



Report and Recommendation of the President to the Board of Directors

Project Number: 38354-015
Loan Number: 2927
November 2019

Proposed Loan for Additional Financing Republic of Indonesia: State Accountability Revitalization Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 10 October 2019)

Currency unit	–	rupiah (Rp)
Rp1.00	=	\$0.000070
\$1.00	=	Rp14,157

ABBREVIATIONS

ADB	–	Asian Development Bank
BPKP	–	Badan Pengawasan Keuangan dan Pembangunan (Central Government Internal Auditor)
CA/CM	–	continuous audit and continuous monitoring
FMIS	–	financial management information system
PAM	–	project administration manual
PEFA	–	Public Expenditure and Financial Accountability
PFM	–	public financial management
RPJMN	–	Rencana Pembangunan Jangka Menengah Nasional (National Medium-Term Development Plan)
SIMDA	–	Sistem Informasi Manajemen Keuangan Daerah (Regional Financial Management Information System)

NOTE

In this report, “\$” refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 38354-015	
Project Name	State Accountability Revitalization Project (Additional Financing)	Department/Division	SERD/IRM
Country	Indonesia	Executing Agency	Badan Pengawasan Keuangan & Pembangunan
Borrower	Republic of Indonesia		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=38354-015-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=38354-015-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Public sector management	Public expenditure and fiscal management		90.00
		Total	90.00
3. Operational Priorities		Climate Change Information	
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Strengthening governance and institutional capacity			
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 16.5		Some gender elements (SGE)	✓
		Poverty Targeting	
		General Intervention on Poverty	✓
4. Risk Categorization:	Low		
5. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		90.00	
Sovereign Project (Regular Loan): Ordinary capital resources		90.00	
Cofinancing		0.00	
None		0.00	
Counterpart		14.92	
Government		14.92	
Total		104.92	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Republic of Indonesia for the additional financing of the State Accountability Revitalization Project.

2. The additional financing will extend and help sustain the benefits of the ongoing project¹ to further improve the government's accountability for public expenditure. The additional financing will (i) train and certify an additional 19,400 government internal auditors and public finance officers at the central and local levels;² (ii) support the sustainability of a competency- and needs-based e-learning training approach (within the framework of a national training institute) by further upgrading training systems and providing modern facilities adapted to e-learning (including training centers in four regional locations); and (iii) develop fully integrated systems for financial management reporting and supervision in line with the national e-government strategy, adoption of continuous audit and continuous monitoring (CA/CM), implementation of a risk management approach for internal audit, and provision of training to 12,500 system users.

II. THE PROJECT

A. Rationale

3. Indonesia's annual gross domestic product growth has consistently averaged around 5.0% during the past five years, and the country has achieved steady poverty reduction over the same period with its national poverty rate declining from 11.3% in 2014 to 9.7% in 2018. Yet, as noted in the sector assessment,³ to maintain the momentum of its development efforts and at the same time realize the development outcomes under the National Medium-Term Development Plan (RPJMN), 2015–2019⁴ and the Sustainable Development Goals, enhancing the quality of the public spending is critical. Indonesia's 2017 Public Expenditure and Financial Accountability (PEFA) Assessment Report outlines areas where Indonesia's public financial management (PFM) system needs to improve if poverty and inequality, particularly in access to public services, are to be further reduced. The lack of accountability at different levels of the government, including at decentralized tiers in provinces and districts, causes inefficiency, budget inconsistencies, and possible mis-utilization of public funds. The proposed additional financing, building on the good progress made under the ongoing project, will further support the Government of Indonesia's reform priorities in the PFM sector.

4. **Ongoing project.** The Asian Development Bank (ADB) approved the ongoing project on 31 October 2012, financed by a loan from ADB's ordinary capital resources in the amount of \$57.75 million. The loan became effective on 19 February 2013. The ongoing project has three main outputs: (i) capacity development for government internal auditors and public finance

¹ Asian Development Bank (ADB). 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Indonesia for the State Accountability Revitalization Project*. Manila.

² In seeking to improve the quality of internal audit, the ongoing project has focused its capacity building efforts on two groups: government internal auditors and public finance officers. The need to improve the skills and competency of internal auditors is self-evident, but one particular strength of the ongoing project is that it seeks to simultaneously improve the ability of public finance officers to prepare financial statements of public expenditures that meet audit standards. This twin-track approach will continue under the proposed additional financing. Another important element of the ongoing project approach, especially given Indonesia's decentralized form of government, is strengthening capacity at the local government level, which will also be continued and expanded under the additional financing.

³ Sector Assessment (accessible from the list of linked documents in Appendix 2).

⁴ Government of Indonesia, *National Development Planning Agency. National Medium-Term Development Plan, 2015-2019*. Jakarta.

officers; (ii) development of e-learning system and training modules; and (iii) institutional strengthening through system improvement.

