

## FINANCIAL MANAGEMENT ASSESSMENT (FMA)

### A. Introduction

1. The primary objective of this Financial Management Assessment (FMA) is to update the assessment of the financial management arrangement of the Central Government Internal Auditor (BPKP) as the executing agency (EA) of the STAR Additional Financing. The FMA encompasses financial planning, accounting, reporting, auditing, funding and organization. As the EA, BPKP should plan, develop and maintain financial management systems that can provide timely and reliable information for monitoring the proposed project towards agreed objectives. As the project financier, ADB is governed by its Charter which requires that loan proceeds should be used for their intended purpose with due regard to economy and efficiency, and that the borrower can meet its obligations for loan repayments.

2. The FMA was carried out in accordance with ADB guidelines.<sup>1</sup> The guidelines state that “FMA is not an audit but a review designed to determine whether or not the entity’s financial management arrangements are sufficient for the purposes of project implementation.”

3. The FMA comprised: (i) completing ADB’s FMA questionnaire (FMAQ) through interviews with key staff of the EA; (ii) evaluating personnel capacities, and accounting, internal and external auditing, financial reporting and budgeting policies and procedures with the assistance of responses to the FMAQ and other documents; (iii) identification of potential risks and mitigation measures.

4. This assessment is updated from that prepared for the Loan 2927-INO: State Accountability Revitalization Project (STAR).

### B. Overview of Public Finance Management in Indonesia

5. **Public Financial Management (PFM) initiatives.** According to the 2017 Public Expenditure and Financial Accountability Performance Assessment (PEFA), Indonesia has a well-established public finance management architecture, underpinned by strong and reliable systems with the required functions in place (internal controls, accounting and reporting procedures, internal and external audit system, centralization of cash balances and a sound reporting system with strengthened accountability and transparency).<sup>2</sup> Spending agencies control budget implementation but are held accountable to meet specific performance criteria. In the 2017 PEFA, Indonesia scored ‘A’ on internal control (Table 1 shows an overall summary of the 2017 PEFA assessment). The assessment shows that 17 of the 31 indicators scored either “A” or “B”, both considered to be above the basic alignment with international good practice. The PEFA also identifies some areas for improvement, including improving the strategic allocation of resources, and strengthening the efficiency of public spending by better linking performance information to planning and budgeting.

6. The Ministry of Finance (MOF) and the National Development Planning Agency (BAPPENAS) have developed a new system called KRISNA, which is a specialized budget module that links to MOF’s integrated financial management system and allows for the integration of planning, budget execution and performance monitoring of public expenditure. KRISNA was implemented for the 2018 budget. This system improves the policy orientation of budgeting and provides a concrete, shared framework to ensure clear vertical linkages exist between the national

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<sup>1</sup> Financial Management and Analysis of Projects, 2005, Financial Management Technical Guidance Note 2015.

<sup>2</sup> <https://pefa.org/sites/default/files/ID-May18-PFMPR-Public%20with%20PEFA%20Check.pdf>

development plan and the annual budget. In 2017, the government also synchronized national development priorities with budget preparation, execution, monitoring and reporting under a unified results framework.

**Table 1: Summary of PEFA Performance Indicators (Indonesia – 2017)**

Core of PFM Performance	Performance Indicators	Score				Total Indicators
		A	B/B+	C/C+	D/D+	
Budget reliability	PI-1 to PI-3			2	1	3
Comprehensiveness and Transparency	PI-4 to PI-9	3	2	1		6
Management of Assets and Liabilities	PI-10 to PI-13		2	1	1	4
Policy-based fiscal strategy and budgeting	PI-14 to PI-18	2	2	1		5
Predictability and Control in budget execution	PI-19 to PI-26	3	1	4		8
Accounting, Recording and Reporting	PI-27 to PI-29	1	1	1		3
External Scrutiny and Audit	PI-31 to PI-31			1	1	2
<b>Total</b>		<b>9</b>	<b>8</b>	<b>11</b>	<b>3</b>	<b>31</b>

Source: 2017 Public Expenditure and Financial Accountability Performance Assessment.

7. MOF implemented the Government Finance Statistics (GFS) standard in national budget through Budget Law and Presidential Decree to provide more autonomy and control to budget owners (line ministries). Budget reporting using accrual-based accounting has been in place since January 2015. Transparency of the budget has been enhanced with the requirement for key budget documents including: draft budgets, six-monthly budget execution reports, and detailed financial notes all of which are available on the web. Government's score in the Open Budget Index has increased from 51% in 2010 to 64% in 2017.<sup>3</sup> Audits by the Supreme Audit Board (BPK) shows an improvement in the quality of government financial statements. The number of line ministries with statements receiving 'unqualified' opinion has increased from 74% in 2014 to 91% in 2018, while the number of those receiving 'disclaimers' has fallen. The government has also increased transparency by publishing budget data in a dedicated portal and by providing additional functional disaggregation of spending into thematic areas, such as climate change and gender responsive budgeting.

8. MOF has implemented the State Treasury and Budget System (SPAN) – an Integrated Financial Management Information System. SPAN, supported by the World Bank, Government of Japan and the PFM Multi-Donor Trust Fund, aims to manage all financial transactions data of the central government in a full cycle from budget appropriation/allotment/ execution up to the production of financial statements. This is to ensure that fiscal data is timely, robust and reliable. Beginning February 2015, SPAN, as mandated by the Presidential Regulation (54/2010), is now under implementation by 179 local Treasury offices (KPPN) of MOF covering the central government agencies (+24,000 spending units) across Indonesia. With the SPAN in place, all financial transaction data are recorded in one database with real time and online information available whenever required. SPAN permits direct connection with line ministries and other users of treasury resources to access and process financial information, while allowing the Directorate-General of Treasury to meet its obligations for treasury management. SPAN has helped to ensure the budget appropriation data as indicated in the state budget law and presidential regulation is consistent with the budget allotment data indicated in the budget allocation list (DIPA) to ensure

<sup>3</sup> International Budget Partnership (undated): "Indonesia, Open Budget Index 2017".

no payments/disbursements are made where there are inconsistencies. SPAN has also put a discipline on both the line ministries and the MOF by ensuring there is no spending beyond the budget ceiling for each individual line item. Moreover, SPAN records encumbrance or commitment of the contract in the system, so it helps monitoring delays in disbursement. MOF has also implemented online monitoring of SPAN to monitor budget execution on real time basis.

