

INDONESIA SOCIAL ASSISTANCE REFORM PROGRAM

Fiduciary Systems Assessment

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I. Executive Summary

1. **The Fiduciary System Assessment (FSA) of the Program has concluded that, subject to the implementation of the Program Action Plan to mitigate the identified risks, the overall fiduciary framework is adequate to support Program implementation and to achieve the desired results.** The FSA comprised an assessment of the fiduciary risks relating to: (i) procurement; (ii) financial management; and (iii) governance (including fraud and corruption risks) relevant to the Program. The overall fiduciary risk is rated as **Substantial**.

2. **The assessment has confirmed that the program has satisfactory arrangements** to identify and capture program expenditures by organization, function, program, and activities using the Government budget classification and chart of accounts. There are three major expenditures for the program: i) Conditional Cash Transfers; ii) Consultants/Facilitators fees; and iii) Fee for CCT transfer. The main program expenditure is CCT providing cash transfer to beneficiaries. PMU transfers the fund to beneficiaries through PT. Post Indonesia or through Commercial (Government) Banks. The Post Office and the commercial bank in Jakarta will distribute the beneficiaries list to all post office Payment points or bank representatives at local level. The beneficiaries withdraw the fund at nearest post office or nearest bank branch. Ministry (MOSA) financial statement are prepared and budget execution reports can be prepared for the program. Since PKH is a major program for MOSA, this is always part of the audit sample for external audit due to the size of the program. PMU can compile the program expenditures, especially for CCT expenditures from facilitators at sub-district level. The facilitators submit a reconciliation reports to PMU after each payment.

3. **The procurements during the last three year processes were generally carried out in timely manner.** The procurement carried out by MoSA is governed by the Presidential Regulation (*Perpres*) No. 54/2010 on Government Procurement, last amended through *Perpres* No. 4/2015, and its technical guidelines and operational technical provisions for electronic procurement. The *Perpres* sets out the main principles which aim to make procurement efficient, effective, transparent, open, competitive, fair, and accountable, which is in line with the fundamental principles of public procurement. The Program does not envisage any large value contracts that could exceed the OPRC Threshold. The procurement under the program is expected to involve the procurement of goods and services other than consulting services. The total procurement expenditure is expected to be around 2% of total program expenditure and will be carried out through competitive bidding.

4. **Like most CCT program, PKH particular implementation challenges from a governance and anti-corruption perspective.** It is large in scope, with 6 million beneficiaries and a high volume of financial transactions. It is politically high-profile and engages multiple government actors at the national and sub-national levels. And by targeting the poorest of the poor, project locations are often in remote and inaccessible areas, exacerbating implementation challenges and increasing risk.

5. **The assessment identified the following key risks:** The external auditors have expressed a disclaimer on the 2015 financial statements of MOSA stating that the flow of funds could not be traced adequately to the end beneficiaries and that reasonable assurance was lacking on the ending balance in post office accounts. The main risks are: (a) lack of an automated system to record and reconcile data of payments to beneficiaries; (b) inadequate follow up on external audit findings; (c) need to improve program internal controls; (d) addressing interim mitigation measures until MIS implementation; (e) absence of complaint handling mechanism could be a deterrent to bidder's participation in bidding; (f) Risk of Noncompliance to Bank's list of debarred/temporarily suspended firms; and (g) Interference or errors in the payment process and (h) Detection Risks.

6. **Mitigation Measures:** These are proposed to be mitigated through: (a) implementation of an MIS to capture detailed data at beneficiary level; (b) monitoring of implementation of external auditor recommendations with support of the Inspector General of MOSA; (c) instituting periodic internal audit of the program; and (d) enforcing timely submission of payment realization reports by facilitators including confirmation of receipt of payments by beneficiaries; (e) MOSA To develop a procurement complaint handling mechanism, consistent with Government regulations; (f) MOSA to put in place a mechanism so as to ensure that the ULPs at each of procurement process checks and records in the file that the recommended firm is not on the Bank's list of debarred and temporarily suspended firms. (g) The recent move towards delivering payments through cash cards can help mitigate most of the concerns regarding payment disbursements to the correct beneficiaries and improve liquidation process, and mitigate the risk of facilitators "taxing" beneficiaries (h) In addition to existing controls already in place in MOSA, it is recommended to PT. Post's internal audit unit and MoSA IG to have selected verification of payments to beneficiaries during the audit assignment

7. **Fiduciary inputs for Program Action Plan:** Based on fiduciary assessment, the following areas are considered for compliance/institutional strengthening as part of Program Action Plan: (a) Develop an Integrated Management Information System which include information on payment realization; (b) To take follow up action on BPK audit findings and recommendation; (c) to conduct internal audit of the Program by IG, MOSA; (d) Enforcing timely submission of payment realization reports by facilitators (including confirmation that beneficiaries have received the fund) during transition to MIS to improve internal controls.

II. Introduction

8. **This is an assessment of the fiduciary arrangements of Government of Indonesia's PKH Program in accordance with the World Bank's OP/BP 9.0 to determine suitability of the application of the Program for Results (PforR) instrument and to mitigate fiduciary risks of the proposed Program.** This document contains summary findings on the Fiduciary Systems Assessment (FSA). In accordance with "PforR Financing Interim Guidance Notes" a FSA was carried out that evaluated the fiduciary systems pertaining to the Program to determine whether they provide reasonable assurance that the Program funds will be used for their intended purpose.