5. The ongoing project is evaluated as performing well based on the following criteria:⁵
- (i) Implementation progress performance is rated *on track*. As of 31 May 2019 (89% of the elapsed time), the ongoing project's physical progress was 98% with cumulative contract awards and disbursements at 98.9% of the loan amount.
 - (ii) There is full compliance with the safeguard covenants. The ongoing project is category C for impacts on the environment, involuntary resettlement, and indigenous peoples, with no safeguard impacts.
 - (iii) Delivery of expected outputs is rated *successful*. Most output targets of the ongoing project have been exceeded. Under output 1, 3,442 government internal auditors and public finance officers graduated with degrees against the target of 2,500 (44% were women against the target of 30%).⁶ A total of 22,213 participants received nondegree training, far exceeding the target of 9,800 (female participation in nondegree training was 40%, also exceeding the 30% target). Under output 2, e-learning system has been in operation with a total of 39 e-learning and 88 blended training modules developed and used, covering both functional auditor certification training and technical training. Eight centers of excellence were created in universities against the target of 14.⁷ The remaining six centers are expected to be achieved under the additional financing. Under output 3, the development of a management information system on accountability has integrated supervision planning, implementation, and reporting systems of the executing agency, the Central Government Internal Auditor (BPKP).
 - (iv) Management of risks is rated *successful*. The ongoing project has successfully managed the risks identified during project preparation, and there have been no substantial issues during implementation.

6. Need for upskilling internal auditors and public finance officers who are yet to benefit from training. The ongoing project has demonstrated considerable success in upskilling public internal auditors and finance officers for better PFM thereby contributing to the government's overall accountability revitalization agenda. This is reflected in the increased quality of audit opinions from the Supreme Audit Board. During the period covered by RPJMN, 2015–2019 the share of unqualified audit opinions reached 91% for the central government and 74% for local governments. This is a substantial improvement from 10 years earlier, when fewer than half of audit opinions were recognized as being fairly and appropriately presented. For the forthcoming RPJMN, 2020–2024, the government plans to increase the share of unqualified audit opinions to 97% for the central government and provincial governments, and 90% for district governments. To meet these targets, BPKP estimates that additional 46,560 certified government internal auditors are needed. As of May 2019, however, there were only 13,749 certified government internal auditors, of which about 8,450 were certified under the ongoing project. Recognizing the project's success to date, the government wishes to extend the training to a

⁵ Summary of Project Performance (accessible from the list of linked documents in Appendix 2).

⁶ Government of Indonesia, Central Government Internal Auditor (BPKP). 2018. *Draft Project Completion Report: State Accountability Revitalization Project*. Jakarta.

⁷ The ongoing project did not fully achieve the target because there were only eight leading universities that met the readiness criteria set by BPKP. The additional financing will support additional six universities to meet the readiness criteria.

much larger group of internal auditors and finance officers to ensure its RPJMN targets are met. The government also wishes to make the new approach to training provision more decentralized and sustainable. The proposed additional financing will support the government's efforts to fill this gap in training and certification for government internal auditors and public finance officers. The training funded by the project is part of a major push by the government to comprehensively upgrade the standard of internal audit and the quality of financial reports on public expenditure. Since this is a non-routine skills upgrading over a limited period, the government will continue to borrow significantly more than the ongoing project for this major capacity enhancement exercise. Regular in-service training is budgeted annually.

7. Need for integrated systems. An upgrading of the FMISs is also needed to enhance the processing efficiency and accuracy of financial statements, and the timeliness of the submission of financial statements to the Supreme Audit Board. Based on government regulation on regional financial management, the government will require local governments' FMISs to be integrated with other systems to support harmonization of data systems in the context of fiscal decentralization. This activity is not part of the ongoing project, but will be addressed under the additional financing. Currently, more than 30 different FMISs are being used by 542 local governments to manage budget planning, execution, accounting, reporting, and other functions. There are three main systems in use, but they, as well as other lesser-used FMISs, operate as stand-alone systems. Thus, district-level, province-level, and national-level consolidation and monitoring of both financial and nonfinancial data rely on manual transfer with all the attendant risks and time delays. Additionally, reporting entities do not use a standard chart of accounts, and problems arise with varying data structures and definitions, as each local government defines its own coding structure. Effective uptake of an integrated system will require upskilling of government officials.

8. Government policy. The forthcoming RPJMN, 2020–2024 is expected to promote bureaucratic institutional reform through several mechanisms, including improving performance accountability and supervision capacities. Focus will be given to utilization of information and communication technology to improve transparency, accuracy, accountability, and public service delivery. This will involve strengthening the government's goods and services procurement system, as well as upgrading and supporting the rollout of the Government Internal Control System (GICS). The proposed additional financing will support the implementation of the GICS to achieve the maturity index of level 3 by 100% for all central line ministries and local governments by 2024 as set in the RPJMN, 2020-2024.⁸

9. The 2017 PEFA Assessment Report found that, while the internal control function is adequately defined in the legal and regulatory framework, the country's FMIS is not sufficiently integrated with other PFM systems.⁹ In addition, internal audit plans and reports are implemented, but findings are not followed up on in a consistent and effective manner. The PEFA assessment report highlighted areas for improvement, including conforming with standards outlined in the Institute of Internal Auditors' international professional practices framework.¹⁰ The report also stressed a need to (i) address strategic issues relating to governance, risk management, and control processes in cross-sector and government-wide programs; and (ii) build certification

⁸ BPKP is using a maturity model with five levels of index (from 1 to 5) to measure the maturity of the GICS implementation.