9. Commitment controls are in place that effectively limit commitments to actual cash availability and approved budget allocations. Internal controls have been further strengthened with the implementation of the SPAN. The government has also adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO)<sup>4</sup> as its control framework since August 2008, and Government Regulation (PP) 60/2008 clarified the role of internal auditors (including those in BPKP)<sup>5</sup> and required all state institutions to implement the Government Internal Control System for effective, efficient and accountable management of state funds and reliable reporting.

10. BPK, as the supreme audit institution of Indonesia, has made steady progress in its mandate, capacity and practices to strengthen integrity and accountability in government.<sup>6</sup> A peer review conducted by the Dutch Court of Auditors in 2009 identified some areas for improvement, mainly the need to improve the readability of audit reports and the quality of analysis in the audit. BPK prepared a strategic plan for the 2011–15, reflecting both lessons from the peer review and the vision of the new BPK Board. BPK also prepared a detailed implementation plan to support the execution of the strategic plan. BPK has adopted several measures to strengthen auditor professionalism and integrity resulting in significant improvement in the quantity and quality of BPK's audit resources, including increasing the number of qualified auditors, representative offices, and in the use of information technology. ADB had supported the supreme audit body through the State Audit Reform Sector Development Program.<sup>7</sup>

11. The Parliament's role in shaping the state budget and in overseeing budget processes was institutionalized in Law No. 27/2009. Under the Law, the former Budget Committee became the Budget Board (Badan Anggaran), established as a permanent entity in the parliament responsible for the endorsement of the state budget. The Public Finance Accountability Board (Badan Akuntabilitas Keuangan Negara) was established as a permanent entity in the parliament to review audit results of state financial reports prepared by BPK.

12. Development partners have remained engaged with the government, at both central and sub-national level, for strengthening PFM systems in Indonesia, through a broad mix of policy-based operations, projects and TA activities, including the STAR Project. Since 2004, budget and treasury reforms have remained high on the World Bank agenda through its 8-annual policy-based development policy loans to the government and supported through parallel co-financing

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<sup>4</sup> COSO is the Committee of Sponsoring Organizations to provide the development of comprehensive frameworks and guidance on enterprise risk management, internal control and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations. It is jointly sponsored by five major professional associations headquartered in the United States: the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI), the Institute of Internal Auditors (IIA), and the Institute of Management Accountants [IMA]

<sup>5</sup> Under the regulation, four types of institutions share the responsibility for conducting the government's internal audit function, namely, the BPKP, Inspectorates General, provincial inspectorates and district/city inspectorates. Each of these is assigned different roles.

<sup>6</sup> Third amendment of the 1945 Constitution (2001), Law of Audit (2004) and Law on BPK (2006) provide the legal basis for public sector auditing by BPK.

<sup>7</sup> ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed State Audit Reform Sector Development Program to Indonesia*. Manila.

by the Government of Japan and ADB with a series of development policy support program. The European Union, Netherlands, Switzerland, Canada, Japan International Cooperation Agency, International Monetary Fund and the United States have complemented this work. In 2016, ADB increased its support to the government's governance reform agenda through a Fiscal and Public Expenditure Management Program. The program focuses on aligning planning and budget preparation as well as fiscal transfers to enable the government to make progress in its Sustainable Development Goals commitment.<sup>8</sup> ADB also provided support for procurement reform through its Stepping Up Investments for Growth Acceleration Program<sup>9</sup> and substantial capacity building targeted at government internal auditors and public finance officers through degree and training and certification programs.<sup>10</sup>

### **C. Overview of the Executing Agency's Financial Management System and Institutional Context**

13. **Brief Description of the EA.** The Financial and Development Supervisory Board or the Government Internal Auditors Agency (BPKP), through the Prime Secretary (Sekretaris Utama), will be the executing agency for the additional financing. As the government internal auditors, BPKP is mandated under Presidential Decree No. 192 of 2014 to: (i) formulate national policy for internal controls to ensure the proper use of public funds; (ii) conduct regular and follow-up internal audits of state revenues and expenditure management by the central government, local governments, and other institutions in which the government has financial interests; (iii) exercise internal control over the planning and implementation of state asset utilization; (iv) advise the government regarding internal controls and risk management; and (v) implement training and research and development programs in internal control systems. Besides internal audits to determine compliance with expenditure controls and performance of activities, the BPKP also conducts financial audits of some donor projects that began before 2011 and performs external audits of more recent projects on behalf of donors.

14. The ongoing project has established a Project Management Unit under the Bureau of Performance Management, Organization and Governance (BMKOT) which will continue to lead overall project implementation under the additional financing. In accordance with the established rules, the Head of the BMKOT (project owner or Satker) at which the PMU has been set up will assign a staff member of the Bureau to be responsible for financial management issues under the additional financing.<sup>11</sup> Tasks will include: financial reporting and accountability aspects (withdrawal applications, financial reports, audits, bank account statement reconciliation), as well as financial management matters as per ADB's Loan Disbursement Handbook. This staff member will be supported by the financial management consultant engaged under the provision for project management consultant.

15. The PMU will be responsible for preparing consolidated project financial reports with inputs from financial reports prepared by each project implementing unit.

