# Indonesia-Supporting Primary Health Care Reform (I-SPHERE)

# Fiduciary Systems Assessment

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## I. Executive Summary

1. **The Program Fiduciary System Assessment (FSA) indicates that the overall fiduciary framework, particularly with respect to financial management, requires improvement to provide reasonable assurance that the financing proceeds will be used for their intended purposes with due attention to the principles of economy, efficiency, effectiveness. The overall fiduciary risk is rated as Substantial.**

2. **The Program boundaries consist of Ministry of Health (MoH) expenditures, *DAK non-fisik, BPJS* operations and capitation funds.** About 64% of the Program (with funding from *DAK non-fisik* and capitation funds) are implemented by *puskesmas* and local governments (LGs). Based on the Assessment, financial management of utilization of capitation funds (40% of Program boundaries in FY 2017) by *puskesmas* varies. No monitoring is conducted of the utilization of capitation funds by both MoH or *BPJS*. Weak implementation is found in the eastern part of Indonesia, while implementation in the western and central parts of Indonesia is considerably better. *Puskesmas*[1] financial management capacity depends in large part on local government capacity. FY 2015 and 2016 *BPK* audit reports of selected LGs[2], find weak budget execution, weak inventory management in *puskesmas* and weak management[3] of capitation funds[4] received from *BPJS* in the eastern part of Indonesia. The FSA also finds that there is weak[5] monitoring of capitation funds utilization at the *puskesmas* level. Indonesia Corruption Watch (ICW)[6] and the Corruption Eradication Commission (KPK) recently released observations and a study on weakness in the capitation funds system, in 2014-2017. *Puskesmas* financial management is one of the criteria of P*uskesmas* accreditation. However, during the accreditation process, the focus is more on health service delivery. As a result, the financial management of *puskesmas* is still generally weak.

3. **The implementation of *DAK non-fisik* (which accounts for 20% of the Program boundary) is monitored closely by both MoH and MoF.** Regular reporting is required to be submitted by LGs to MoH and MoF, with payments based on the adequacy reporting. Yearly aggregate reporting on *DAK non-fisik* utilization is yet to be prepared by MoF. 2016 *BPK* audit reports of LGs in the eastern part of Indonesia, raise issues related to poor inventory management of medicines and weak accountability in *Puskesmas*. However, these findings do not appear in the selected *BPK* audit reports of LGs in the western and central parts of Indonesia.

4. **Program activities in MoH account for 25% of the Program boundary and in FY 2015 and 2016 *BPK* provided unqualified audit opinions**. However, the auditor found weak budget execution, weak inventory management and raised internal control weaknesses in management of the Healthy Indonesia program related to planning, human resources, cash, medicine inventory and assets management.

5. **Procurement under the Program will not include any civil works or goods, but possibly only some small consultant services and non-consultant services to be procured by MOH.** The Program is not expected to finance any procurement by the LGs. Considering this, and based on a review of the overall procurement

[1] There are 9,829 *puskesmas* in LGs across Indonesia.
[2] 65 LGs from the Eastern Indonesia (in East Nusa Tenggara, Maluku and Papua) form the bulk of the sample for the Assessment, along with an additional four LGs representing the western and central parts of Indonesia - Kota Banjarmasin (in Kalimantan), Kota Gorontalo (in Sulawesi), Kulon Progo (in Central Java), Humbang Hasudutan (North Sumatera).
[3] MoH issued regulation no 21, 2016 regarding the use of capitation funds (type of expenditures) to support health services and operational cost in puskesmas.
[4] Findings related to capitation funds are described in more detail in the internal control and fraud and corruption sections of this report.
[5] MoH relies on LGs to monitor capitation funds utilization by *Puskesmas*. Local Governments' inspectorates need strengthening to improve their capacity to do internal audit of capitation funds.
[6] Kompas 14 February 2018, Triliunan Dana Kapitasi Rentan Dikorupsi (Trillions of Vulnerable Capitation Funds Corrupted) by Dewi Anggareni, ICW

framework, the Assessment determines that procurement to be carried out under the Program only carries a moderate risk.

6. **The FSA comprises an assessment of the fiduciary risks relating to procurement and financial management relevant to the Program. The FSA is based on an assessment of the Ministry of Health (MoH), *Badan Penyelenggara Jaminan Sosial Kesehatan (BPJS - Health)*, selected Local Governments (LGs) and (*Puskesmas*).** The disbursement of funds under the Program will be linked to DLIs tied to three result areas: (i) strengthening national performance monitoring for enhanced local government and facility accountability; (ii) implementing national standards for improved clinical and managerial performance (strengthen credibility and capacity of accreditation commission, increase accreditation of *puskesmas* and private providers, ensure availability of human resources in remote areas, capacity building of LG staff in planning, budgeting, and management of health services); and, (iii) enhancing performance orientation of health financing for better local service delivery. The implementation of this program involves MoH, *BPJS – Health*, and all LGs. Most of the Program expenditures are related to operational costs of MoH, district health offices, *BPJS – Health* (capitation and administrative expenses), and *puskesmas* in implementing the Program.