⁹ The 2017 PEFA assessment report for Indonesia covered 3 years (2014–2016) with a cutoff date of August 2017. A prior PEFA assessment was carried out in 2011, but a direct comparison of indicators and scores is not possible as the framework and methodology changed twice in the intervening period. However, the 2017 report concluded that the "needle has moved in the right direction." World Bank. 2018. *Indonesia Public Expenditure and Financial Accountability (PEFA) Assessment Report 2017*. Washington, DC. p. 151.

¹⁰ The Institute of Internal Auditors (IIA) is an international professional association of internal audit profession.

efforts and auditors' capabilities and in the areas of risk awareness and governance, as well as in information systems. The proposed additional financing responds to these recommendations, and thereby supports institutional strengthening and contributes to improved sustainability of PFM in Indonesia.¹¹

10. **Additional financing eligibility criteria.** The additional financing meets ADB's eligibility criteria for additional financing. The overall project (i) remains technically feasible, economically viable, and financially sound; (ii) is a high priority of the government;¹² and (iii) is consistent with the ongoing project's development objectives, the government's priorities, and ADB's country partnership strategy for Indonesia, 2016–2019, under which ADB supports the government's efforts to foster good governance by improving financial accountability, with a focus on local governments.¹³ The overall project will contribute to Sustainable Development Goal 16 (peace, justice, and strong institutions); is in line with ADB's Strategy 2030 operational priority 6 (strengthening governance and institutional capacity);¹⁴ and supports the implementation of the Second Governance and Anticorruption Action Plan (improving governance, and institutional and corruption risks).¹⁵ The ongoing project is performing well, has been rated *on track* since its commencement, and implementation progress and results are satisfactory. Safeguards requirements have been complied with and risks have been adequately managed (para. 5).

11. **ADB value addition.** Development of e-learning under the ongoing project has proven to be about 30% more efficient than traditional classroom training.¹⁶ The efficiency gains are expected to be even greater with the new facilities and equipment to be provided under the additional financing. These gains will allow BPKP to deliver more training for the same or less budget. Training will also be better targeted to the individual needs of trainees and their host organizations: a learning value chain with a needs- and competency-based approach will move the provision of training away from a one-size-fits-all model to a more customized one. This will ensure a greater return from the expenditure on training. The innovative approach to training delivery, especially for a decentralized form of government such as Indonesia's provides a significant demonstration effect. Further, the ongoing project has promoted trilateral cooperation between BPKP, local governments, and universities through the degree program and the establishment of centers of excellence at leading universities in providing PFM courses and research. This cooperation will continue to be supported under the additional financing.

¹¹ Sector Assessment (Summary): Public Sector Management (accessible from the list of linked documents in Appendix 2).

¹² The government's request for assistance has been included in the List of Medium Term Planned External Loans and Grants of 2018 (also known as the Blue Book) and the List of Planned Priority External Loans of 2019 (also known as the Green Book) of the National Development Planning Agency. Government of Indonesia, Badan Perencanaan Pembangunan Nasional (BAPPENAS) (Ministry of National Development Planning Agency). 2018. List of Medium-Term Planned External Loans 2015-2019. 2018 Revision. Jakarta; and Government of Indonesia, National Development Planning Agency. List of Priority Loans. 2019. Jakarta.

¹³ ADB. 2016. *Country Partnership Strategy: Indonesia, 2016–2019—Towards a Higher, More Inclusive, and Sustainable Growth Path*. Manila. The draft country partnership strategy, 2020–2024 continues the focus on the relevant governance-related issue.

¹⁴ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*, Manila.

¹⁵ ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

¹⁶ E-learning has reduced the training time by about 30% compared with a conventional classroom approach. It has also reduced training costs because of decreased use of paper. In addition, the waiting time to enroll in a class has also been significantly reduced, as the training center is able to conduct more courses.

B. Impact and Outcome

12. The project is aligned with the following impact: accountability of public institutions able to deliver high-quality public services strengthened.¹⁷ The project will have the following outcome: capacity of government internal auditors and public finance officers in budget planning, reporting, internal audit, and asset management improved.¹⁸

C. Outputs

13. **Output 1: Capacity of government internal auditors and public finance officers developed.** Under this output, the additional financing will allow BPKP to provide training and certification to 19,400 government internal auditors and public finance officers at the central and local government levels. Specialized training will be provided for (i) substantive technical training in risk management, strategic audit, audit reporting, audit management, procurement audit, PFM transactions in planning, budgeting, accounting, procurement, asset management, and financial reporting; and (ii) nonmandatory certification in internal auditing, fraud prevention, and accounting. Training in financial reporting and auditing will also be provided to public finance officers involved in development partner-funded projects.

14. **Output 2: Competency- and needs-based e-learning approach institutionalized.** Under this output, the additional financing will help BPKP reorient and reequip its existing training institute (the government internal auditor corporate university), providing it with new fully equipped facilities at four regional hubs (Bali, Bogor, Makassar, and Medan) for the production and delivery of e-learning courses. As part of the reorientation, the training institute will adopt a competency- and needs-based approach. Under this new approach, job models (using the integrated talent management system developed under the ongoing project) will be established for the various levels of internal auditors and public finance officers and learning road maps will be produced for each position in line with the needs of the trainee's organization.