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<sup>8</sup> ADB. 2016. Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan to the Republic of Indonesia for Subprogram 1 of the Fiscal and Public Expenditure Management Program. Manila.

<sup>9</sup> ADB. 2018. Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan to the Republic of Indonesia for Subprogram 3 of the Stepping Up Investments for Growth Acceleration Program. Manila.

<sup>10</sup> ADB. 2012. Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Indonesia for State Accountability Revitalization Project. Manila

<sup>11</sup> Based on ministerial decree, every year the authorized budget user (Kepala Satker, Echelon II) issues a decree regarding the organization and appointment of officers for financial management at the Satuan kerja (Satker).

16. **Organization and Staffing.** BPKP personnel responsible for financial management, and in particular the Inspectorate staff, hold at least a bachelor degree in accounting from the State Accounting Institute. Prior to performing duty as an internal auditor, the personnel have to be certified in the mandatory Certified Internal Auditor Position (known as JFA), as well as certified public internal auditor and certified forensic auditors. Most staff in the internal audit division (Inspectorate of BPKP) are conversant with IT and can independently process data and generate reports. Staff in the finance and accounting units hold at least a diploma or bachelor's in finance or accounting.

17. **Accounting Policies and Procedures.** The EA will continue to maintain separate project accounts and records by funding sources for all expenditures incurred at the project implementation unit level. In accordance with Minister of Finance Decree 213/2013 (on the Government accounting system and financial reporting),<sup>12</sup> and Director General of Treasury Regulation No. 42/PB/2014 regarding the Guidelines for the Preparation of Ministry/Agency's Financial Report/Statement, the EA has an accounting system that allows for the proper recording of financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds. Controls are in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained. The chart of accounts is adequate to properly account for and report on the project activities and disbursement categories. Cost allocations to funding sources are made accurately and in accordance with established agreements. The general ledger and subsidiary ledgers are reconciled and in balance. All accounting and supporting documents are retained on a permanent basis in systematic manner that allows authorized users easy access.

18. Standard operational procedure of the accounting system at BPKP is in accordance with the Minister of Finance Regulation No. 213/PMK.05/2013 regarding the Accounting and Financial Reporting System for Central Government Agencies, and Director General of Treasury Regulation No. 42/PB/2014 regarding the Guidelines for the Preparation of Ministry/Agency's Financial Report/Statement.

19. The financial management arrangement at the Prime Secretary of BPKP shows adequate staffing as well as division of responsibilities in fiduciary aspects to avoid conflict of interest and to ensure discretion, transparency, and accountability.

20. **Internal Audit.** The function of the internal audit at BPKP is carried out by the Inspectorate, headed by an Inspector. The Inspectorate of BPKP is responsible for monitoring and reporting on the accounting and related operations of BPKP. The Inspectorate conducts internal audits to prevent, correct, and follow-up problems using the Government Internal Audit Standard issued by the Indonesian Government Internal Auditor Association. An internal audit report is done at least once a year. The results of the internal audit are submitted to BPK. The internal audit scope is determined by technical, financial and physical aspects as per the annual action plan and budget plan, and the audit plan is conducted based on risk assessment. Under the ongoing project, the Inspectorate has been engaged to conduct quality assurance of the project procurement, contract awards and payments of claims. This arrangement will continue to be carried out for the additional financing.

21. **External Audit.** The external auditor for BPKP is within the mandate of BPK, as set out in Article 23 of the 1945 Constitution and in the Act No. 5 of 1973 on BPK. In carrying out its audit activities, BPK follows audit procedures which are set out in Auditing Standards for the Audit of

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<sup>12</sup> The government system is in line with the International Financial Reporting Standards and will be applied for project reporting (as required by ADB's Guidelines on Financial Management and Analysis of Projects).

the Accountability of State Finance. These audit procedures are: (i) the preliminary audit, where data and information are collected to obtain indications of problems; (ii) on the basis of the preliminary audit, the preparation of an audit program for implementation of a detailed audit; and (iii) the detailed audit comprising more intensive examinations of indicators already identified during the preliminary audit to ascertain irregularities and their causes. The audit methodology involves the use of sampling methods in selected areas to be audited. The audit involves a review of financial reports, contracts and their supporting documents, and physical checks in the field.

22. **Financial Reporting Systems.** BPKP follows the Ministry of Finance's mandatory Accrual based Accounting System (known as SAIBA) in accordance with PP 71/2010, which is an accrual-based accounting system for all government agencies. This enables preparation of financial reports in stages starting from the Satkers up to the ministry/head of agency level. This system enables production of following reports:

- a) Budget execution reports: (i) disbursed fund report; (ii) statement of changes in balance budget surplus.
- b) Financial reports: (i) balance; (ii) operational report; (iii) statement of equity change; and (iv) cash flow statement.
- c) Notes to the financial statements.

23. The Satker's accounting officer is authorized to access SAIBA and communicate with the State Treasury: this officer has a password and access permit to State Treasury Office (KPPN), for the monitoring of financial reports. Another Satker officer is authorized to communicate with KPPN and is the official signatory for payment orders.

24. The following functional responsibilities will be performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) functions of ordering, receiving, accounting for, and paying for goods and services are appropriately segregated; and (v) bank reconciliations are prepared by someone other than those who make or approve payments.

25. **Information Systems.** BPKP's financial accounting is carried out by a computerized system. As other government ministries and agencies, BPKP is utilizing the Institution Level of Financial Application System or SAKTI (*Sistem Aplikasi Keuangan Tingkat Instansi*) and the State Budget and Treasury System or SPAN (*Sistem Perbendaharaan dan Anggaran Negara*) to record financial transactions. Both SAKTI and SPAN are developed by the Ministry of Finance and are being used by all line ministries. As such, SAKTI and SPAN are financially integrated and able to generate the government consolidated financial reports. The applications are also used to record all recurrent and capital expenditure of BPKP and project expenditure. However, SAKTI and SPAN are not able to generate periodic financial statements. The appropriation accounts/advance accounts are manually prepared using an excel spreadsheet after extracting expenditure balances from SAKTI/SPAN. All staff in the finance and accounting units at BPKP are well trained in using SAKTI/SPAN.