9. **The objective of the proposed World Bank operation is to enhance the results of the PKH CCT program by supporting coverage expansion, strengthening delivery system, and improving coordination with other complementary social programs.** The proposed Program would be a US\$ 200 million loan from the International Bank for Reconstruction and Development using a PforR lending instrument, and would be implemented over a period of four years (2017-2021). The disbursement of funds under the PforR modality will be linked to DLIs tied to three result areas: i) Expanding coverage and improving equity of the CCT program; ii) Strengthening the program delivery system to improve efficiency, transparency, and accountability; and iii) Improving access to complementary services by the CCT beneficiaries.

10. **Program fiduciary risks are substantial.** The government has existing fiduciary controls that will be used for the Program. However, the Program entails a rapid expansion of the CCT program in a short span across the country and in scope of beneficiaries. The design of the CCT is very complex given the release of grants to beneficiaries in scattered areas and challenging locations. In addition, review of the 2015 audited financial statements of MoSA showed that the auditors rendered a disclaimer opinion to the financial statements with significant observations on the CCT program.

11. **The FSA concluded that, subject to the implementation of the Program Action Plan to mitigate the identified risks, the overall fiduciary framework is adequate to support Program implementation and to achieve the desired results.** The FSA comprised an assessment of the fiduciary risks relating to: (i) procurement; (ii) financial management (FM); and (iii) governance (including fraud and corruption risks) relevant to the Program. The objective of the FSA is to provide a reference that can be used to monitor fiduciary systems performance during the Program implementation and identify actions, as needed, to enhance those systems.

12. **The overall objective of the assessment is to ascertain whether the program systems provide reasonable assurance that the financing proceeds will be used for intended purposes.** The assessment is conducted with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability and whether the systems are adequate to achieve its expected objectives and results within their specific areas. In particular, it reviews the capacity of the implementing agency to manage the program which include to plan, budget, execute, record, control, and produce timely, relevant, and reliable financial information. It examines whether the Program expenditure framework is comprehensive, clearly defined, and part of the borrower's regular FM processes. It also identifies the key strengths and weaknesses of the system which may have an impact on the achievement of the overall PDO. Procurement systems, procedures and policies are also reviewed in detail to cover each step of the procurement cycle – planning, tendering, evaluation, and award and contract management.

13. The FSA has been carried out through a review of documents, regulations, review of procurement and financial records, collection and analysis of data, interviews with MoSA's staff in various function, i.e. commitment officer (*Pejabat Pembuat Komitmen/PPK*), payment unit, inspector general, field facilitator, district consultant, provincial consultant, procurement committee, planning staff, PT Pos Indonesia's officers (VP and PKH Manager).

III. Assessment of Program Fiduciary Systems

(i) Legal Framework

14. *Program Keluarga Harapan (PKH)* is a conditional cash transfer program. It is a national program and implemented since 2007. PKH is implemented by multiple agencies at national as well as local level. The program implementation is coordinated by Program Management Unit (PMU) under DG SAF, MoSA. In order to implement PKH, there are three laws which form the basis for public financial management (PFM) framework: i) Law no 17 year 2003 on State Finance; ii) Law No. 1 year 2004 on State Treasury; and iii) Law no 15 year 2004 on State Financial Management and Accountability. A new structure of MOSA is based on Presidential Decree No. 46 year 2015.

15. The procurement of goods, works, consultant services and non-consultant services carried out by MoSA is governed by the Presidential Regulation (*Perpres*) No. 54/2010 on Government Procurement, last amended through *Perpres* No. 4/2015, and its technical guidelines and operational technical provisions for electronic procurement. The *Perpres* sets out the main principles which aim to make procurement efficient, effective, transparent, open, competitive, fair, and accountable, which is in line with the fundamental principles of public procurement. The Regulations provide for use of competitive procurement methods as the default requirement, while non-competitive methods may be used for very small value procurement and under certain circumstances and conditions described in the Regulations. Foreign firms are allowed to participate in bidding for contracts estimated to cost more than IDR 20 billion (equivalent to USD 1.5 million) for goods and non-consulting services; however given the values and the geographically dispersed implementation of the contracts that are expected to be procured under the Program, it is unlikely that foreign bidders would be interested or suitable for participating in bidding for the contracts.

16. The use of the LPSE e-procurement system is mandated for procuring contracts exceeding IDR 200 million (equivalent to US\$ 16,000). A wide range of Standard Bidding Documents are available for use by the procuring agencies. Dedicated procurement services units (ULPs) are required to be established for carrying out the procurement in each agency. The results of contract award are also required to be published in a national website. Government officials and local private sector suppliers and consultants are familiar with the existing procurement framework. The *Perpres* also include provisions for handling complaints, resolution of disputes, as well as remedies for breaches in integrity during the procurement process. The Government is currently in the process of preparing a new procurement regulation which will replace *Perpres* No. 54/2010 with the aim to further simplify and streamline the procurement procedures.

(ii) Planning and Budgeting

17. The planning and budgeting process is assessed as adequate and the risk is moderate. The program covered 3 million families in 2016 and plans to cover 6 million in 2017. MoF needs to double the budget to cover more beneficiaries. There is a risk that the government does not have enough budget to cover more beneficiaries. Currently the government revenue has been declining. Inadequacy of budget availability encouraged the government to find other resources, including tax amnesty program and overseas financial resources such as the external donor finances.