7. **Risk Assessment:** Based on the information available at the time of assessment, the overall fiduciary Risk is rated as **Substantial**. Description of risks and mitigation actions, including actions to be included as proposed DLIs and/or in the PAP:

| Risk | Mitigation Measure | Type of Action |
|---|---|---|
| 1. No basic or compulsory financial management training (especially on annual budget preparation, treasury, inventory management and accountability of funds) received by working unit (*satker*) at *puskesmas*.<br><br>2. No monitoring of implementation of the capitation funds at *puskesmas* by MoH and *BPJS*. | MoH to include financial management training and fund utilization monitoring system as part of the *puskesmas* management training. | PAP |
| Weak internal control practices in the program, especially for implementation by *puskesmas*. | 1. *BPKP* should put in place a mechanism to systematically monitor internal control implementation in the Program and ensure achievement of level 3 internal control by 2019.<br>2. MoH should work together with MoHA to prepare guidelines for enabling effective implementation of internal control of capitation funds and *DAK non-fisik.* | |
| Weak internal audit practice in the program in MoH | *BPKP* should monitor internal audit implementation in the Program and ensure achievement of level 3 of IA-CM of MoH by 2019 | PAP |
| Absence of effective citizen compliant handling mechanism for Program implementation | Strengthen complaints handling mechanism under MoHA decree number 33/2011 for the Program. | |

| | | |
|---|---|---|
| Absence of effective initiatives to prevent and eradicate corruption related to Program implementation | *Bappenas*, together with *BPKP* and MoHA should monitor compliance with *INPRES* 10/2016 and achievement of the criteria of all ministries and participating local governments in the program should be in place. | |

## II. Introduction

8. **This is an assessment of the fiduciary systems of the Government of Indonesia to determine their adequacy for the Indonesia – Supporting Primary Health Care Reform Program (I-SPHERE) in accordance with the Bank's Policy and Directive.**[7] The FSA comprises an assessment of the procurement systems and financial management (FM) systems relevant to the Program. This document contains the findings of the FSA conducted in accordance with the Guidance Note issued on June 30, 2017. The overall objective of the Assessment is to conclude whether the Program fiduciary systems provide reasonable assurance that the financing proceeds will be used for the intended purposes, with due attention to the principles of economy, efficiency, transparency, effectiveness, and accountability. The FSA reviews the capacity of the implementing agency to manage the Program: 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 reviewed in detail to cover procurement planning, tendering, evaluation, and award and contract management.

9. **The proposed Program is US$13.507 billion,** supported by a US$150 million IBRD Loan (using a Program-for-Results (PforR) instrument), and US$13.357 billion in government financing (from APBN, *BPJS-Health*, and DAK *non-fisik*), and would be implemented over a period of five years (2018-2023).

10. **The government has existing fiduciary controls that are currently implemented for the Program.** The Supreme Audit Institution, the Indonesia Audit Board, or *Badan Pengawas Keuangan (BPK)* provided an unqualified opinion of MoH in the past three years (2014-2016). A sample review of the 2016 audited financial statements of 65 participating LGs in East Nusa Tenggara, Maluku and Papua representing LGs in the eastern part of Indonesia and four additional LGs[8] representing the western and central parts of Indonesia was undertaken. This review showed that *BPK* rendered an unqualified opinion of 19 participating LGs (28%), while the rest received either qualified opinions (36 LGs or 52%) and no opinion (14 LGs or 20%), mainly related to, unaccounted expenditures, insufficient supporting documentation on expenditures and unrecorded assets.

11. **The FSA has been carried out through desk and field research,** including a review of documents, regulations, procurement and financial records, collection and analysis of data, interviews with MoH staff in head office, province and regional hospital staff, *BPJS* staff, selected LG staff and *puskesmas* staff in various functions, i.e. commitment officer (*Pejabat Pembuat Komitmen/PPK)*, finance unit, inspector general, procurement committee, regional development planning agency, and planning bureau staff. For the purpose of the FSA, the Bank procurement and financial management staff together with the task team visited Maluku province, *kabupaten* Maluku Tengah, and three selected *puskesmas* in DKI Jakarta[9].

[7] Bank Policy Program for-Results Financing dated November 10, 2017 and Bank Directive Program-for-Results Financing dated March 2, 2018.

[8] FY 2016 audit reports of additional 4 LGs were also reviewed, representing western and central parts of Indonesia Kota Banjarmasin (in Kalimantan), Kota Gorontalo (in Sulawesi), Kulon Progo (in Central Java), Humbang Hasudutan (North Sumatera).

[9] Puskesmas Kebon Jeruk, Puskesmas Grogol and Puskesmas Tanjung Priuk.

## III. Assessment of Program Fiduciary Systems

### (i) Legal Framework

12. **The I-SPHERE Program Development Objective is "*Strengthening the performance of Indonesia's primary health care system*".** To implement I-SPHERE, there are three laws which form the basis of the public financial management (PFM) framework: (i) Law No. 17/2003 on State Finance; (ii) Law No. 1/2004 on State Treasury; and (iii) Law No. 15/2004 on State Financial Management and Accountability.