26. **Budgeting.** Budgets include physical and financial targets. The budgets are prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance. The actual expenditures are compared to the budget with reasonable frequency, and explanations are required for significant variations from the budget. Approvals for variations from the budget are required in advance. Budgets are prepared by each working unit within BPKP, consolidated and reviewed by the planning unit, approved by the Head of BPKP to be submitted to MOF for final approval by the parliament. The Head of BPKP is considered as the budget user (*pengguna anggaran*). The budget user can delegate his/her authorities in using

the budget to the officers named as kuasa pengguna anggaran (KPA) or Satker. The head of a Satker is appointed through the decree issued by the Head of BPKP. The launch of SPAN, the automated financial management information system, enables management of the full cycle of budget, appropriation, allotment, execution and financial statements from 2015 onwards. The SPAN allows on-line generation in MS Excel format of: (i) the report on special account status; (ii) balance sheets on a daily and weekly basis; and (iii) the list disbursements under payment warrants.

27. **Disbursement Arrangement.** The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time),<sup>13</sup> and detailed arrangements agreed upon between the Government and ADB. Online training for project staff on disbursement policies and procedures is available.<sup>14</sup> Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

28. **Advance fund procedure.** The government will continue to use the ongoing project's financial management arrangement, including the use of the ongoing project's advance account at the Central Bank (Bank Indonesia) to facilitate the timely release of loan funds. The currency of the advance account is the US Dollar. The advance account will be administered by the MOF. The advance account will be established, managed, replenished, and liquidated in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time). The advance account is to be used exclusively for ADB's share of eligible expenditures. The EA is accountable and responsible for proper use of advances to the advance account.

29. **Statement of expenditure procedure (SOE).**<sup>15</sup> The SOE procedure will continue to be used for reimbursement of eligible expenditures or liquidation of advances to the advance account. Supporting documents and records for the expenditures claimed under the SOE should be maintained and made readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.

30. **Fund Flow Mechanism.** The additional financing will continue to use the ongoing project's fund flow mechanism.

31. **Risk Analysis and Mitigation Measures .** The following risk assessments are based on existing circumstances, staffing, and procedures, and include recommendations for risk mitigation measures. A financial management internal control and risk management assessment was carried out by the FMA. The results including the risk mitigation measures are summarized in Table 2. The pre-mitigated financial management risk level for the project is moderate. No major fiduciary risks identified in the BPKP considering: a) its role as the government internal auditor which sets benchmark on internal audit and control; b) financial management risk assessment of the BPKP concluded to be low; c) its extensive experience in the implementation of ADB-funded projects both as an EA and IA. However, key project financial management risks identified are: (a) involvement of new staff in PMU staff (due to regular staff transfers/ promotion) with no experience in managing ADB's funded projects; and (b) reliance on excel spreadsheets (and the associate risks) for preparation of project budget and financial statements. Major fiduciary risks are considered manageable and will be mitigated by: (a) ensuring a smooth hand-over and skills transfer prior to staff transfers; (b) providing financial management training to project financial

<sup>13</sup> The handbook is available electronically from the ADB website (<http://www.adb.org/documents/loan-disbursement-handbook>).

<sup>14</sup> Disbursement eLearning. [http://wpqr4.adb.org/disbursement\\_elearning](http://wpqr4.adb.org/disbursement_elearning)

<sup>15</sup> SOE forms are available in Appendix 7B and 7D of ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

management staff; (c) putting in place additional financial control procedures and providing financial management consultancy as needed; and (d) putting in place a financial management system to ensure data reliability.

32. **Conclusion.** The assessment indicates that, as a whole, the government's prevailing financial, accounting, auditing rules, and systems meet generally accepted international accounting and auditing standards. The government has adequate internal control systems and financial reporting arrangements. BPKP as the EA is currently implementing the ongoing ADB-funded project well. The overall performance of the EA in implementing financial management of the on-going project is acceptable. The post-mitigation FM risk of the overall project after the proposed action plans is *low*.



**Table 2. Financial Management, Internal Control, Risk Assessment and Mitigation Action Plan**

<b>Risk Type</b>	<b>Risk Rating</b>	<b>Mitigation Measures or Risk Management Plan</b>	<b>Responsibility</b>	<b>Timing</b>
<b>A. Country / Sector Risk</b>				
Lack of capacity at subnational level	M	a. The additional financing project will help improve PFM capacity at subnational. b. Development partners' continuous support to strengthen the public financial management systems in Indonesia through policy-based, projects, and technical assistance activities.	a. EA	a. During project implementation
Different financial system between the central and local governments	S	The additional financing project will upgrade major financial information management system that will enable inter-operability.	EA	During project implementation
Overall inherent Risk	M			
<b>B. Project Risk</b>				
<b>Human Resource and Staffing:</b> involvement of new staff in PMU staff (due to regular staff transfers/ promotion) with no experience in managing ADB's funded projects	M	Ensure a smooth hand-over and skills transfer prior to staff transfers.	EA, PMU, PIU	During project implementation
Accounting policies and procedures: reliance on excel spreadsheets (and the associate risks) for preparation of project budget and financial statements.	M	Put in place a financial management system to ensure data reliability.	EA, PMU, PIU	During project implementation
Overall Risks	M			

\* H = High; M = Moderate; L = Low or Negligible.

