG (Service Level Guaranteed), providing clear and easily understandable information on rights and obligations of the customer before subscribing contacts signed by PT Telkom and the customer, and provide customer points (counter complaints, telephone complaints, complaint letter box, email).

To illustrate the implementation of Corporate Governance at PT Telkom, there are five principal which is need to be concerned, they are transparency, independence, accountability, responsibility, and fairness.

Transparency

Transparency in managing PT Telkom can be evaluated from various aspects. in the context of transparency to the public and shareholders, the company provides, both in accordance with the regulation of local and foreign capital markets as well as disclosure is made based on company initiative, in order to provide best services to the public and shareholders.

As one of the company listed on NYSE (New York Stock Exchange), PT Telkom has been issued the Annual Report 2010 in English Version, dated March 29, 2011 on form 20-F to the Securities and Exchange Commission's (US-SEC). Form 20-F contains several details information's such as company risk, company development strategy, accounting treatments, explanations about subsidiaries, internal control and procedures. Since Enron case in 2002, US SEC has been issued new regulations in capital market it is Sarbanes-Oxley Act 2002 which is set requirements of disclosure and corporate governance.

Based on company initiative, in quarterly, they make memo contains financial report and operational of the company and continued with the conference call activities between investor, capital analyst in domestic and international.

In order to comply with Sarbanes Oxley Act section 404, company in 2010 was supported by PriceWaterhouseCoopers (PWC) consultant which is already enlarge and implemented procedures, business process and mechanism of internal control report.

Accountability

To achieve accountability, it needs clarity of function, implementation and responsibilities of company parties. Such as function of the commissioners, directors, internal audit, company secretary and other units in accordance with their respective functions. Thus corporate management would be run effectively.

Accountability aspects is also needed in the issuance of financial statements, in terms of responsibility of financial statements, general meeting of shareholders is a tool for the company's board in accountable the company's annual financial statements and after that the report was approved by shareholders.

4.4.2 Result analysis towards Implementation of Sarbanes-Oxley Act Section 404

PT Telkom has been a gradual strengthening of policies and practices of corporate governance, including by developing the internal structures and procedures that can compensate for demands of compliance with international standards. One of these standards is to implement one of the laws enacted under the control of the management board of the United States capital markets namely the Sarbanes-Oxley Act of 2002, an Act on the reform of financial reporting and corporate governance standards of the United States.

among other things, require companies listed on U.S. exchanges to comply with a number of requirements that exist to ensure a greater certainty for the integrity of a financial statement. as one of the companies listed on the New York Stock Exchange (NYSE) PT Telkom Should comply with SOX (regulation has been adopted by the U.S. Securities and Exchange Commission.

At the same time, companies are also tied by rules and regulations issued by Bapepam in which a number of material aspects in accordance and consistent with the SEC. PT Telkom continues to develop and implement a number of policies. As for the form of implementation has been done PT Telkom as part of a program of good corporate governance include:

a) PT Telkom established units of SOX (Sarbanes-Oxley Act) that has been over 3 years working under the guidance of the audit committee, and with the help of independent consultants, to develop new policies and procedures in terms of internal financial reporting controls as one of the requirements of SOX. Units SOX consists of employees who have experience of at least three years working as an internal auditor is considered a company that already has the knowledge and competencies that are very good in terms of monitoring and internal controls of the company.
b) Determine Good Corporate Governance and Corporate Social Responsibility as main responsibility of CEO to guarantee the commitment in the highest level. CEO was realized the importance Good Corporate Governance as a tool to improve the company's

performance and accountability to public. To achieve determination to be Good Corporate Governance, PT Telkom should implement better internal control in the company and the CEO requires implementing SOX-based internal controls so that the GCG can be realized.

c) Arrange manual formal guidance about corporate governance policies, work ethics in managing the behavior of employee's, and business ethics in managing relationships with outside parties.