18. PKH is included in the government plan as part of poverty reduction program. The program is budgeted annually like other government program. After decision on overall budget ceiling for the next fiscal year in June, MoSA prepares the program budget in July and submits to Ministry of Finance (MoF) for budget consolidation as other government programs. MoSA discusses the budget with relevant commission in the Parliament (DPR) during August-September. At the end of October, the Consolidated MoSA's budget work plans (RKA-KL) and final budget ceilings (broken down by organizational unit, type of expenditure, function, program and activity) are approved by a full session of the DPR and adopted as the draft Annual Budget Law (RAPBN).

19. MoF issues circulars setting out definitive budget ceilings in November. Each Line Ministry (LM), including MoSA then prepares its definitive budget work plan and discusses with the Directorate General of the Budget (DG Budget) at the MoF. These discussions cover the definitive LM budget work plan and supporting documents, including Terms of Reference (ToR) and the Expenditure Plan (RAB). Then DG Budget approves the Budget per Work Unit document (SAPSK) and submits this to the Directorate General of the Treasury (DG Treasury) at the MoF.

20. Following the issuance Annual Budget Law (UU APBN) in December, a Presidential Decree (*Perpres*) is issued setting out the details of the budget as approved by DPR. Based on this *Perpres* and SAPSK, the LM prepares the budget authorization documents (DIPA). The LM submits these to the DG Budget which will be endorsed and forwarded to DG Treasury. The DIPAs are approved by DG Treasury and signed by echelon 1 officials in the LM. Once the DIPAs have been approved, the LM prepares budget detail or Operational Instructions (POK), which are internal operational guidelines for the work units that elaborate on what is contained in the LM Budget Work Plan for the next fiscal year. Due to limited resources, PKH has not covered yet all the poorest people.

(iii) Treasury Management

21. The treasury management system for the program is adequate. The system has reasonable time to transfer the fund from the treasury office to the third parties or to the beneficiaries through Post Office/Government Banks at reasonable time. There is a risk on payment delay if PMU submits incomplete

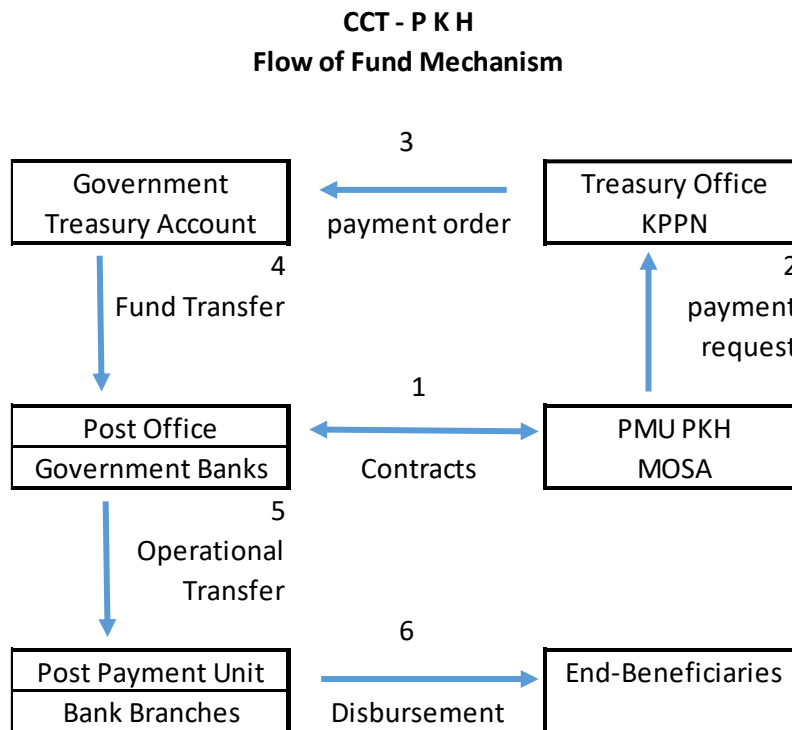
documents. A check list of required supporting documents helps PMU to submit the documents to KPPN completely.

22. The program follows existing government treasury system. A new treasury system (SPAN) has been working effectively since 2015. Once the budget document (DIPA) is effective, the commitment officer (PPK) in MoSA can execute the budget and enter into commitments with third parties. In term of CCT fund, there are two methods of fund flow: 1) Post Office and 2) Government Banks for cashless method.

23. The PPK enters into commitments and signed a contract with a third party. PMU signs a contracts with PT Pos Indonesia and some government banks (Member of Himbara) to distribute the money to end beneficiaries. After signing the contracts, the flow of funds begins. PPK submits a payment request (SPP) to MoF Treasury Office (KPPN) through a payment officer (PPSPM). The PPSPM reviews and verifies the SPP and supporting documents. After reviewing the documents, the PPSPM issues a payment order (SPM) to the KPPN (Treasury Office).

24. KPPN reviews the SPM and checks whether the SPM is made under the relevant DIPA and is supported by adequate budget balance. The KPPN then issues a payment order/instruction (SP2D) to Government Treasury Account (GTA). The GTA transfers the funds directly to the third parties (for CCT fund to Post Office and some government banks). KPPN has one working day standard for processing SPMs when all documents are correct and complete. KPPN processes in 1-3 days in practices. The line ministry (MoSA) can monitor the payment process on-line through Treasury website. Below is the diagram depicting the flow of fund mechanism for the CCT.