13. **The procurement under the Program shall be 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: (i) IDR 100 billion (equivalent to USD 6 million) for civil works; (ii) IDR 20 billion (equivalent to USD 1.5 million) for goods and non-consulting services; and (iii) IDR 10 billion (equivalent to USD 0.75 million) for consultant services.

14. **The use of the *Layanan Pengadaan Secara Elektronik* (LPSE) e-procurement system is mandated for procuring contracts exceeding IDR 200 million** (equivalent to USD 14,750) and the procurement process is required to be carried out by dedicated procurement services units (ULPs) established in each implementing agency. A wide range of Standard Bidding Documents developed by National Public Procurement Agency (*Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah or LKPP*) are available for use by the procuring agencies. The results of contract awards for procurement following competitive method are also required to be published in a national website. Procurements below the threshold, or carried out through non-competitive methods, or those through the e-catalogue are not captured in the e-procurement system.

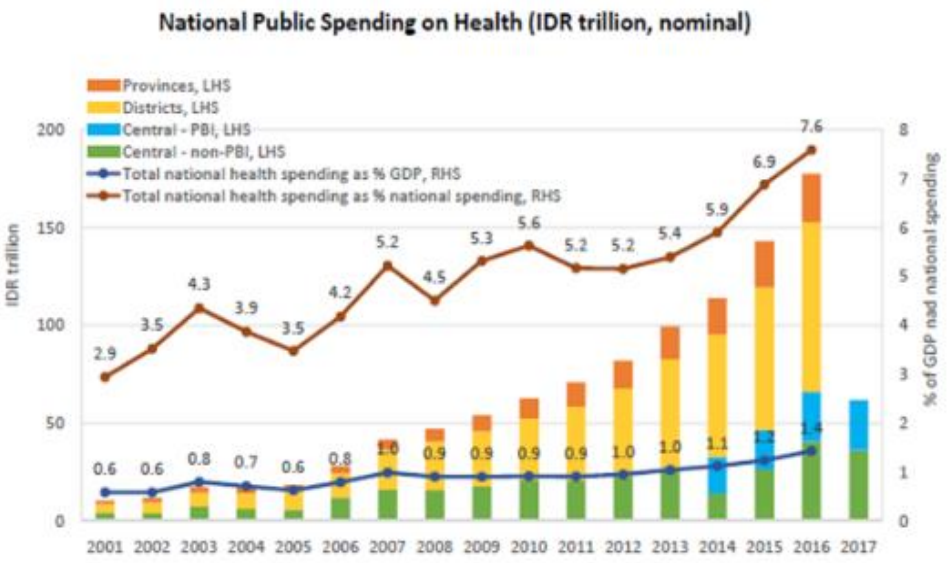
15. ***Perpres* No. 4/2015 also mandates the use of the LKPP e-catalogue system for procuring goods/services listed in the system.** LKPP Regulation provides brief guidelines on supplier selection, contract amendment, sanctions to suppliers, and monitoring and evaluation. The suppliers in the national e-catalogue system are selected by LKPP either competitively or through negotiated framework agreements. As per the LKPP Regulation No. 4/2015, the head of line ministry, head of institution, and head of LG can also propose to LKPP their requirement of goods/services to be included in the e-catalogue by submitting to LKPP the technical specification of goods/services and annual volume requirement. Most of the commonly used goods required by MoH, in particular medicines and medical equipment, are posted in the national e-Catalogue following a competitive procurement process led by LKPP. In addition, the suppliers of goods/services can also propose that LKPP include their products in the e-catalogue system by submitting to LKPP the technical specification, unit cost, and service coverage. LKPP regulation also allows line ministries and LGs themselves to carry out the procurement process and select suppliers for posting in the sectoral and regional catalogues for their specific needs, however this is still rare and most line ministries and LGs, including MoH, have not yet established their separate sectoral or regional catalogues. As the FSA indicates that the Program procurement expenditure is oriented towards consultant and non-consultant services, it is expected that the e-catalogue will be rarely used under the Program.

16. **The *Perpres* also includes provisions for handling complaints, resolution of disputes, as well as remedies for breaches in integrity during the procurement process.**

17. The Government recently issued a new procurement regulation, *Perpres* No. 16/2018, which will replace *Perpres* No. 54/2010 with the aim to further simplify and streamline procurement procedures. This new procurement regulation will become effective as of July 2018.

**(ii) Planning and Budgeting**

18. **In 2009, the parliament enacted Law No. 36/2009 stipulating that at least 5 percent of the central budget (APBN) and 10 percent of the district budget (APBD), excluding salaries, be allocated for health.** In addition, the law states that at least two-thirds of central and district health budgets should be prioritized for public services. Allocations for health have been increasing in real terms (see chart below). In the 2016 budget and 2017 budget plan, the health share of the central budget reached and stabilized at 5 percent, the legally mandated amount for the sectoral health share of central government expenditures. However, as overall government revenue as a percentage of GDP is low compared to regional peers, public health expenditures are also low compared to peers.




Source: World Bank COFIS database using MoF data.

