

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC58807

Project Name	Strengthening Internal Audit
Region	EAST ASIA AND PACIFIC
Country	Indonesia
Sector(s)	General public administration sector (100%)
Theme(s)	Public expenditure, financial management and procurement (100%)
Lending Instrument	IPF
Project ID	P159448
Borrower Name	ASOSIASI AUDITOR INTERN PEMERINTAH INDONESIA (AAIPI)
Implementing Agency	ASOSIASI AUDITOR INTERN PEMERINTAH INDONESIA (AAIPI)
Environment Category	C - Not Required
Date PID Prepared	07-Jun-2016
Estimated Date of Approval	30-Sep-2016
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

The country partnership framework (CPF) aims to support government priorities to enhance investments in infrastructure, improve the quality of service delivery (notably in health and education), and increase revenue collection as a share of GDP. The proposed technical assistance is aligned with the Bank's engagement strategy for Indonesia to strengthen the public sector by enhancing public financial management. This will support the Government's objective to 'Collect More and Spend Better' by supporting the PFM processes that can contribute to efficient budget execution, transparency and accountability in public spending. The Regional Engagement Note of Governance Global Practice also focuses directly on improving the capacity of country institutions.

Sectoral and Institutional Context

The proposed activity is consistent with the Ministry of Finance's Medium Term Strategy Note, as updated in 2014, which aims to strengthen capabilities of the Government in budget preparation, budget execution, accounting, financial reporting and auditing, public procurement, ICT integration, tax administration, change management, and inter-governmental fiscal relations. This is part of the overall PFM MDTF program. Since the General Election in October 2014, the new government of President Jokowi has emphasized its priorities to collect more revenue and to improve the quality of expenditures. It has requested the Bank's assistance to support this agenda through both analytical and advisory services and investment lending operations.

The strengthening of internal audit institutions as one of the main accountability institutions is an integral part of the PFM reform agenda of the country. It is also consistent with the Bank's overall governance engagement strategy of supporting anti-corruption efforts.

Recently, the President of Indonesia, Mr. Joko Widodo requested internal audit practice in Indonesia to be a world class internal audit by 2019 (IA-CM/ Internal Audit Capability Model level 3). To achieve this target, The GOI has requested support from the Bank through PFM MDTF with Asosiasi Auditor Intern Pemerintah Indonesia (AAIPI) as the implementing entity.

This support will be provided to Asosiasi Auditor Intern Pemerintah Indonesia (AAIPI). AAIPI was established in 2012 as professional organization of government internal auditors based on article 52 of Government Regulation no 60/ 2008. Since its establishment, it has completed the development of government internal audit standards, peer review standards and code of ethics. These were supported through The World Bank Development Policy Loan. Since then, the Government of Indonesia (GOI) has been striving to improve AAIPI, but the speed has been slow. Strong internal audit function in the country will contribute to better transparency and enhanced controls leading to increased revenue collection and improved governance in budget spending. AAIPI provides the professional competence to the government internal auditors by exposing them to international standards and practices.

Relationship to CAS/CPS/CPF

The CPF identifies the need for improving efficiency, transparency and accountability in the use of public funds as being crucial for better spending and improving infrastructure investment and service delivery. This TA will contribute to addressing the governance challenges mentioned in the SCD and links directly with the CPF pillar of 'Collecting More and Spending Better' through the common objective of strengthening the control environment for effective utilization of Government's financial resources. Controls can be strengthened by empowering internal audit institutions as one of the accountability institutions and AAIPI helps in enhancing professionalism through support for the use of international standards and modern auditing techniques.

II. Project Development Objective(s) Proposed Development Objective(s)

The primary objective of our engagement is to contribute to government's efforts to improve the capacity of the internal audit institutions to meet the level 3 of IA-CM requirements.

Internal Audit Capability Model (IA-CM) is a framework that identifies the fundamentals needed for effective internal auditing in government and the broader public sector. It illustrates the levels and stages through which an intern audit activity can evolve as it defines, implements, measures, controls and improves its processes and practices. The IA-CM provides a road map for continuous improvement in processes and practices to establish effective internal auditing in an organization.

There are 5 capability levels in IA-CM, where level 1 is the lowest with no sustainability and high dependency on individual efforts and level 5 is the inspirational level. Level 3 is where internal audit management and professional practices are uniformly applied and the practice generally conforms to the internal audit standards and an established Quality Assurance Improvement Program (QAIP) .

Level 3 of IA-CM requires advisory services and performance audit to be practiced uniformly and the use of risk based audit plan within the internal audit institutions. To ensure such internal audit professional practice, qualified IA-CM assessors and certified QAIP reviewers should be available to support such transformation.

Key Results

The PDO indicators can be measured through the following:

1. Adoption of Performance audit guidelines by BPKP
2. Number of AI-CM assessors certified by Institute of Internal Auditor (IIA)
3. Number of QAIP reviewers certified by IIA
4. The use of risk universe and risk based audit for annual audit plan in BPKP

III. Preliminary Description

Concept Description

The fund will be used to finance: (i) piloting the use of IT to do internal audit of data coming from IFMIS system in IG MoF; (ii) development of performance audit guidelines and distance learning website to speed up the training of all government internal audit staffs in the country; (iii) the certification program for: (a) IA-CM assessors certification; and (b) Quality Assurance Improvement Program from Institute of Internal Auditor global; (iv) capacity building to implement risk universe, risk based planning and information technology in government internal audit daily work; (v) establishment of E learning for internal audit standards, code of ethics, peer review standards and performance audit; (vi) internal control workshop; (vii) implementation support on COSO and IA-CM at local governments level; (viii) Independent validation of BPKP IA-CM self-assessment; and (ix) development of AAPI membership database.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	

Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	1	Total Bank Financing:	0
Financing Gap:	0		
Financing Source		Amount	
Borrower		0	
Indonesia - Support Public Financial Management		1	

VI. Contact point

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