Figure 1: PKH Flow of Fund Mechanism



25. PMU issues a standing instruction once the Post/Government Banks in Jakarta have received the fund. After getting the instruction, Post/Banks instruct the lowest Post Office/Bank Branches (*Cabang*) to pay/transfer the money to the beneficiary within a certain period. All recipients in one area (village or

community) normally withdraw the money on the same date at nearest Post Office. The recipients can withdraw the money any time if they received the fund in the government bank. The recipient normally withdraws the full amount. If the recipient does not withdraw the money three times after receiving the fund, the beneficiaries account becomes a dormant account at the post office. All remaining balance, including dormant account should be refunded to Government Treasury Account.

(iv) Accounting and Financial Reporting

26. As part of government program, PKH uses government accounting and reporting system (SAI) to record the overall program expenditures as well as its line item. SAI application may produce the financial reports on a regular basis quarterly, semesterly, and annually. The government has been following accrual basis of accounting since FY 2015. However, the accounting records for PKH is maintained at aggregate expenditure levels instead of details of expenditures to individual end users. In order to record individual end user expenditures, MoSA has developed simple excel based stand-alone records. The system records transactions to individual recipients by name, address and amount.

27. PMU signed a contract with PT Pos Indonesia (Indonesian Post Company) and some government banks to distribute the funds to end beneficiaries. Based on PMU instruction, the post office/government banks pays/transfer the beneficiaries in four tranches annually. In order to monitor the fund distribution, PMU hired about 25 thousand facilitators. The main roles of facilitators are to monitor fund distribution at sub-district level and to check beneficiaries' compliance to the eligibility conditions.

28. The government banks have adequate system to transfer the CCT fund through cashless method to beneficiaries account. Banks' coverage is one of weakness, especially at the remote area. It may take time before the banks have adequate coverage area. The Post Office covers area where the banks has not covered.

29. The facilitators receive the beneficiaries' list and monitor the program implementation when the beneficiaries receive the fund. There is sufficient reconciliation between facilitator and Post's record at sub-district level after each payment realization. These reconciliation reports are submitted to PMU Jakarta by email with copy to district and provincial PIUs. PMU Jakarta compiles the consolidated report manually which increases the accounting and reporting risks. It creates some discrepancies in the report compilation due to mistakes in posting figures. Currently, the PMU does not have adequate monitoring system on report compilation. There is no early warning system or red flag on payment realization. In addition, PMU does not have a feature for tracking record errors. This makes it difficult for PMU to monitor payment realization and balance refunded from the Post.

30. The Post Office has adequate system to produce payment realization report through web bases system. Post system is able to monitor payment status at each post office in all levels. Post provides payment realization reports to the PMU regularly. PMU may also access some information through on-line system. Since Post's report is more reliable, PMU uses these reports as basis for payment realization reports.

31. It is noted that BPK, as external auditor, raised some issues on the payment status such as dormant account, overpayment and remaining balance from current and previous fiscal years. As PMU does not have adequate accounting and recording system for PKH, we noted that BPK used Post Office report as a reference to the fund remaining balance, instead of PMU's report. There is a plan to develop an integrated management information system for PKH which include information on payment realization. In the interim, we recommend that PMU should enforce discipline to all facilitators to submit timely payment realization reports in agreed format. PMU should exercise a financial penalty such as allowance deduction to facilitators for late submission of reports. PMU may explore using short message (SMS) gateway on data

collection for a while prior to implementation of a new management information system (DLI-MIS enhancement).

(v) Procurement Profile of the Program

32. The procurement expenditure under the Program represents only a small fraction of the total Program value. During the period 2013 to 2015, the annual procurement spend varied between IDR 93 billion (approx. equiv. to US\$ 7 million) to IDR 131 billion (approx. equiv. to US\$ 10 million). The share of procurement in the annual Program value ranged between 1.9% to 2.6% during this period. In 2015, a total of 6 contracts were awarded by MoSA under the PKH program, ranging between USD 16,000 to USD 7.2 million per contract, the largest contract being for the services/transaction fee for distribution of the fund which represents about 83% of the total annual procurement expenditure, while the remaining smaller value contracts were for supply of supporting equipment for facilitators (uniforms, bags, etc.), IT equipment and related services (data base maintenance and upgrading IT application), rental of network, printing and distribution of PKH cards. The Program does not envisage any large value contracts that could exceed the OPRC Threshold. Also, contracts for civil works and consultant services are not expected under the Program.