**Annex A**  
**The EA Financial Management Assessment Questionnaire**

Topic	Response	Potential Risk Event
<b>1. Executing / Implementing Agency</b>		
1.1 What is the entity's legal status /registration?	<i>Badan Pengawasan Keuangan dan Pembangunan (BPKP)</i> or the Indonesia's National Government Internal Auditor is a public institution of the Government of Indonesia. Under the proposed project, it is anticipated that the BPKP will have a dual role as both Executing Agency (EA) and the Implementing Agency (IA)	L
1.2 How much equity (shareholding) is owned by the Government?	It's a government entity.	L
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any. <sup>16</sup>	Not applicable	L
1.4 Has the entity implemented an externally-financed project in the past? If yes, please provide details.	BPKP has been implementing ADB's funded projects: a. Loan 2927-INO: State Accountability Revitalization Project (STAR) as the EA. b. Loan 2127-INO: State Audit Reform – Sector Development Project as an IA.	L
1.5 Briefly describe the statutory reporting requirements for the entity.	Annual report	L
1.6 Describe the regulatory or supervisory agency of the entity.	BPKP is the government supervisory agency for the government internal control system. It reports directly to the President.	L
1.7 What is the governing body for the project? Is the governing body for the project independent?	BPKP as the EA  Yes	L
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	Organisation Chart of the BPKP is attached. The structure is appropriate for the needs of the project.  Key management personnel of the BPKP include: 1. Prime Secretary 2. Deputy Head for Supervision of Regional Financial Management 3. Deputy Head for Supervision of Government Agencies for Politics, Law, Security, Human Development and Culture	L

<sup>16</sup> In such cases, consult OAI on the need for integrity due diligence on non-governmental beneficial owners.

Topic	Response	Potential Risk Event
	4. Head of Bureau for the Performance Management, Organization and Governance 5. Head of Centre for Supervisory Education and Training 6. Head of Bureau for Human Resources 7. Director for Supervisory of Regional Government-Governance 8. Head of Bureau for General Affairs 9. Head of Centre for Supervisory Research and Development	
1.9 Does the entity have a Code of Ethics in place?	Yes. As a government agency, BPKP is required to adopt and observe the 'Code of Ethic', which specifies ethical aspects. BPKP has regulation regarding code of ethic that stated in the Head of BPKP's Decree No. 1446/K/SU/2008	L
1.10 Describe (if any) any historical issues or reports of ethics violations involving the entity and management. How were they addressed?	None known	L
<b>2. Funds Flow Arrangements</b>		
2.1 Describe the (proposed) project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, government and other financiers, to the government, EA, IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	Fund flow arrangement will continue to use the ongoing project's arrangement, i.e. advance funds procedure.	L
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?	Yes.	L
2.3 Are the disbursement methods appropriate?	Yes.	L
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	Delays in disbursement from the Treasury due to upgrading of the System of State Budget and Treasury (SPAN) in the past	L
2.5 In which bank will the Advance Account (if applicable) be established?	The Central Bank of Indonesia	L
2.6 Is the bank in which the advance account is established capable of – <ul style="list-style-type: none"> <li>• Executing foreign and local currency transactions?</li> <li>• Issuing and administering letters of credit (LC)?</li> </ul>	Yes	L

Topic	Response	Potential Risk Event
<ul style="list-style-type: none"> <li>Handling a large volume of transaction?</li> <li>Issuing detailed monthly bank statements promptly?</li> </ul>		
2.7 Is the ceiling for disbursements from the advance account and SOE appropriate/required?	Yes	L
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	Yes	L
2.9 Does the PIU have adequate administrative and accounting capacity to manage the advance fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.	Yes. The current PMU, with support from a financial management consultant (FMC), has adequate capacity to handle the advance fund and SOEs procedures. The FMC will continue to provide consulting services for the additional financing.	L
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	No exposure to foreign exchange risk as no significant transaction in foreign currency transactions	L
2.11 How are the counterpart funds accessed?	The loan proceeds will finance 100% of the expenditures. The government will allocate supporting funds (instead of counterpart funds). The funds are made available annually by the DG of Budget, MOF for allocations for capital works. The funds are accessed using SPM (Payment Order) and SP2D (Fund Disbursement Order) issued by the responsible government agency (KPKN- dedicated bank account)	L
2.12 How are payments made from the counterpart funds?	Transferred from Project Treasury account or directly to the account of third parties. These are accordance to Indonesian Regulations	L
2.13 If project funds will flow to communities or NGOs, does the PIU have the necessary reporting and monitoring arrangements and features built into its systems to track the use of project proceeds by such entities?	No fund flows to communities or NGOs are anticipated under the proposed project	L

Topic	Response	Potential Risk Event
2.14 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor or material), are proper guidelines and arrangements formulated to record and value the labor or material contributions at appraisal and during implementation?	No.	L
<b>3. Staffing</b>		
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	At the Satker level there are 2 officers - 1 for treasury and 1 for verification functions (their level is at par with the PPK)	L
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	Yes, the existing staff will be assigned. However new staff without previous experience in implementing ADB's funded project may be assigned due to regular staff transfers/promotion.	L
3.3 Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key existing accounting staff.	<p>At the Satker level, Treasury will have at least 2 Accountants and Verification will have at least 2 staff for every project.</p> <p>The accounting staff to be assigned to the PIU is expected to be as below:</p> <ul style="list-style-type: none"> <li>• Senior Accountant – overall supervision of finance and accounting function of the project;</li> <li>• Two Accountant – supervise/ carry out project financial and accounting activities;</li> <li>• Two Verification Staff/the Management Assistants – possessing of payments and other transactions of the project, stock record and inventory maintenance, accounting and book-keeping, record keeping, etc. on full-time basis. The restricted number of personnel in this category may create issues over segregation of duties and internal check hence appropriate risk mitigation measures would need to be introduced.</li> </ul>	L
3.4 Is the project finance and accounting function staffed adequately?	Yes	L
3.5 Are the project finance and accounting staff adequately qualified and experienced?	Yes	L
3.6 Are the project finance and accounting staff trained in ADB procedures,	Yes.	L