15. **Output 3: Audit and financial management information systems improved.** Under this output, the additional financing will upgrade the existing BPKP-developed local government FMIS, the Regional Financial Management Information System (SIMDA), to meet regulatory and technology requirements for e-government and to be fully integrated across planning, budgeting, reporting, auditing, and monitoring. Also, as part of this output, a CA/CM information system will be embedded in the BPKP-developed FMIS. The CA/CM information system will enhance the capabilities of internal auditors by allowing them to determine their audit approaches on a continuous basis; promote compliance with policies, procedures, and regulations; and monitor the status of, and follow up on, audit finds by the external auditor. BPKP will also develop risk assessment tools under this project to ensure that audits are carried out in the areas of greatest risk. In addition to the training under output 1, training associated with the rollout of various systems developed under this output will also be carried out and provided to 12,500 system users.

D. Investment and Financing Plans

16. The project is estimated to cost \$104.92 million, of which \$90 million is proposed to be financed by a regular loan from ADB's ordinary capital resources (Table 1). Detailed cost estimates by expenditure category and detailed cost estimates by financier are included in the project administration manual (PAM).¹⁹

¹⁷ Government of Indonesia, National Development Planning Agency. 2014. *RPJMN, 2015–2019*. Jakarta; and Government of Indonesia, National Development Planning Agency. Forthcoming. *RPJMN, 2020–2024*. Jakarta.

¹⁸ The revised design and monitoring framework is in Appendix 1.

¹⁹ Project Administration Manual (accessible from the list of the linked documents in Appendix 2).

Table 1: Project Investment Plan
(\$ million)

Item	Current Amount ^a	Additional Financing ^b	Total
A. Base Cost^c			
1. Capacity of government internal auditors and public finance officers developed	44.46	26.73	71.19
2. Development of e-learning systems and modules	2.50		2.50
Additional financing: competency- and needs-based e-learning approach institutionalized		30.17	30.17
3. Institutional strengthening through system improvement	4.57		39.51
Additional financing: audit and FMIS improved		34.94	
4. Project management	7.57		7.57
Subtotal (A)	59.10	91.84	150.94
B. Contingencies^d	0.43	9.00	9.43
C. Financing Charges During Implementation^e	1.00	4.08	5.08
Total (A+B+C)	60.53	104.92	165.45

FMIS = financial management information system

^a Refers to the original amount. Includes taxes and duties of \$0.15 million financed from government resources through exemption. Such amount does not represent an excessive share of the project cost.

^b Includes taxes and duties of \$0.50 million to be financed from government resources through exemption.

^c In mid-2019 prices as of 10 September 2019.

^d Physical contingencies computed at 4% for civil works; and 4% for field research and development, training, surveys, and studies. Price contingencies computed at 1.5% on foreign exchange costs and 2% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^e Includes interest and commitment charges. Interest during construction for the regular ordinary capital resources loan has been computed at the 5-year forward London interbank offered rate (LIBOR) plus a spread of 0.60%. Commitment charges for the regular ordinary capital resources loan is 0.15% per year to be charged on the undisbursed loan amount.

Source: Asian Development Bank estimates.

17. The government has requested a regular loan of \$90 million from ADB's ordinary capital resources to help finance the project. The loan will have a 17.5-year term, including a grace period of 8 years; an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year; and such other terms and conditions set forth in the draft loan agreement. Based on the straight-line method, the average maturity is 13 years, and there is no maturity premium payable to ADB.

18. The financing plan is in Table 2. ADB will finance training services, equipment, works, and consulting services. The government will finance taxes and duties, contingencies, and financial charges during implementation.

Table 2: Financing Plan
(\$ million)

Source	Current ^a		Additional Financing		Total	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
Asian Development Bank						
OCR (regular loan)	57.75	95.40	90.00	85.78	147.75	89.30
Government of Indonesia	2.78	4.60	14.92	14.22	17.70	10.70
Total	60.53	100.00	104.92	100.00	165.45	100.00

OCR = ordinary capital resources.

^a Refers to the original amount.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

19. The implementation arrangements, including BPKP as the executing agency, will remain unchanged from the ongoing project. BPKP has performed well in this role. The head of the Bureau of Performance Management, Organization, and Governance (previously known as the Bureau for Audit Planning) under BPKP will continue to head the project management unit. A project implementing unit will be set up in the BPKP's Training and Education Center to be responsible for implementing activities under outputs 1 and 2, while the BPKP's Directorate for Regional Financial Management II will be responsible for implementing activities under output 3.

20. The additional financing will be implemented from 1 April 2020 to 31 March 2025. Based on the list of activities identified, the project will require a project management consulting firm to support the executing agency during implementation (as is the case for the ongoing project), which will minimally include a team of specialists for training, financial management, procurement, and monitoring and evaluation. Table 3 presents the implementation arrangements, which are described in detail in the PAM (footnote 19).