d) Develop a number of committees at the level of commissioners and directors to support the policies and practices of good corporate governance within the company. PT Telkom has established a policy monitoring committee at the level of commissioners and directors namely audit committee is responsible for

    i. discussing consolidated financial statements and the adequacy of internal controls over financial reporting ("ICOFR"),

    ii. meeting on a regular basis with internal and external auditors, without management, to discuss the results of their examinations, their evaluation of internal controls and the overall quality of PT Telkom's financial reporting and

    iii. carrying out additional tasks that are assigned by the BOC, especially on matters related to finance and accounting, as well as any obligations as imposed by SOX

iv. Transparency periodic information about the results of corporate governance and other material information to the public through a number of ways including public exposure, conference calls, press conferences, press releases and periodic explanations of financial statements.

As a company listing on the NYSE, with the enactment of SOX section 404 on internal control on financial reporting, PT Telkom who assisted the external auditor has been successfully set up procedures and business processes of internal controls for financial statements that have been implemented in previous years, as a follow-up of policy internal control within the framework of the presentation of financial statements in accordance with SOX section 404.

As one of the company listed on NYSE since November, 14 1995. PT Telkom should comply with a series of new regulations on financial reporting by SEC and NYSE in the United States that requires the CEO and CFO of PT Telkom to certify the annual financial report including the certification of the effectiveness of the system of internal control over financial reporting in accordance with the SOX as enacted on section 404 about "*Management Assessment of Internal Controls*"

To identify effectiveness of Internal Control implementation according to Sarbanes-Oxley Act Section 404 and comparison between the regulations and the implementations at PT Telkom itself. Look at the table below :

Table 4.1

Comparison between the regulation and implementation

Sarbanes-Oxley Act Section 404	Implementation at PT Telkom
Assessment and improvement of internal controls	PT Telkom has implemented internal control in different level (Entity level, Transactional level and IT Control)
Development Risk Management programs	- Since 2006, PT Telkom has been implemented risk management refer to COSO Enterprise Risk Management Framework. - PT Telkom has established milestones for the implementation of risk management starts from 2006 until 2012 - To avoid the risk of financial fraud, PT Telkom conduct annually as assessment of Internal Control Over Financial Reporting (ICOFR), including an assessment of the risk of fraud. - Related to company risk management. Audit committee monitoring fraud risk and financial risk that can give

	material impact to financial report.
Automation of reporting process	- The reports are provided to the Board by PT Telkom's management with appropriate and timely information about the business, operations and general affairs of the Telkom Group. - PT Telkom maintains a similar process to comprehensively evaluate and report on the effectiveness of its internal control over financial reporting on an annual basis
Identification and remediation of IT risks	- By 2009 almost all points in PT Telkom's corporate value chain had been integrated into the information technology network. - Apart from operating the network for all production equipment infrastructures, all important aspects of management such as finance, logistics, and human resources including services to employees, customer supplies and other stakeholders are using PT Telkom's information technology network.

	- The IT governance management framework refers to Control Objectives for Information and related Technologies ("COBIT"), which is articulated in PT Telkom's policy on Information Security Systems (KD 57/year 2008)
Development of documentation retention procedures	Documenting the effectiveness of internal control over financial reporting is the responsibility of each business unit
Requires companies to document, evaluate, report the results of evaluation of the effectiveness of internal control conducted by the external auditors whether financial reporting is Fairly stated	- an evaluation of internal control over financial reporting is the responsibility of each business unit - report on the effectiveness of internal control over financial reporting / report the results of control self assessment (CSA), which are the responsibility of each business unit - evaluation and tests conducted to each business unit by unit manager of the Sarbanes-Oxley Act and internal auditors - external auditor's statement on management assertions

Based on these explanations above, PT Telkom has been implemented Sarbanes-Oxley Act especially section 404 effectively as one of requirement for the company which is listed on NYSE (New York Stock Exchange).

The value added obtained by PT Telkom in implementation of Sarbanes Oxley Act section 404 are the performance of Good Governance Corporation will be increased as well as revenues and profits, quality of management control and internal control system improved, so the integrity and accountability of financial report will be reliable. It means will increase the performance of the company as a whole.