(vi) Procurement Methods for Social Assistance Program

33. In practice, MoSA applies competitive bidding methods under *Perpres* No. 54/2010 to all procurement processes under the Program and using the SPSE e-procurement system. In accordance with the *Perpres*, all contracts for Goods and other services with an estimated cost more than IDR 5 billion (approximately equivalent to US\$ 385,000) were procured by MoSA following public bidding method which requires advertising of the bidding notice for at least 7 working days. This includes the largest value contract procured annually by MoSA (approx. US\$ 7.2 million equivalent, representing 83% of the total annual procurement expenditure in 2015) for the services/transaction fee for distribution of cash transfer funds. MoSA followed the public bidding competitive method even though each year only one bid was received from the Government's Postal Department, PT Pos Indonesia, which is likely due to the nature of the contract as the distribution of funds to large number of beneficiaries at the local level across the whole country requires the service provider to be licensed for providing financial services and have experience in providing social assistance services with an extensive network of nation-wide branches, including in remote rural areas. The selection of a Government agency, in this case PT Pos Indonesia, a State Owned Enterprise (*Perseero*) reporting to the Ministry of SOEs, is considered to be appropriate for provision of the fund distribution services under the Program. The contract for supporting equipment for facilitators (i.e. uniform and bags, approx. US\$1.1 million equiv., representing 12% of the total annual procurement expenditure in 2015) was also procured through public bidding method.

34. For the remaining smaller value contracts of non-complex nature with an estimated cost between IDR 200 million (equivalent to US\$ 16,000) and IDR 5 billion (equivalent to US\$ 385,000), MoSA followed the simplified competitive bidding method which requires advertising of not less than 3 working days. This includes procurement of IT equipment and related services, renting of network, and printing and distribution of PKH cards, which cumulatively represents about 5% of the total procurement expenditure in 2015.

35. While MoSA also engages a large number of individuals as Facilitators under the Program, the recruitment of the Facilitators is carried out by MoSA based on the Government's staff recruitment framework, and thus for the purpose of the Bank financed program the recruitment of Facilitators will continue to be carried out in accordance with the Government's applicable staff recruitment procedures and is not a procurement activities and hence not considered in this assessment.

36. Based on the data provided by MoSA, all contracts for goods and non-consultant services under the Program in 2015 were procured through competitive methods, with 95% of the contracts by value procured through the public bidding method and 5% through simplified bidding method.

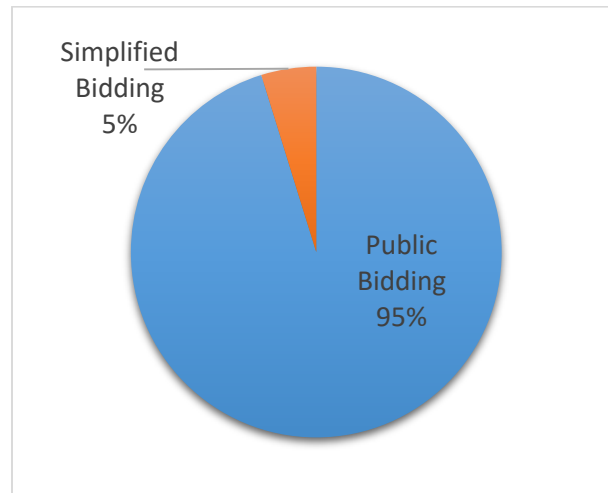


Figure 2. Procurement Expenditure by Method for Year 2015

(vii) Evaluation and Award Criteria

37. The procedures for qualification, evaluation and award are relevant and non-discriminatory. The pass/fail evaluation under *Perpres* 54/2010 criteria was mostly used by MoSA for the procurement of goods/other services, while scoring evaluation system and life time economic value evaluation system are applied for complex procurement goods/other services.

(viii) Procurement Organization and Capacity

38. The procurement process of goods and other services under the Program is carried out in the central procurement unit at MoSA's head office (*Unit Layanan Pengadaan/ULP*). The procurement is required to be carried out by procurement accredited staff in the ULP, whose certification is valid for three years and can be extended by the National Public Procurement Agency, LKPP, if they are still working as procurement staff. MoSA's ULP in the Head Office currently consists of 34 procurement accredited staff, while another 62 procurement accredited staff are working in MoSA's regional offices across the country. The ULP in the head office has been managing all procurement packages (works/goods/other services and consulting services) under the Program, and its current staffing level and capacity is considered adequate for meeting the continuing procurement needs of the Program.

(ix) Procurement Performance

39. The information provided by MoSA on the procurement processes of contracts awarded over the last three years indicates that the time period allowed for bid submission is consistent with the requirements of the *Perpres* as 8–16 days were provided for public bidding and 6–11 days for simplified bidding. The level of competition, in terms of number of bidders submitting bids, generally ranged from 3–4 bidders per bidding package, while a much larger number of firms (12–62) registered in the LPSE e-procurement system and viewed the bidding documents. However, in the case of the largest contract for services/transaction fee for distribution of the fund, there was only one bid received from PT Pos Indonesia, which as explained

earlier is likely due to the particular nature of these services which the postal department seems to be strongly positioned. MoSA took between 12–24 days for public bidding and 8 – 15 days for simplified bidding from advertisement to contract award, and a further 2–11 days from contract award to contract signing, which indicates that the procurement processes were carried out in a timely manner.