19. **About 64% of the Program (with funding from *DAK non-fisik* and capitation funds) are implemented at LGs level. Based on the assessment,** financial management of the *JKN* capitation funds (about 40% of Program boundaries) varies between *puskesmas* and local governments. Weak implementation found in the eastern part of Indonesia while implementation in western and central parts of Indonesia considerably better. To mitigate, sufficient budget should be allocated for financial management training for *puskesmas* staff management by MOH and/or LGs. Technical assistance is plan for MoH ad MoHA to update the current guidelines and prepare monitoring mechanism for improved financial management of the JKN capitation funds, learning from the current development and implementation at puskesmas at LG level.

20. **The PforR Program scope is selected from the Government of Indonesia's Healthy Indonesia program covering prevention and promotion (*PIS-PK*), quality of primary care, human resources for health (HRH), *Jaminan Kesehatan Nasional (JKN*, the national health insurance scheme) capitation, health information systems, management and health financing.**

21. **I-SPHERE is included in the government budget.** The Program is expected to be annually budgeted like other government programs. At the central government level, the program is budgeted in MoH's DIPA. After the decision on the overall budget ceiling for the next fiscal year in June, MoH prepares the program budget in July and

submits to MoF for budget consolidation, similar to other government programs. MoH discusses the budget with relevant commissions in the Parliament (*DPR*) during August and September. At the end of October, the consolidated MoH 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 part of the draft Annual Budget Law (*RAPBN*) together with all other government programs.

22. **MoF issues circulars setting out definitive budget ceilings in November.** Each Line Ministry (LM), including MoH, 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 line ministry budget work plan and supporting documents, including Terms of Reference (ToRs) and the Expenditure Plan (*RAB*). Then DG Budget approves the budget per *satker*/working unit document (*SAPSK*) and submits this to the Directorate General of the Treasury (DG Treasury) at MoF.

23. **Following the issuance of the Annual Budget Law (*UU APBN*) in December, a Presidential Decree (*Perpres*) is issued setting out the details of the budget as approved by the *DPR*.** Based on this *Perpres* and SAPSK, MOH prepares the budget authorization documents (DIPA). MoH submits these to 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 MoH. Once the DIPAs have been approved, MoH prepares budget details or Operational Instructions (*POK*), which are internal operational guidelines for the working units that elaborate on what is contained in the MoH Budget Work Plan for the fiscal year.

24. **The PEFA 2017 Assessment Report scores the budget preparation process as an A**.[10] A clear and comprehensive annual budget schedule is released to allow sufficient time for preparation and submission by all ministries. The approved budget ceilings and the budget is submitted to parliament 18 weeks before the start of the new fiscal year. However, the three PEFA elements on reliability of the budget are rated lower: C[11] (aggregate expenditure outturn)[12]; C+ (expenditure composition outturn); and D[13] (revenue outturn). While the annual budget preparation process is quite rigid, budget execution has deviated significantly from the plan in the past 2 years.[14] In 2015, the reason was mainly due to a major revision in macroeconomic assumptions and expenditure composition, including the removal of the gasoline subsidy. In 2016, optimistic revenue forecasts were corrected through substantial budget cuts. Budget realization by MoH in 2015 and 2016 are 89.91% and 86.82% respectively. There were no findings in the *BPK* audit report of MoH related to problems in budget preparation in the same period.

25. **The Directorate General of Fiscal Balance, MoF provides transfers to LGs through the *DAK* (special allocation funds).** There are two types of *DAK*: *DAK fisik* and *DAK non-fisik*. *DAK* budget is part of MoF transfer *DIPA*/budget. Based on the central government transfer budget, the program is budgeted in LGs' DPA (*APBD*). The Program will focus only on *DAK non-fisik*, which covers largely operational cost of *puskesmas*, child birth assistance and *puskesmas* accreditation. *DAK non-fisik* allocations are prepared based on the needs of the *puskesmas*, and are used in accordance with a menu of activities allowed for by MoH. MoH issues technical guidelines on the use of *DAK* funds *(fisik and non-fisik)* to provide direction for *satkers* at puskesmas and district health offices *(dinas)* in LGs to be able to plan and implement health interventions in accordance with health conditions in their specific locations.

[10] Rating for P1-17.
[11] A "C" rating reflects a basic level of performance broadly consistent with good international practices.
[12] PEFA Assessment Report 2017, PI-1 rating C reflects that the aggregate expenditure outturn was between 85% and 115% of the approved aggregate budgeted expenditure in at least two of the past three years.
[13] A "D" rating reflects performance less than required for a "C" score.
[14] The execution of the budget in Indonesia underwent two years of deviations greater than 5% in relation to the original approved budget; that is 12.6% and 12% in 2015 and 2016 (respectively).