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	1 April 2020–31 March 2025		
Estimated completion date	31 March 2025		
Estimated loan closing date	30 September 2025		
Management			
(i) Oversight body	Steering committee Principal secretary, BPKP (chair) Relevant directors from BPKP, MOF, MOHA, and BAPPENAS (members)		
(ii) Executing agency	BPKP		
(iii) Key implementation units	Project management unit (Bureau of Performance Management, Organization, and Governance), BPKP, 10 staff BPKP Training and Education Center, 10 staff, BPKP Directorate of Regional Financial Management II, 5 staff		
Procurement	National competitive bidding	Multiple contracts	\$26,000,000
	Shopping	1 contract	\$100,000
Consulting services	QCBS	Multiple contracts (4,590 person-months)	\$15,400,000
Advance contracting	Project management consultant (QCBS, 1,300 person-months, \$5,200,000); engineering management consultant for building construction (QCBS, 160 person-months, \$640,000)		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank, BAPPENAS = Badan Perencanaan Pembangunan Nasional (National Development Planning Agency), BPKP = Badan Pengawasan Keuangan dan Pembangunan (Central Government Internal Auditor), MOF = Ministry of Finance, MOHA = Ministry of Home Affairs, QCBS = quality- and cost-based selection.

Source: ADB.

III. DUE DILIGENCE

A. Technical

21. The additional financing will allow BPKP to upgrade SIMDA and other FMISs to enable interoperability and to link to the central government system, including for budget reconciliation purposes. It will also provide significant technical improvements through the adoption of standard chart of accounts. An assessment of technical viability will be conducted during system design, taking into account the standardization of budget classification and/or chart of accounts and

business processes mandated by the Ministry of Finance. A review of available infrastructure and technology, and compatibility with other FMISs will be undertaken prior to system installation and implementation. Training will be provided to local government officials for system operation and maintenance.

22. The project will address important sector weaknesses identified by the PEFA assessment (para. 9), particularly by raising the standards of internal audit to move beyond simple compliance checks to the identification and addressing of systemic risks, and the quality of internal control mechanisms supported by information systems. The CA/CM to be developed under output 3 will help internal audit offices to monitor the status of audit findings follow-up.

B. Economic and Financial

23. The economic rationale for the project rests largely on promoting good governance through stronger capacity of public internal auditors and finance officers. Good governance will provide efficient and effective use of state funds for better public service delivery, which will improve the well-being of the population and be of development benefit to the nation. Budget leakages across governments in the country are expected to be reduced through improved competency of public internal auditors and finance officers. Improved governance and transparency will also improve investor confidence, which will improve the country's credit rating.²⁰

C. Sustainability

24. The training provided under the project is part of a major push by the government to comprehensively upgrade the capacity of its internal auditors and the public finance officers who prepare reports on financial expenditure, which are the basis for internal audit. This major upskilling exercise requires resources far in excess of those for regular in-service training. Once this one-time upgrade of skills is complete, the budget for training of the various agencies involved is expected to be sufficient to train new recruits and provide regular in-service training to existing staff, without recourse to external assistance. Sustainability for the provision of training in the future will also be ensured by moving BPKP to a more efficient model of training delivery, including through the widespread adoption of e-learning and closely aligning training provision to training needs. Provision of new facilities appropriate for the new learning approach within the framework of the national government internal audit training institute, together with improved facilities in the regional hubs in Bali, Bogor, Makassar, and Medan, will also improve efficiency in training provision. In addition, and in accordance with Government Regulation No. 20/2014,²¹ BPKP is able to apply fees and charges for the training it provides.²² This will further ensure the sustainability of the program.

D. Governance

25. Project-specific governance risks were identified through the financial management and procurement assessments of BPKP.²³ Under the ongoing project, BPKP has been performing satisfactorily in handling financial management and procurement as shown by the *on track* rating of the ongoing project. BPKP has good financial management capacity and is responsible for setting the benchmark for good financial management for other government bodies. All BPKP staff at the project management unit, project implementing units, as well as the procurement

²⁰ Economic and Financial Analysis (accessible from the list of the linked documents in Appendix 2).

²¹ This regulation outlines the nontax revenues that BPKP is allowed to collect.

²² The nontax revenue collected by BPKP from 2014 to 2018 is in the Economic and Financial Analysis (accessible from the list of the linked documents in Appendix 2).

²³ Financial Management Assessment (accessible from the list of link documents in Appendix 2).

committee, hold at the minimum a diploma in accounting. BPKP has sufficient capacity, staffing, and systems to undertake financial, accounting, and procurement functions; and proven capacity to manage project implementation, financial management, and procurement in accordance with ADB policies and requirements. The overall fiduciary risks before mitigation measures are *moderate*. Any new staff unfamiliar with ADB procedures will be provided training on ADB project management, administration, procurement, and disbursement.

26. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and BPKP. The specific policy requirements and supplementary measures are described in the PAM (footnote 19).

E. Poverty, Social, and Gender

27. In preparation for the additional financing, the analysis and activities in the summary poverty reduction and social strategy of the ongoing project have been updated and extended to cover the scope of the additional financing.²⁴ The overall project has been designed to support Indonesia's poverty reduction goals through improved accountability of public institutions in managing state funds. An internal audit function that is risk-based and meets international standards will provide more effective checks on public expenditure and, together with greater transparency and follow-up, will improve the delivery of basic public services to the poor. This will also enhance public confidence in the government.