Figure 3. Timelines from Advertisement to Bid Submission and Number of Bids Received (2013 – 2015)

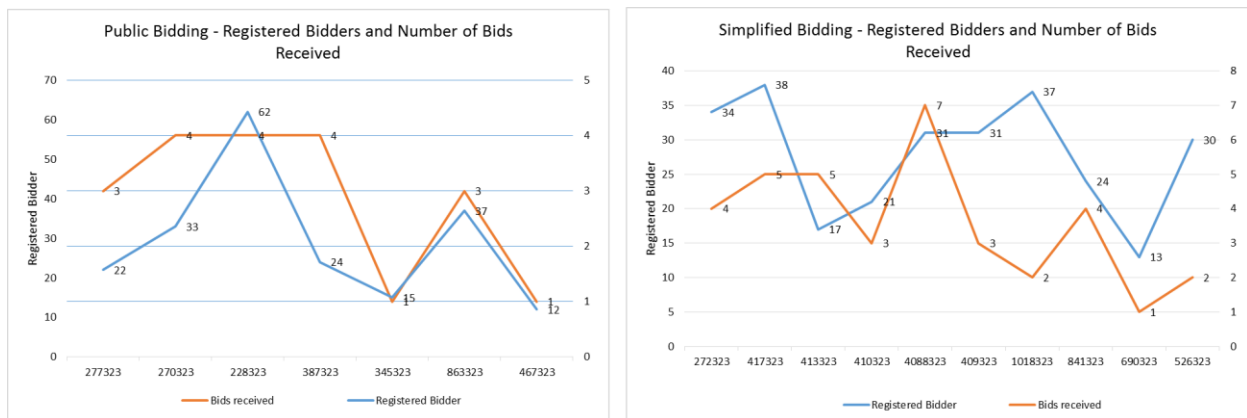


Figure 4. Registered Bidder and Number of Bids Received (2013 – 2015)

40. Though the contract implementation data for past three years was not readily available during the assessment, MOSA informed that normally there are no major cost or time overruns during the contract execution.

(x) Internal Controls

41. The internal control system at the national level follows existing government system. Government issued a Government Regulation No. 60/2008 and adopted COSO as its control framework in August 2008. BPKP has collaborated with the Inspector General (IG) MoSA to ensure they are providing support to MoSA in strengthening controls. There is no study yet on the effectiveness of COSO implementation in MoSA. The risk relating to internal controls is substantial and can be mitigated through steps discussed later in this section.

42. PKH beneficiaries list is based on Unified Data Base (UDB). The UDB is Indonesia’s social registry that is currently managed by poverty reduction unit (TNP2K), under Office of the Vice President. PMU, MoSA prepares the list and distributes it to social unit (*Dinas*) at local government as well as the

payment agent (Post Office and the government banks). The list has information included by name, identification number and address of beneficiaries.

43. *Dinas* at local level, works together with program facilitators to cross-check the eligibility and inform the beneficiaries for further processes on the cash method. The Post Office Jakarta will create beneficiaries' account in the system and distribute the list to all post payment units through district post offices. The post payment unit will pay the fund to beneficiaries on a certain date. The post payment will only pay to the beneficiaries who are included in the system. The Post Office runs a web based system to monitor the payment process.

44. The government banks in Jakarta will transfer the fund directly to beneficiaries' account for the cashless method. The beneficiaries withdraw the fund at the nearest branch. This method just started at the end of FY 2016. The government banks have adequate internal control and transfer the fund through online system. One of the risk in this method is changing of beneficiaries' condition/status after the transfer has been done. The program mitigates the risk through facilitator who verify and conduct recertification to the beneficiaries.

45. The PMU monitors the payment process through facilitators at sub-district level. The facilitators assist and ensure that the right beneficiaries receive the fund at the right time and the right amount. Internal control at the lowest level is adequate. The recipient list is prepared and verified by two different agencies. Sub-district facilitators ensure that the post payment pay the fund to the right beneficiaries. The facilitators also conduct crosscheck whether the beneficiaries are eligible for future payments. Any movement or condition changes should be reported to PMU Jakarta for the next list preparation.

46. Inspector General (IG) of MoSA plays a role as internal auditor of the program. The IG also supervises and monitors the follow up actions of external audit findings. IG's assignment mostly involves conducting compliance audits on the operational aspects of MoSA included the PKH Program. IG audit reports are mainly submitted to the Minister. There is no audit assignment from IG to PKH in FY 2016. IG has limited assignment on facilitation which includes payment reconciliation. IG has planned to conduct an internal audit assignment of PKH in FY 2017. The audit will focus to accounting and reporting of PKH payment.

47. Based on BPK audit report, there are some internal control issues on PKH implementation, especially on monitoring and reporting of funds transfer to the end-beneficiaries. PMU need to improve the monitoring and reporting system at national level. PMU should use management information system, instead of manual system. The current manual system does not have adequate internal controls to monitor payment processes over 400 district in Indonesia. The MIS is expected to also include feature that allows facilitators to input information certifying receipt of fund by beneficiaries, the amount, and the date of the receipt. Such inputs can be aggregated at PMU level to allow better monitoring on funds receipts by each beneficiary. Implementation of better MIS will reduce the risk and improve monitoring and reporting system in the program. An improved MIS is expected in FY 2018 (DLI on MIS enhancement). Controls over payment to beneficiaries are also expected to be improved by switching to cashless payment method to beneficiary families (DLI no. 2).

48. To improve control prior to the implementation of the MIS, we recommend PMU to enforce discipline to all facilitators to submit timely payment realization reports in agreed format, including confirmation that beneficiaries have received the fund. PMU should exercise a financial penalty such as allowance deduction to facilitators for late submission of reports. PMU may also explore the use of short message (SMS) gateway on data collection.