26. **BPJS, based on MoH regulation No. 52/2016, has the responsibility to define the capitation received by *puskesmas*.** The capitation is determined through a quarterly credentialing and selection process conducted by *BPJS Kesehatan* involving the District Health Office and/or the Health Facility Association, taking into consideration human resource capacity, facilities and infrastructure, service coverage and service commitment. The amount received by each *puskesmas* varies, including depending on its performance. In the past 3 years (2015 - 2017), the insurance premium of *BPJS* increased by around 30%, with a smaller increase in capitation. In 2017, the amount of capitation funds transferred to *puskesmas* was IDR 13,5 trillion (or about USD 1 trillion), an increase of 14% over the 2016 allocation. A recent study showed that the majority of funding for *puskemas* operations (i.e. excluding staffing costs) comes from capitation funds received via *BPJS*.[15]

27. **MoH issued regulation No. 21/2016 regarding the use of capitation funds to support health services and operational costs.** *Puskesmas* use the regulation to prepare annual budget allocations under the coordination of the health *dinas*. The budget preparation considers all resources available for *puskesmas*, *DAK* (*fisik* and *non-fisik*), capitation funds from *BPJS* and contributions from LGs. MoHA has also issued a circular letter regarding technical guidance on budgeting, management and accountability of capitation funds (dated May 5, 2014). The circular letter was used and translated into local government regulations to guide the budget preparation by *puskesmas*.

**(iii) Budget Execution**

28. **64% of the Program (with funding from DAK *non-fisik* and capitation funds) are implemented at *puskesmas* at LGs level.** Based on the assessment, the mechanism to use funds at *puskesmas* relies on the responsibility of LGs and is implemented by the head of *puskesmas*, with support from the commitment maker and treasurer. No monitoring on capitation funds utilization is conducted by MoH or *BPJS*. The monitoring of capitation funds falls under the responsibility of the LG health dinas and local inspectorates. The FY 2015 and 2016 BPK audit reports of selected LGs related to budget execution, reveal weak inventory management in *Puskesmas* and weak management of capitation funds[16] received from BPJS. Weak implementation is found in the eastern part of Indonesia, while implementation in the western and central parts of Indonesia is considerably better. To mitigate, *puskesmas* should be required to have annual financial management training and the existence of monitoring of capitation funds and *DAK non-fisik* should be a factor in accrediting *puskesmas* and included in the accreditation instrument. Technical assistance is planned for MoH and MoHA to update the current guidelines and prepare a monitoring mechanism for improved financial management of *JKN* capitation funds, learning from the current development and implementation at puskesmas at LG level.

29. **In general, at central government level, the Program follows the government treasury system.** A new treasury system (SPAN) has been working effectively since 2015. Once the budget document (*DIPA*) is effective, Kuasa Pengguna Anggaran (*KPA*) through its commitment officer (*PPK*) in MoH can execute the budget and enter into commitments with third parties. The system has reasonable times to transfer funds from the treasury office to the parties' bank accounts.

30. **The KPA through its PPK enters into commitments and signs a contract with a third party related to the Program.** After signing the contracts, the flow of funds begins. The 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*.

31. **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 the

[15] "Funds Interplay in Public Health Centers (Puskesmas)", December 2017, by KOMPAK (Kolaborasi Masyarakat dan Pelayanan untuk Kesejahteraan) in partnership with Government of Australia and Government of Indonesia.

[16] Findings related to capitation funds described in more detail in internal control and fraud and corruption sections of this report.

Government Treasury Account (GTA). The GTA transfers the funds directly to the third parties. *KPPN* has one working day standard for processing SPMs when all documents are correct and complete. *KPPN* processes it in 1-3 days in practice. Based on the *SPM* issued, *KPPN* then issues a *SP2D* and submits it to an Operational Bank for payment to contractors and consultants. The Operational Bank then makes payments to the third party. Based on a *SP2D* issued by *KPPN*, a letter of Expenditures Statement (*Surat Perintah Pembebanan*/SPB) is sent, with a copy of the *SP2D* to DG Treasury and to DG Cash Management. Based on *SPB* from *KPPN*, DG PKN forwards a Debit Note to the Central Bank. The Central Bank submits statements on routine basis to the DG Cash Management. Figure 1 below depicts the regular funds flow mechanism at the central government level.