28. The project has some gender elements, as it targets women's participation in the training and certification programs supported by the project. The ongoing project targets 30% participation by women in training. Under the additional financing, the target will be raised to 40% women participants in aggregate. There are fewer female internal auditors than males in the country because of prior unequal access to education and training by women. On average, female internal auditors from 2012 to 2019 comprise only 40% of the total number of auditors nationwide. The overall project will include sex-disaggregated data in the monitoring and evaluation system to help achieve the women representation target.

F. Safeguards

29. In compliance with ADB's Safeguard Policy Statement (2009), the ongoing project was classified category C for impacts on the environment, involuntary resettlement, and indigenous peoples as it only involved capacity building and software development activities. The additional financing will provide minor construction of the BPKP's regional training hubs in Bali, Bogor, Makassar, and Medan on existing government land. Land acquisition and resettlement are not expected. The project is not expected to affect indigenous peoples. There will be some minor environmental impacts during construction. These will be addressed through a code of construction practice, to be complied with by the works contractor. Overall, under the additional financing, the project is expected to maintain its category C rating for impacts on the environment, involuntary resettlement, and indigenous peoples.

G. Risks and Mitigating Measures

30. Major risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²⁵

²⁴ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

²⁵ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
The timing of standardization of charts of accounts may not be in line with the upgrading of the BPKP-developed FMIS, which may delay the upgrading	Consultation, and communication, and participation of BPKP in the central government's task force on standardization of chart of accounts.
Delays in decision-making by the government on the harmonization of local government FMISs and/or a decision to opt for a single system other than BPKP's SIMDA	Close monitoring, consultation, communication, and participation of BPKP in the central government's task force on harmonization of systems. Currently, BPKP's SIMDA is used by about 80% of the local governments, and therefore, if a single system is mandated, SIMDA would be the most logical choice, particularly given the enhancements to SIMDA proposed under the additional financing.

BPKP = Badan Pemeriksa Keuangan dan Pembangunan (Central Government Internal Auditor), FMIS = financial management information system, SIMDA = Sistem Informasi Manajemen Keuangan Daerah (Regional Financial Management Information System).

Source: Asian Development Bank.

IV. ASSURANCES

31. The government has assured ADB that implementation of the project shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents. The government has agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

V. RECOMMENDATION

32. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$90,000,000 to the Republic of Indonesia for the additional financing of the State Accountability Revitalization Project, from ADB's ordinary capital resources, in regular terms, with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 17.5 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