(xi) Program Audit

49. As PKH is a major program in MoSA, BPK has conducted performance audit of the program for FY 2010-2014. The performance audit report was issued on 27 January 2016. The issues raised by the auditor included: 1) the need to enhance the role of MOSA on data base management; 2) inadequate budget to cover significant eligible participants; 3) inadequate budget sharing from local government; 4) insufficient indicator on selecting the target; 5) verification not accordance with the agreed regulation; 6) payment delay in some locations; and 7) inadequate recertification of end beneficiaries.

50. MoSA has conducted follow up action on BPK audit findings and recommendation. However, the mission noted that some actions have not completed and need further follow up, i.e. inadequate budget allocation is still exist due to limited budget availability at the central as well as at local level.

(xii) External Audit

51. Based on Law 15 year 2014, BPK as Indonesia Supreme Audit Institution has a mandate to audit all the government agencies, including MoSA. BPK has achieved many good results in public sector auditing area. It is pointed by peer review reports from Netherland SAI in July 2009 and Poland SAI in April 2014.

52. BPK audits MoSA financial statement annually. Since the PKH program has more than one third of MoSA budget, BPK always covers PKH expenditures in its financial audit scope. BPK expressed disclaimer opinion on MoSA financial statement for period ending December 31, 2015. One major qualification is that the flow of fund could not be traced adequately to the end beneficiaries and that reasonable assurance was lacking on the ending balance at the post's account. The ending balance was IDR 804.8 Billion that raised by BPK. Post has refunded 98% of BPK's findings to the treasury account. In order to solve the issue, PMU plans to enhance the management information system which include payment realization reports.

53. There is a dispute between BPK and Post on flow of fund mechanism. BPK advises that Post must transfer the fund directly from the PKH special account. On the other side, Post uses its business practices by using operational account to transfer the fund to end-beneficiaries. The operational account is used for all Post operational purposes and not just for PKH payments. Therefore, the auditor could not trace the fund to the end-beneficiaries through operational account. MoSA has reviewed the contract agreement with PT Pos on January 5, 2017 and clarify the right and obligation of both parties.

54. MoSA has conducted follow up action on BPK audit findings and recommendation. The mission has received the status follow up during the appraisal. However, there are some findings that the follow up action has not completed yet, i.e. MIS enhancement which will improve the internal control system. MOSA IG monitors the audit follow up action and provide the status of follow up to BPK regularly. BPK just launched in February 2017 web-based monitoring system on the audit findings' follow up action. Beside IG MOSA, BPK now can monitor the status follow up action directly from the web.

55. MOSA plans to improve management information system that includes reporting system on the payment realization. An improved MIS will make the payment reconciliation at national level easier and provide more reliable financial reports. The system is expected to have some features which include tracing flow of fund to beneficiaries adequately (DLI on MIS enhancement). Since PKH is a primary program for the ministry, the Bank requires financial audit of the ministry, instead of program audit. The external

auditor, BPK will include the program in the ministry audit assignment and share a copy of the audit report to the Bank.

56. The procurement process at MoSA is also audited by BPK and the assessment noted that there are no audit finding in the procurement process.

(xiii) Transparency

57. Based on Law No. 14 year 2008 regarding Transparency of Public Information, every Public Information is open and accessible by every User of Public Information. An exception to the Public Information is information that is restrictive and limited. Every Public Information Applicant shall be able to obtain Public Information fast and promptly at low cost and in a simple manner.

58. The exception is when it is classified as confidential information pursuant to the Law, ethics, and the interest of the public; based on an examination in terms of the consequences that occur if the information is provided to the public; and after careful consideration that covering up Public Information can protect a larger interest rather than opening it or vice versa.

59. Line Ministry (LM) may use electronic and non-electronic media as facilities to disseminate the information. However, it is not clear whether LM should provide the information actively, or passively (only on demand basis). There is no monitoring and evaluation from Ministry of Information whether LM follows the law and regulation on transparency of public information.

60. It is noted that MoSA provides some basic information regarding PKH in the ministry website. The information is not detailed on budget amount, location and end user information. TNP2K as government agency for acceleration on eliminating poverty, provides more information on the program than MoSA's web. Some local governments (LGs) made a complaint on availability of PKH information, since the LGs need to provide budget sharing to the program as well as some questions raised by poor families who did not get PKH. It is also noted that PKH posters are limited to local government offices. In order to improve transparency, there is a plan to make PKH information more open and accessible to all stakeholders. PMU plans to improve its communication strategy at central as well local level, develop monitoring and evaluation system, and strengthen complaint handling mechanism. PMU expects that PKH will be more transparent by implementing this action plan (result matrix and indicator on transparency).

61. Procurement plans and bidding opportunities are publicly disclosed in *Sistem Informasi Rencana Umum Pengadaan/Information System for Procurement Planning (SIRUP)* website (<https://sirup.lkpp.go.id/sirup>). The bidding reference number, package description, procuring agency, owner estimate, and location are published in the SIRUP's website. Bidding information, from advertisement to award information, including bidding schedule, name of registered bidders, quoted and evaluated prices, and bid evaluation are publicly disclosed in SPSE e-procurement system. Contract award information is also published in the national website of the public procurement agency which is freely accessible to the general public.

(xiv) Complaint Handling

61. The *Perpres* includes provisions allowing bidders to submit complaints on the procurement process, and the LPSE e-procurement system also allows complaints to be submitted through the system. During the procurement assessment, MoSA staff informed that procurement related complaints have rarely been received in the contracts awarded during the last three years, and in case of receipt of such complaint it is forwarded to the concerned ULP for action. There does not seem to be an established system in place

in MoSA for redressal of procurement related complaints, and this is an area which can be further strengthened under the Program.