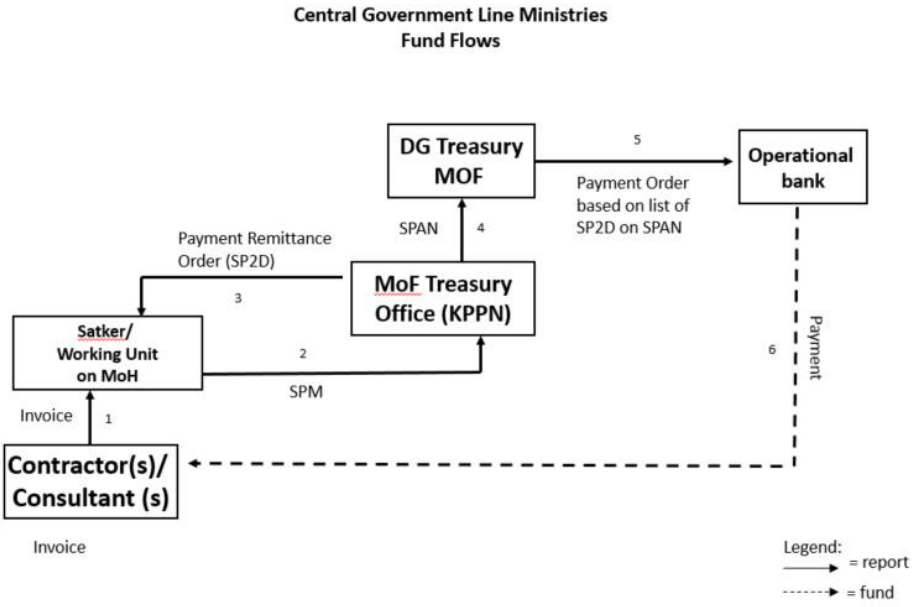



**Figure 1: Central Government Funds Flow**

32. **At the LG level, a similar treasury system exists and is implemented.** This follows MoHA decree No. 13/2006 regarding Guidelines of Regional Financial Management, which was updated by MoHA decree No. 59/2007 and MoHA decree No. 21/2011 and translated into *Perda* (local government regulation). While the central government uses SPAN as its IFMIS (Integrated Financial Management Information System), each LG has its own IFMIS. Based on the information received, most (80%) use SIMDA, an accounting software developed by *BPKP*. A *Puskesmas* is a working unit/SKPD within each LG. Each *puskesmas* follows their LG's funds flow mechanism and are accountable to the respective mayor/*bupati* of the area in which the *puskesmas* is located. Figure 2 below depicts the funds flow mechanism at the local government level.

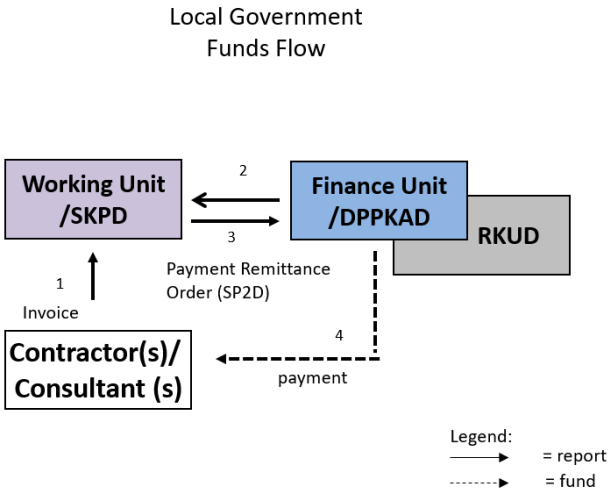



**Figure 2: Local Government Funds Flow**

33. **The Program budget financed through *DAK non-fisik* is transferred to LGs and regulated under MoF Regulation, PMK No. 50/2016.** The Program's focus is on financing received from *DAK non-fisik* for *puskesmas* covering Health Operational Aid (Bantuan Operasional Kesehatan/*BOK*), childbirth delivery insurance, and *puskesmas* accreditation. The Central Government provides 25% advance, based on the absorption of the previous year's *DAK* and transfers the rest in tranches based on absorption. LGs are required to prepare quarterly reports to MoF on *DAK non-fisik* implementation. *DAK non-fisik* implementation follows LG mechanisms, including monitoring by local inspectorates. MoH has recently prepared an online system that monitors implementation of *DAK non-fisik*. *Puskesmas* should prepare quarterly reports to their health dinas, which are then aggregated and forwarded to the province and finally MoH. The effectiveness of the reporting mechanism in MoH still needs to be evaluated as time passes.

34. **Program implementation by LGs using DAK funds often experiences delay.** Puskesmas and health *dinas*, need to be trained on the requirements of PMK No. 50/2016.