Topic	Response	Potential Risk Event
including the disbursement guidelines (i.e., LDH)?		
3.7 What is the duration of the contract with the project finance and accounting staff?	The staff is government permanent employee with retirement age of 58 years.	L
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	None currently.	L
3.9 For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions.	Considering the size and scope of the additional financing will be almost doubled from the ongoing project, additional staff will be needed to support the Accounting and Finance: <ul style="list-style-type: none"> <li>• 2 Accountant</li> <li>• 1 Procurement specialist</li> <li>• 2 Finance Assistant</li> </ul>	M
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes	L
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	Staff turnover only takes place due to periodic staff transfers as per the government policy. Otherwise, the turnover due to resignation/ retirement is very minimal.	L
3.12 What is training policy for the finance and accounting staff?	Annual training plan has been formulated by BPKP.  Training opportunities have been made available to the staff as and when necessary e.g. training of treasury accounting, budgeting, procurement, internal control, etc.	L
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	Treasury, finance management, internal control, monitoring and procurement training	M
<b>4. Accounting Policies and Procedures</b>		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what	Yes, the government is using a computerized financial system including to support financial management for the project by using SAI application, SAKPA application, SIMAK BMN application (for the Government asset), and SPAN for treasury and budgeting system.	L

Topic	Response	Potential Risk Event
accounting system will be used for the project?		
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes	L
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	Yes	L
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes, however, preparation of project financial statements relies on excel which may not be entirely reliable and accurate.	M
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	Yes	L
4.6 Describe the EA's policy for retention of accounting records including supporting documents (e.g, ADB's policy requires that all documents should be retained for at least 1 year after ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?	Yes  As per prevailing government practice, all documents and records should be retained for minimum five (5) years, while softcopy usually only 1 year.	L
4.7 Describe any previous audit findings that have not been addressed.	All audit findings have been addressed. Until now, BPKP received unqualified opinion from the supreme audit board (BPK)	Low
<b>Segregation of Duties</b>		
4.8 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers?	The level of segregation of duties seemed satisfactory. The functions of the accounting and finance division have been distributed in order to execute and record the transaction with adequate 'internal check' by Inspectorate of BPKP.	L
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes, there are financial budget items (MAK)	L
<b>Budgeting System</b>		

Topic	Response	Potential Risk Event
4.10 Do budgets include physical and financial targets?	Yes. there is TFK (physical and financial targets) and RFK (physical and financial realization)	L
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes, there are detailed budgets for each activities, called RAB (Rincian Anggaran Biaya)	L
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Yes  Actual expenditures are compared to the budget with reasonable frequency. In the event any expenditure is to exceed the approved budget, it's necessary sufficient explanations and prior approval is obtained by BPKP from the DG of Budget, and the budget allocations are amended accordingly, with revising the total approved budget for the year (i.e. through revised DIPA)	L
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	in advance	L
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	No Variation from budget should be prior approved Variation upto 10% of the contract value is approved by the PPK, while for variations beyond this approval is not given in the Indonesian law For loan project, every contract variation is reported to the lender	L
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	Budgeting PIU, consolidated by the PMU and submitted to the DG of Budget, MOF	L
4.16 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Yes, planning and budget preparations are made after consultations with and obtaining proposals from each PIUs of the BPKP through appropriate role-sharing, however, for project budgeting process, it will be done through an excel which may not be reliable.	M
4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?  Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?	A number of meetings within small teams are commenced to develop the project work plan and associate budget. The budgets are based on the close to actual cost on the level of activity and commonly, refers to the standard rates from Ministry of Finance (e.g. Standar Biaya Masukan). Budget preparation takes place under the supervision of the Inspectorate of BPKP. However, as it	M



Topic	Response	Potential Risk Event
<p>Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects?</p> <p>What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?</p>	will be conducted on an excel spreadsheet, it may not be reliable.	
<b>Payments</b>		
<p>4.18 Do invoice-processing procedures require: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations? (v) Checking authenticity of invoices and supporting documents?</p>	<p>(i) Yes;  (ii) No;  (iii) Yes;  (iv) Yes</p>	L
<p>4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?</p>	Yes. Stamped "PAID" with the date listed. Account code is assigned prior to payment. Validation process of data entered is compared with the manual records and any corrections affected prior to processing it.	L
<p>4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?</p>	Yes	L
<b>Policies and Procedures</b>		
<p>4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?</p>	Both BPKP and the project follow accrual accounting	L
<p>4.22 What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?</p>	Government Accounting Standard	L
<p>4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?</p>	Yes, the project follows the Ministry of Finance guidelines	L
<p>4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?</p>	Yes	L

Topic	Response	Potential Risk Event
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	The establishment of introduction of new procedures and policies takes place at the Central Government level. Under the Ministry of Finance usually execute accounting policy changes for the public entities.	L
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes	L
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Covered by Indonesian law. Establishment Code and Financial Regulations address safeguards relating to 'Conflict of Interest'.	L
4.28 Are manuals distributed to appropriate personnel?	Yes	L
4.29 Describe how compliance with policies and procedures are verified and monitored.	The compliance aspect is addressed mainly through the annual external audit carried out by the BPK and the Inspectorate of the BPKP.	L
<b>Cash and Bank</b>		
4.30 Indicate names and positions of authorized signatories for bank accounts. Include those persons who have custody over bank passwords, USB keys, or equivalent for online transactions.	Kuasa Pengguna Anggaran (Project Manager) and Treasury Manager	L
4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	Yes	L
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes	L
4.33 Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	Yes, all bank accounts reconciliations are on a monthly basis	L
4.34 Are all reconciling items approved and recorded?	Yes	L
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes	L
4.36 Are there any persistent/non-moving reconciling items?	No unreconciled items were noted in the bank reconciliation prepared for main bank account.	L
4.37 Are there appropriate controls in safekeeping of unused cheques, USB	Yes	L