7 November 2019

REVISED DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with			
<p>Ongoing project Accountability of public institutions able to deliver high-quality public services strengthened (National Medium-Term Development Plan, 2015–2019; forthcoming National Medium-Term Development Plan, 2020-2024)^a</p> <p>Overall project Unchanged</p>			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Outcome Ongoing project Capacity of government internal auditors and public finance officers in budget planning, reporting, internal audit, and asset management improved</p> <p>Overall project Unchanged</p>	<p>Ongoing project By 2017</p> <p>a. Percentage of BPK’s unqualified audit opinion increased by 100% at the central level from 42.17% in 2009, and by 60% in the regions from 2.73% in 2009</p> <p>b. 100% timely submission of financial reports to BPK</p> <p>c. Internal audits are undertaken in accordance with professional standards and using a modern risk-based audit methodology</p> <p>Overall project By 2025:</p> <p>a. Percentage of BPK’s unqualified audit opinion increased to 97% at the central government level, 97% at the provincial government level, and 90% at the district government level (2018 baseline: 91% for central government; 97% provincial governments; 72% for district governments)</p> <p>b. and c. Unchanged</p> <p>c. <u>GICS maturity index increased to 100% at level 3 for central line ministries and local governments (2018 baselines: 27% for central line ministries, 29% for provincial governments, and 20% for district governments)</u></p> <p>d. <u>Inspectorate capability level under the GICS maturity index increased to at least 85% at level 3 for central line ministries and local governments (2018 baselines: 27% for central ministries, 50% for provincial governments, and 16% for district governments)</u></p>	<p>a. BPK audit reports</p> <p>b. BPK audit reports</p> <p>c. BPK audit reports</p> <p>a–b. Unchanged</p> <p>c. BPKP project progress reports</p> <p>d. BPKP project progress reports</p>	<p>Insufficient attention to audit findings by the executive and legislative branches of government</p>
<p>Outputs Output 1 Ongoing project Capacity of government internal auditors and public finance officers developed</p>	<p>Ongoing project By 2017:</p> <p>1a. 2,500 government internal auditors and finance officers graduated from the degree program in government accounting and state finance.</p>	<p>1a–f. BPKP project progress report</p>	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
<p>Overall project Unchanged</p>	<p>1b. 9,800 government internal auditors and public finance officers received training and certification, with 80% of the central government officials certified and 70% of local government officials certified^b</p> <p>1c. 14 leading regional universities sign memorandums of understanding to establish centers of excellence (and by implication establish them)</p> <p>By 2015:</p> <p>1d. New adult learning methodology for training of trainers developed and implemented</p> <p>1e. 200 trainers able to deliver using adult learning methodology</p> <p>1f. Gender-disaggregated target: 30% women</p> <p>Overall project By 2025:</p> <p>1a. Unchanged</p> <p>1b. Incremental 19,400 participants receive training with certification where applicable (80% pass rate for certification targeted) for a total for the overall project of 29,200 (2019 baseline: 9,800)</p> <p>1c. Unchanged. (2019 baseline: 8)</p> <p>1d. Unchanged</p> <p>1e. 400 trainers able to deliver training using adult learning methodology. (2019 baseline: 200)</p> <p>1f. An aggregate target across all forms of training of 40% women participants. (2019 baseline:40%)</p>	<p>1a–f. BPKP project progress report</p>	
<p>Output 2 Ongoing project E-learning system and modules developed</p> <p>Overall project Competency- and needs-based e-learning approach institutionalized</p>	<p>Ongoing project By 2016:</p> <p>2a. E-learning system encompassing training to support JFA certification and other relevant areas installed and operating in BPKP</p> <p>Overall project By 2025:</p> <p>2a. Unchanged</p> <p>2b. Learning value chain with a competency- and needs-based approach developed and implemented which entails: (i) training needs assessment; (ii) instructional system development program for internal auditors; (iii) delivery of training program based on the (i) and (ii); and (iv) impact assessment, monitoring, and evaluation of the training. (2019 baseline: Not applicable)</p>	<p>2a.–f. BPKP project reports</p>	<p>Weak coordination among stakeholders implementing integrated learning value chain</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	2c. Development of integrated talent management system and knowledge management information system (2019 baseline: Not applicable) 2d. Physical infrastructure to support the training institute designed, constructed, and equipped in Bali, Bogor, Medan, and Makassar (2019 baseline: Not applicable) 2f. An aggregate target of 40% women participants for the implementation of output 2b (2019 baseline: Not applicable)		
<p>Output 3 Ongoing project Institutional strengthening through system improved</p> <p>Overall project Audit and FMISs improved</p>	<p>Ongoing project By 2016: 3a. The SIMA entailing four perspectives of accountability developed, installed, and operating in BPKP, accessible by relevant working units 3b. Two program-based policies in specific cross-sector or thematic programs evaluated 3c. Recommendation made to the government to improve cross-sector program policy</p> <p>Overall project 3a–3c. Unchanged 3d. New generation local government FMIS developed, pilot tested, rolled out, and implemented (2019 baseline: Not applicable) 3e. CA/CM system methodology embedded in new generation FMIS (2019 baseline: Not applicable) 3f. Guidelines and supporting information system on risk-based management, risk-based audit, and risk management maturity index (2019 baseline: Not applicable) 3g. Development and implementation of an institutional development plan to institutionalize new systems developed under 3a–d., including necessary training and certification of 12,500 total participants (2019 baseline: Not applicable) 3h. An aggregate target of training of 40% women participants (2019 baseline: Not applicable)</p>	<p>3a–c. BPKP project reports</p> <p>3a–h. BPKP project reports</p>	<p>The timing of the standardization of charts of accounts may not be in line with the plan for upgrading the BPKP FMIS, which may delay the upgrading</p> <p>Delays in decision-making on the harmonization of local government FMIS and, in an extreme circumstance, a decision to opt for a single system other than BPKP's SIMDA</p>
<p>Key Activities with Milestones</p> <p>1. Capacity of government internal auditors and public finance officers developed 1.1 Train and certify 19,400 government internal auditors and public finance officers (changed) 1.1.1 Update the selection criteria for participants, implementation mechanisms, and reporting requirements (Q1 2020) 1.1.2 Attain training and certification program enrollment milestones (2020: 5,000; 2021: 5,000; 2022: 5,000; 2023: 4,400) covering the following: JFA certification training; training for assessors of GICS and internal</p>			

auditors; certification training in areas other than JFA; certification on procurement; training on procurement audit; training on GICS implementation; training on risk-based supervision; training on village financial supervision; other technical training (expected breakdown of trainees by each type of training is in the project administration manual)

1.2 Train trainers (changed)

1.2.1 Select prospective trainers to be participants (Q1 2020)

1.2.2 Conduct training of trainers: 200 trained under the original project, an incremental 200 under the additional financing

1.3 Establish centers of excellence through signing of memorandums of understanding with and additional six regional universities to achieve the target under the ongoing project of 14 centers of excellence (Q2 2020–Q3 2023)

2. Competency- and needs-based e-learning approach institutionalized

2.1 Develop BPKP training institute (added)

2.1.1. Review the standard operating procedure of training institute (Q2–Q3 2020)

2.1.2. Develop and implement training needs assessment (Q2 2020–Q2 2024)

2.1.3. Develop and implement instructional system design (Q3–Q4 2020–Q4 2024)

2.1.4. Access post training impact (Q4 2021–Q4 2024)

2.1.5. Develop and implement the information system of learning value chain of training institute (Q2 2022)

2.1.6. Construct smart buildings (Q3 2020–Q2 2023)

2.1.7. Develop information technology tools and/or equipment to support smart classrooms, learning center, and digital learning (Q3 2023)