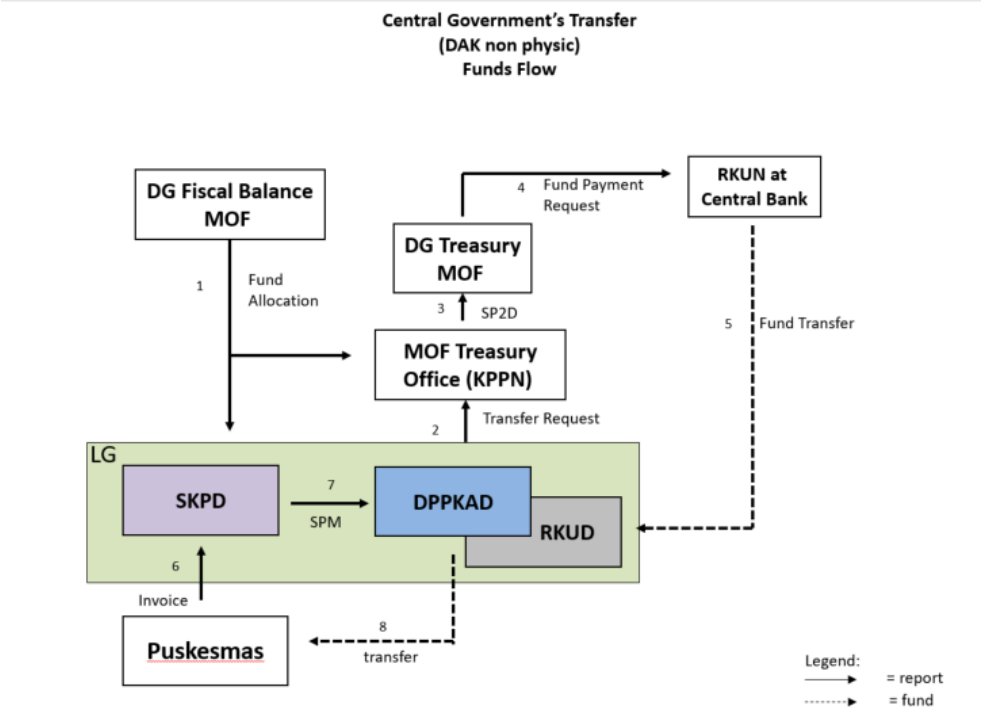



**Figure 3: *DAK non-fisik* Funds Flow**

35. **MoHA has issued a circular letter regarding technical guidance on budgeting, management and accountability of capitation funds (May 5, 2014).** Capitation funds are transferred directly from *BPJS* to *puskesmas*. *Puskesmas* can use the funds directly (of treasury). The mechanism to use the fund relies on the responsibility of LGs, and are implemented by the head of *puskesmas*, with support from the commitment maker and treasurer. On a monthly basis, *puskesmas* are required to report the funds received and used to the finance unit of their LG. This is supported by this Assessment's review of puskesmas in DKI Jakarta, who state they are required to report capitation funds received and on the use of the funds to their LG's finance unit on a monthly basis.

36. **BPJS determines capitation funds based on information received from *puskesmas* regarding human resource capacity, facilities and infrastructure, service coverage and service commitment.** The capitation funds transferred directly from BPJS to *puskesmas*. *BPJS* internal audit conducts a review of *BPJS* branches at the province-level related to information received from *puskesmas* regarding human resource capacity, facilities and infrastructure, service coverage, and service commitment which is used to define the amount of capitation funds. The internal control of BPJS implementation at *puskesmas* is delicate. A more detailed analysis is available in the internal control part of this FSA.

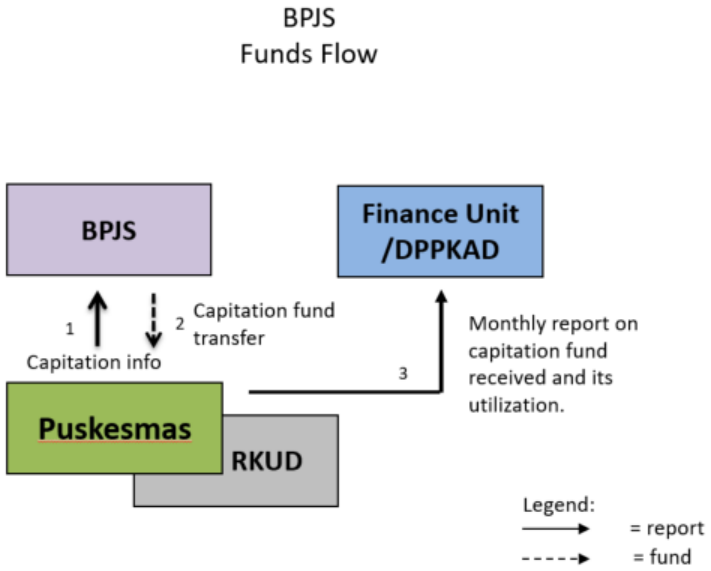



**Figure 4: BPJS Funds Flow**

37. **As part of the government program, I-SPHERE uses the government accounting and reporting system (SAI) to record the overall program expenditures as well as line item budgets.** Specifically for the Program, the finance bureau in MoH will assist in the preparation of the Program annual financial statements (part of MoH's annual financial statement) and the finance bureau of the MoH Secretary-General's Office will coordinate with the planning and budgeting bureau in the same unit to obtain *DAK non-fisik* realization (for health) reports to be included in the Program financial statements for audit by *BPK*. The Program Financial Report should be reviewed by the Inspector General of MoH before submission to BPK. As part of the Program, *BPJS's* financial statement is prepared separately and audited by a private external auditor.

**(iv) Procurement Profile of the Program**

39. **Procurement under the Program is expected to involve only small consultant services and non-consultant services. No investments in civil works and goods are envisaged.** The Program also does not envisage any large value contracts that could exceed the OPRC Threshold.

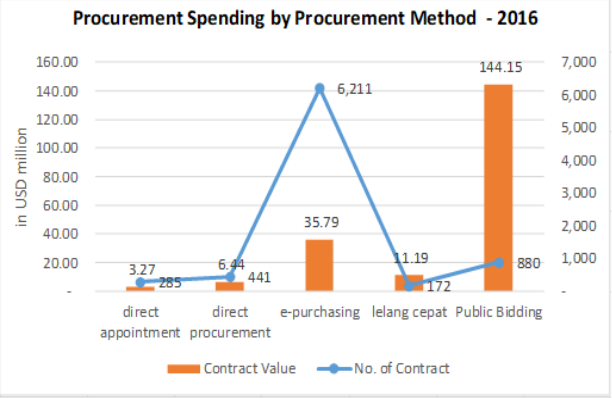
40. **During the period of 2015 to September 2017, the annual procurement spend (including civil works and goods) in DG Health Services MoH varied between USD 4.2 million and USD 200.8 million.** Data on contracts awarded by DG Health Services from 2015 to 2017 indicate that the value of goods contracted ranged between USD 350 and USD 2.9 million per contract, with the highest contract value for the procurement of a Linear Accelerator (Linac). The remaining high value contracts were for pharmaceuticals which are not in the e-catalogue, medical consumables, medical equipment, and food and beverages for inpatients. Consultant contracts for the same period range from USD 1,300 to USD 414,000, with the highest value consultant contract for the construction management of Harapan Kita hospital, the procurement process for which was managed by Harapan Kita hospital as a working unit.