Topic	Response	Potential Risk Event
keys and passwords, official receipts and invoices?		
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No, only for daily requirements	L
4.39 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	1 or 2 only. Personnel have to be registered by the Ministry of Finance	L
<b>Safeguard over Assets</b>		
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	Procedures to use the SIMAK BMN Application, Monitoring of assets and Audit of assets	L
4.41 Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	Yes. BPKP maintains a Fixed Assets Register, which is updated regularly. Assets are coded based on common Government coding method, which is indicated in the register. The Register also indicates the location, where the asset is held. None of the assets are under lien or pledge.	L
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	Yes	L
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	Quarterly and Annually	L
4.44 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analyzed and resolved?	Yes	L
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to locate lost, or repair broken assets?	Ministry of Finance has to approve disposal of assets (for more than 300,000 IDR)	L
4.46 Are assets sufficiently covered by insurance policies?	Not all	M
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	They are separated from active use and there is an independent process for disposal through a separate report	L
<b>Other Offices and Implementing Entities</b>		
4.48 Describe any other regional offices or executing entities participating in implementation.	BPKP Representative offices in each provinces level	L

Topic	Response	Potential Risk Event
4.49 Describe the staff, their roles and responsibilities in performing accounting and financial management functions of such offices as they relate to the project.	The BPKP Representatives have adequate qualified staff who look into the finance function.	L
4.50 Has the project established segregation of duties, controls and procedures for flow of funds and financial information, accountability, and reporting and audits in relation to the other offices or entities?	Yes  The BPKP Representatives who will deliver Accountability Report to the BPKP central. Control exercised by BPKP central	L
4.51 Does information among the different offices/ implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting system?	Yes  The representative's offices and the head office use the same accounting and reporting system	L
4.52 Are periodic reconciliations performed among the different offices/implementing agencies? Describe the project reporting and auditing arrangements between these offices and the main executing/implementing agencies.	Yes, Consolidates report by PMU	L
4.53 If any sub-accounts (under the Advance Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.	No sub-account in the Ministry	L
<b>Contract Management and Accounting</b>		
4.54 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs/deliverables of the contract?	Project-wise (not contract-wise) accounting records. Actual payments made to the contractors/ suppliers are charged to the advance account. While the gross value of the contract is not indicated in the accounting records, they are usually consistent with the physical output (value of work certified).	L
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	No. Not reconciled with the contractors regularly	M
<b>Other</b>		
4.56 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	The BPKP intend to apply same systems, controls and procedures being used for the BPKP in reporting fraud, corruption, waste and misuse, to the project too.  In this respect, the Inspectorate of the BPKP is expected to play a major role. Further, all employees within and outside of the project are expected to	L

Topic	Response	Potential Risk Event
	<p>be 'Whistle Blowers' in relation to fraud, corruption, waste and misuse of project resources.</p> <p>The annual external audit of the project may be carried out as part of the audit carried out by the BPK RI, with the approval of the ADB to carry out annual statutory audit of the project. Such a provision has to be included as a special clause in the loan agreement.</p>	
<b>5. Internal Audit</b>		
5.1 Is there an internal audit (IA) department in the entity?	Yes, internal audit function is carried out by the Inspectorate	L
5.2 What are the qualifications and experience of the IA staff?	At the minimum, the IA personnel hold a bachelor degree in accounting graduated from the State Accounting Institute (STAN) and are certified in the Mandatory Certified Internal Auditor Position (JFA); as well as certified public internal auditor; certified forensic auditors.	L
5.3 To whom does the head of the internal audit report?	Prime Secretary of BPKP	L
5.4 Will the internal audit department include the project in its annual work program?	Yes. Inspectorate conducts quality assurance of the project procurement, contract awards and payments of claims.	L
5.5 Are actions taken on the internal audit findings?	Yes, they are taken, including administrative sanctions. The Prime Secretary initiates actions on the findings reported and the Inspectorate follows up on such actions.	L
5.6 What is the scope of the internal audit program? How was it developed?	Scope is determined for technical, financial and physical aspects as per the annual action plan/ budget estimate and considers the goals, budget provisions and key functions under each goal in identifying audit fields based on risk assessment. Further, internal audit objectives are identified and the time frame and resource allocated are decided.	L
5.7 Is the IA department independent?	Yes. Reports directly to the Head of BPKP	L
5.8 Do they perform pre-audit of transactions?	No, unless specifically requested.	L
5.9 Who approves the internal audit program?	The Head of BPKP approves the internal audit plan	L
5.10 What standards guide the internal audit program?	<i>Standar Audit Intern Pemerintah (SAIP) issued by Asosiasi Auditor Intern Pemerintah Indonesia (AAPI)</i>	L

Topic	Response	Potential Risk Event
5.11 How are audit deficiencies tracked?	In the planning stages, audit plan that have been developed by internal audit unit will be communicated with the Management of organization, and in the implementation stage, through transaction verifications in detail	L
5.12 How long have the internal audit staff members been with the organization?	More than 5 years on an average	L
5.13 Does any of the internal audit staff have an IT background?	Yes Most staff in the internal audit division (Inspectorate of BPKP) are conversant with IT and can independently process data and generate reports.	L
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	Not known	M
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	Refers to the internal audit queries, not only depend on availability and completeness of records. All relevant information required for internal audit had been received from respective working units.	M
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes	L
<b>6. External Audit – entity level</b>		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes, Regularly by Independent auditor (BPK RI)	L
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No. Audit reports are usually issued 1 month after audit	L
6.3 Is the audit of the entity conducted in accordance with the International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards?	Yes Refers to International Standards on Auditing (ISA), BPK RI issues the <i>Standar Pemeriksaan Keuangan Negara</i> with the regulation No. 1/2017	L
6.4 Were there any major accountability issues noted in the audit report for the past three years?	No.	L
6.5 Does the external auditor meet with the audit committee without the presence of management?	Not known	M
6.6 Has the entity engaged the external audit firm for any non-audit	No	L