As prove that PT Telkom achieve so many advantages by implementing SOX, there are some achievements already achieve by PT Telekomunikasi Indonesia as follows:

1. Awards received from Finance Asia Magazine on July 21, 2010, in the "*Best Managed Company*", "*Best Corporate Governance*", "*Best Investor Relations*", "*Best Corporate Social Responsibility*", and "*Most Committed to a Strong Dividend Policy*" categories;
2. An award from Business Review Magazine and the Indonesian Institute of Corporate Directorship (IICD) for "*The Best GCG, Non Financial Sector*";
3. Runner-up for the "Best GCG in a SOE" award from the BUMN (State-Owned Enterprise) Awards;
4. A Corporate Governance Award for "*The Best Rights of Shareholders*"; and

5. Achieved the highest award in "Indonesia's Most Trusted Companies" based on the results of the GCG assessment by independent institutions the Indonesian Institute for Corporate Governance (IICG) and SWA Magazine, with a rating of "Highly Trusted".

   (Annual Report Form 6K-2010 of PT Telkom)

CHAPTER V

CONCLUSION AND RECOMMENDATION

5.1 Conclusions

PT Telekomunikasi Indonesia (PT Telkom) is one of the largest telecommunications operators in Indonesia, with 52.47 per cent of shares owned by Indonesian Government and 47.53 percent owned by the public. PT Telkom as a majority state-owned company is Indonesia's leading provider of fixed line telecommunications services.

On November 14, 1995, PT Telkom shares went on sale through an initial public offering on the Jakarta Stock Exchange and the Surabaya Stock Exchange (which merged in December 2007 to become the Indonesia Stock Exchange). PT Telkom's shares are also *listed on the NYSE* and the LSE in the form of American Depositary Shares ("ADSs").

As one of the company listed on NYSE, PT Telkom needs to follow some requirements which already set by them. On July 30, 2002 United States Federal Law enacted the Sarbanes-Oxley Act 2002. This Act was promulgated in responses to the major corporate and accounting scandals including Enron, Tyco International, WorldCom etc. one of the Act was become the top focus of audit committee members are Section 404 about Management Assessment of Internal Control, this Act says that publicly traded companies must establish, document, and maintain internal controls and procedures of financial reporting.

PT Telkom has to comply with Sarbanes-Oxley Act Section 404, because if the company can't comply with the Act, they may be disqualified or sanctioned. After do such analysis got some information related to this case, it is implementation of SOX has improved the quality of management control at the company, because with the SOX financial reporting should be done quarterly and annually and the forms of implementation of Good Corporate Governances in PT Telkom in terms of accountability, PT Telkom also already implemented internal control in three levels they are, entity level controls, transactional level controls, and IT controls. By implementing Sarbanes-Oxley Act especially Section 404, company will have a better internal control system, so the integrity and accountability of financial report will be reliable, investor trust increased and company have a positive image from public and stakeholders.

After analyses and compare the Act with the implementation of PT Telkom, writer can conclude that PT Telkom has Implemented Internal Control comply with Sarbanes-Oxley Act Section 404 effectively.

5.2 Research Limitation and Recommendation

Sarbanes-Oxley act Section 404 about management assessment Internal control was momentous provision, so we have to be concerned to find out how management assess the internal control applied. In this case, writer just analyses annual report issued by PT Telkom start from 2008, 2009 and 2010, the framework related to compliance of SOX Section 404, articles, and previous research related to implementation of Sarbanes Oxley Act Section 404. It means writer has any limitation in accessing the information directly to PT Telekomunikasi Indonesia which is located in Bandung.

During process of this research, writer just collecting the data from previous research, notes, articles and annual reports which is accessed by using internet. So it recommended to the next researchers who are interested in conducting similar topics to collect the evidence into the company itself directly. It is also recommended to add some variables related to Implementation Internal Control according to Sarbanes-Oxley Act Section 404 of that Company.

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