2.1.8. Develop outreach program of training institute to selected local governments (Q3 2020)

2.1.9. Develop and implement integrated talent management system using SIBIJAK (Q2 2022)

3. Audit and FMISs improved

3.1 Upgrade new generation of the local government FMIS (added)

3.1.1. Develop an architecture enterprise based on President Regulation No. 95/2018 on e-government (Q3 2020)

3.1.2. Recruit information technology consultant for enterprise architecture development (Q3 2020)

3.1.3. Develop the upgraded FMIS (Q1 2021)

3.1.4. Install, test, pilot, roll out and/or deploy the upgraded FMIS and data migration to local governments (Q3 2021)

3.1.5. Consolidate data at provincial level (Q4 2021)

3.2 Develop a CA/CM (added)

3.2.1. Develop a dashboard of needs analysis (Q3 2020)

3.2.2. Develop dashboard of local government FMIS (new generation with continuous monitoring tool) (Q1 2021)

3.2.3. Implement CA/CM in all BPKP representative offices (Q4 2022)

3.2.4. Develop and implement CA/CM supporting management (Q4 2022)

3.3 Strengthen and implement guidelines and supporting information system on risk-based management, risk-based audit, and risk management maturity index (added)

3.3.1. Review existing guidelines on risk-based management, risk-based audit, and risk management maturity index (Q4 2020)

3.3.2. Revise guidelines based on the inputs from the review (Q1 2021)

3.3.3. Select consultant to develop management information system to support risk-based management, risk-based audit, and risk management maturity index (Q2 2021)

3.3.4. Implement management information system to support risk-based management and risk-based audit (Q4 2021)

3.4. Develop and implement an institutional development plan to institutionalize new systems developed, including necessary training and certification (added)

3.4.1. Develop institutional development plan with new systems implementation plan, including outreach program (Q3 2020)

3.4.2. Implement institutional development plan, including supporting facilities and support management (Q4 2021)

3.4.3 Provide training and certification to 12,500 participants, including through internship programs, to support the institutionalization of the new system developed (Q3 2020–Q3 2024), with the following breakdown:

(i) new generation of the local government FMIS: 4,000 participants (Q1 2022–Q3 2024);

(ii) CA/CM information system: 4,000 participants (Q2 2022–Q3 2024);

(iii) information system to support risk-based management and risk-based audit: 2,000 participants (Q2 2022–Q3 2024);

<p>(iv) national information and communication technology certification for internal auditor at the national level for 2,300 participants (Q4 2020–Q3 2024) and at the international level for 155 participants (Q3 2021–Q3 2024); and</p> <p>(v) international internship and twinning program with similar organization in other countries: 45 participants (Q4 2020–Q2 2024)</p>																				
<p>Project Management Activities Project management consulting firm to support the executing agency during implementation, including, at the minimum, a team of training specialists, financial management specialists, procurement specialists, and a monitoring and evaluation specialist</p>																				
<p>Inputs</p> <table border="1"> <thead> <tr> <th colspan="2">Asian Development Bank</th> <th colspan="2">Government</th> </tr> <tr> <th colspan="2">Loan</th> <th colspan="2"></th> </tr> </thead> <tbody> <tr> <td>\$57.75 million</td> <td>(current)</td> <td>\$2.78 million</td> <td>(current)</td> </tr> <tr> <td>\$90.00 million</td> <td>(additional)</td> <td>\$14.92 million</td> <td>(additional)</td> </tr> <tr> <td>\$147.75 million</td> <td>(overall)</td> <td>\$17.70 million</td> <td>(overall)</td> </tr> </tbody> </table>	Asian Development Bank		Government		Loan				\$57.75 million	(current)	\$2.78 million	(current)	\$90.00 million	(additional)	\$14.92 million	(additional)	\$147.75 million	(overall)	\$17.70 million	(overall)
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<p>Assumptions for Partner Financing</p> <p>Ongoing project None</p> <p>Overall project None</p>																				

BPK = Badan Pemeriksa Keuangan (Supreme Audit Board), BPKP = Badan Pengawasan Keuangan dan Pembangunan (Central Government Internal Auditor), CA/CM = continuous audit and continuous monitoring, FMIS = financial management information system, GICS = Government Internal Control System, JFA = Jabatan Fungsional Auditor (Internal Auditor Functional Position), Q = quarter, SIBIJAK = Sistem Bina Jabatan Auditor Berkualitas (Qualified Internal Auditor Management System), SIMA = Sistem Informasi Management Akuntabilitas (Management Information System on Accountability), SIMDA = Sistem Informasi Manajemen Keuangan Daerah (Regional Financial Management Information System).

^a Government of Indonesia, National Development Planning Agency. *National Medium-Term Development Plan, 2015–2019*. Jakarta; and Government of Indonesia, National Development Planning Agency. Forthcoming. *National Medium-Term Development Plan, 2020–2024*. Jakarta.

^b The design and monitoring framework of the ongoing project did not provide for any breakdown of the total target by type of training (i.e., by type of certification, or non-certification) or by location of trainees (central or local government). Also, the target refers to the number of participants rather than the number of distinct individuals, as individuals can participate in multiple types of training. Until the development of SIBIJAK (which was not initially envisaged to be developed under the ongoing project, but funded instead by loan savings), the executing agency could not easily track disaggregated data.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=38354-015-3>

1. Loan Agreement
2. Sector Assessment (Summary): Public Sector Management
3. Project Administration Manual
4. Summary of Project Performance
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Economic and Financial Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Risk Assessment and Risk Management Plan

Supplementary Document

11. Financial Management Assessment