(xvi) Fraud and Corruption

62. Like most CCT program, PKH particular implementation challenges from a governance and anti-corruption perspective. It is large in scope, with 6 million beneficiaries and a high volume of financial transactions. It is politically high-profile and engages multiple government actors at the national and sub-national levels. And by targeting the poorest of the poor, project locations are often in remote and inaccessible areas, exacerbating implementation challenges and increasing risk.

63. The potential major vulnerabilities of PKH along with potential mitigation measures are Interference or errors in the payment process. The program has two main exposures on fraud and corruption payment risks, especially at the lowest level. The main risk is illegal deduction of the payment from the Post payment officer and facilitator. Beside internal control procedures in the PT Pos Indonesia, PKH has set up complain handling mechanism that recipients can report and submit any issue on the payment process. The PT Pos Indonesia includes regular staff rotation and supervision to the post payment unit into PT Pos Indonesia internal control procedures. The recent move towards delivering payments through cashless method can help mitigate most of the concerns regarding payment disbursements to the correct beneficiaries and improve liquidation process, and mitigate the risk of “taxing” beneficiaries. Since the cashless method transfers the fund to beneficiaries account directly.

64. **Detection Risks:** For a big program like PKH, detection risk will continue to be a challenge as some level of fraud and corruption is inevitable because of the sheer scale of coverage. Some factors contributing to this risk are: a) funds not targeting eligible beneficiaries; b) eligible beneficiaries being excluded from the list of recipients; c) possible delays of funds transfers to beneficiaries; d) incomplete/inaccurate database of beneficiaries; e) influential beneficiaries receiving more payments; and f) failure of beneficiaries to notify the program of change of their circumstances or failure of the program to act on this information. In order to mitigate these risks, many controls are in place. The recipient list is prepared and verified by two different agencies. Sub-district facilitator will ensure that the post/banks pays the fund to the right beneficiaries. The facilitator also cross-checks whether the beneficiaries are eligible for the future payments. The Post Office has also set up internal control procedures which includes regular staff rotation and supervision of the post payments from the district post office. Control over payment to beneficiaries are also expected to be improved by switching to cashless payment method to beneficiary families (DLI no. 2). It is also recommended to Post’s internal audit unit and MoSA IG to have selected verification of payments to beneficiaries during the audit assignment. In addition, PKH has set up complaint handling mechanism that recipients can report any issue on the payment process. (DLI standardize and improved GRS). Moreover, the beneficiaries or others may raise the issue to other grievance resolution system, such as Ombusman, On-line community complaints (LAPOR), internal/external auditor and anti-corruption commission (KPK).

65. **Non Compliance to Bank’s debarred/ temporarily suspended firm:** The assessment revealed that MOSA complies with LKPP’s blacklisted firms. The Bank discussed and shared the Guidelines on Preventing and Combating Fraud and Corruption in Program-for Results Financing (ACG) with MoSA which applies to the entire Program. The Bank and MOSA also discussed MoSA’s obligations under the ACG for the Program to monitor and comply with the Bank’s list of debarred/temporarily suspended firms. The mechanism in MoSA for enforcing the Bank’s debarred/temporarily suspended firms will be discussed and agreed with MoSA during appraisal.

IV. Fiduciary Risk Assessment

66. The overall Fiduciary Risk is Substantial.

Risk	Mitigation Measure
Lack of automated system to record and reconcile data of payments to beneficiaries	Implementation of MIS enhancement to captured detail data at beneficiary level
Inadequate follow up on external findings	Monitoring of implementation of external auditor recommendations with support of the Inspector General (IG) MoSA
Need to improve program internal controls	Instituting periodic internal audit of the program
Addressing interim mitigation measures until MIS implementation	Enforcing timely submission of payment realization reports by facilitators including confirmation of receipt of payments by beneficiaries
Absence of compliant handling mechanism could be a deterrent to bidder's participation in bidding	MoSA to develop a procurement complaint handling mechanism consistent with Government regulations
Risk of noncompliance to Bank's list of debarred/temporarily suspended firms	MoSA to put in place a mechanism so as to ensure that ULPs at each of procurement process checks and records in the file that the recommended firm is not on the Bank's list of debarred and temporarily suspended firms
Interference or errors in the payment process	The recent move towards delivering payments through cashless method can help mitigate most of the concern regarding payment disbursements to the correct beneficiaries and improve liquidation process and mitigate the risk of "taxing" beneficiaries
Detection risks	In addition to existing controls already in place in MoSA it is recommended to PT Pos Indonesia's internal unit and MoSA IG to have selected verification of payments to beneficiaries during the audit assignment

V. Fiduciary Inputs for Program Action Plan

67. Based on fiduciary assessment, the following areas are considered for compliance/institutional strengthening as part of Program Action Plan: (a) Enhancement on Management Information System which include information on payment realization; (b) To take follow up action on BPK audit findings and recommendation; (c) To conduct internal audit of the Program by IG, MOSA; (d) Enforcing timely submission of payment realization reports by facilitators (including confirmation that beneficiaries have received the fund) during transition to MIS to improve internal controls.