Topic	Response	Potential Risk Event
engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?		
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	No	L
6.8 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes. The Supreme Audit Board (BPK) has experience in auditing donor funded Project expenditure statements of several state organizations including ADB-funded projects.	L
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	No	L
<b>External Audit – project level</b>		
6.10 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Yes. BPK will audit the project accounts.	L
6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	No. Any recommendations made by auditors in prior projects audit reports have been followed up	L
6.12 Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	Yes. The project is subject to financial audit by the Supreme Audit Board, as an external/independent audit institution of the Republic of Indonesia in accordance with the requirement of audit of Foreign Aid Projects included in the appropriation accounts of the Ministries/Government Agencies	L
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	The terms of reference for financial audit is prepared in consultation with ADB and BPKP at the time of finalizing the loan terms and conditions.	L
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	No.	L
6.15 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes The BPK has sufficient knowledge and understanding of ADB's guidelines and procedures	L
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No.	L

Topic	Response	Potential Risk Event
<p>[For second or subsequent projects]</p> <p>6.17 Were past audit reports complete, and did they fully address the obligations under the loan agreements?</p> <p>Were there any material issues noted during the review of the audited project financial statements and related audit report that have remained unaddressed?</p>	<p>Yes</p> <p>No</p>	<p>L</p>
<b>7. Reporting and Monitoring</b>		
<p>7.1 Are financial statements and reports prepared for the entity?</p>	<p>Yes. An appropriation is prepared and submitted for audit annually</p>	<p>L</p>
<p>7.2 Are financial statements and reports prepared for the implementing unit(s)?</p>	<p>Project report FMR dan FISSA</p>	<p>L</p>
<p>7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as to be useful to management for decision making?</p>	<p>Monthly, quarterly, and annually. Yes, they are useful</p>	<p>L</p>
<p>7.4 Does the entity reporting system need to be adapted for project reporting?</p>	<p>No</p>	<p>L</p>
<p>7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?</p>	<p>Yes. The ongoing project's financial management reporting responsibilities will continue to be used.</p>	<p>L</p>
<p>7.6 Are financial management reports used by management?</p>	<p>Yes</p>	<p>L</p>
<p>7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?</p>	<p>Yes</p>	<p>L</p>
<p>7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?</p>	<p>Partly done by use of Excel spreadsheets</p>	<p>M</p>
<p>7.9 Does the financial system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?</p>	<p>Yes</p> <p>The reporting system is integrated between the physical and financial realization of the project. Physical data is usually higher because of constraints of financial data due to disbursement issues</p>	<p>M</p>



Topic	Response	Potential Risk Event
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	Yes. BPKP has been the EA/IA for L2927-INO and L2127-INO.	L
<b>8. Information Systems</b>		
8.1 Is the financial accounting and reporting system computerized?	Yes. The financial accounting is computerized. The BPKP, similar to all Government Departments and Ministries uses SAKTI ( <i>Sistem Aplikasi Keuangan Tingkat Instansi</i> ) and SPAN ( <i>Sistem Perbendaharaan dan Anggaran Negara</i> ) to record financial transactions.	M
8.2 If computerized, is the software off-the-shelf, or customized?	Customized by the Ministry of Finance	M
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	Yes. Integrated and used by all departments/ministries	M
8.4 How are the project financial data integrated with the entity financial data? Is it done through a module in the enterprise financial system with automatic data transfer, or does it entail manual entry?	At present, project expenditure data is included with that of the BPKP expenditure in the appropriation account. The appropriation account identifies Foreign Aid Project expenditure separately from that of BPKP.	M
8.5 Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	SAKTI and SPAN is used to record all recurrent and capital expenditure of BPKP and project expenditure. However, SAKTI and SPAN does not generate periodic financial statements - the appropriation accounts/ advance accounts which are manually prepared using Excel spreadsheet after extracting expenditure balances from SAKTI/SPAN.	M
8.6 Can the system automatically produce the necessary project financial reports?	No. Manual intervention is required to prepare project financial reports. SAKTI/SPAN facilitates generating expenditure statements in relation projects.	M
8.7 Is the staff adequately trained to maintain the computerized system?	Yes. All finance and accounts division staff at BPKP are trained on using SAKTI/SPAN	L
8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Yes, there is safeguard over data confidentiality, integrity and availability related access to SAKTI/SPAN.	L
8.9 Are there back-up procedures in place?	Yes	L
8.10 Describe the backup procedures – online storage, offsite storage, offshore	Online and offsite	L

Topic	Response	Potential Risk Event
storage, fire, earthquake and calamity protection for backups.		

H = high, S = substantial, M = moderate, L = low.

BPKP = Badan Pemeriksa Keuangan dan Pembangunan (Central Government Internal Auditor), DIPA = Daftar Isian Pelaksanaan Anggaran (State Budget Appropriation), EA = executing agency, O&M = Operation and Maintenance, PIU = project implementing unit, PMU = project management unit, SAKTI = Sistem Aplikasi Keuangan Tingkat Instansi (Financial Application System at Ministry/Agency's Level), SPAN = Sistem Perbendaharaan dan Anggaran Negara (State Budget and Treasury Application System), SIMDA = Sistem Informasi Manajemen Keuangan Daerah (regional financial management information system).