**(v) Procurement Methods and Performance**

41. **MoH and LGs are required to apply competitive methods under *Perpres* No. 54/2010 for the procurement of contracts exceeding IDR 200 million (approx. USD 14,750).** In accordance with the *Perpres*, all contracts for works, goods and other services with an estimated cost more than IDR 5 billion (approx. equivalent to USD 385,000) are required to be procured following a public bidding method, which requires advertising of the bidding notice for at least 7 working days. For smaller value contracts of a non-complex nature with an estimated cost between IDR 200 million (equivalent to USD 14,750) and IDR 5 billion (equivalent to USD 385,000), other simplified competitive methods may be used. *Lelang cepat* (fast e-tendering), as one of several simplified competitive methods, is applicable for procurement of goods/services through SPSE system version 4.

42. **While MoH also engages some individuals as facilitators and surveyors for accreditation under the Program, the recruitment of the facilitators and surveyors is carried out by MoH based on the Government's staff recruitment framework.** Thus, for the purpose of the Bank financed Program the recruitment of facilitators and surveyors will continue to be carried out in accordance with the Government's applicable staff recruitment procedures and is not a procurement activity.

43. **Even though the Program will not include any procurement of civil works and goods, only some small value consultant and non-consultant services, the Assessment considered the overall procurement performance of the DG Health Services of MOH in the last two years, including civil works, goods, consultant and non-consultant services.** Based on the data provided by DG Health Service of MoH on all the contracts awarded during the last two years, which is generated from LPSE e-procurement services, e-catalogue system, and non-competitive bidding (direct procurement and direct appointment), the total procurement expenditure is USD 200.84 million in 2016, and USD 146.08 million in 2017 (up to September 30). The Assessment notes that 72% (by value) of the contracts awarded in year 2016 for works, goods, consultant and other services were procured through public bidding, 26% through simplified competitive bidding (18% by e-purchasing/e-catalogue, 3% by direct procurement, and 5% by *lelang cepat*), and 2% by direct appointment. In 2017, 82% (by value) were procured by public bidding, 17% through simplified competitive bidding (13% by *lelang cepat* and 4% by direct procurement), and 1% by direct appointment.



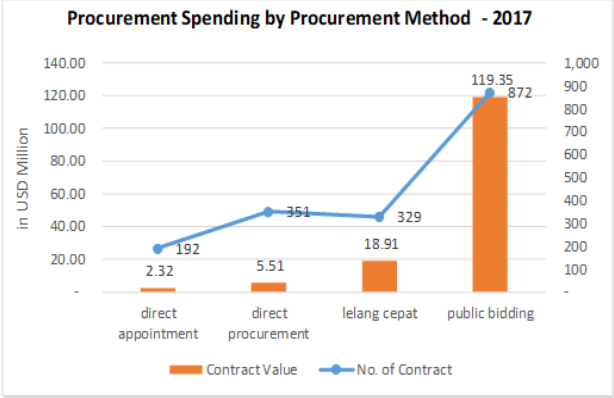




**Figure 5: Procurement Expenditure in DG Health Services by Method, 2016 and 2017**

### (vi) Procurement Organization and Capacity

44. **The procurement process of consultant and non-consultant services under the Program is carried out in the procurement service unit at MoH's head office *(Unit Layanan Pengadaan/ULP)* and the *ULP* is established in each DG in MoH.** 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. The *ULP* in the head office has been managing all procurement

packages (works/goods/other services and consulting services) within the Ministry, and its current staffing level and capacity is considered adequate for meeting the continuing procurement needs of the Program.

**(vii) Internal Controls**

45. **About 64% of the Program (with funding from DAK *non-fisik* and capitation funds) is implemented by *puskesmas* and LGs.** 43% of the Program boundary is related to utilization of capitation funds (a further 13% relates to capitation administration by *BPJS*). In MoH's 2016 audited financial statements, *BPK* raised internal control weaknesses in management of the the Healthy Indonesia program related to planning, human resources, cash, medicine inventory, assets management and grants to *puskesmas*. 2016 *BPK* audit reports of 65 local governments in three Eastern Indonesian provinces selected as sample of this FSA, reveal issues related to poor inventory management of medicines and weak accountability in *puskesmas* in relation with the program. No such findings were found in a review of FY 2016 audit reports of 4 additional LGs in the central and western parts of Indonesia. To mitigate these risks, MoH should work together with MoHA to prepare guidelines for enabling effective internal control of capitation funds and DAK *non-fisik*. Technical assistance is planned for MoH and MoHA to update the current guidelines and prepare a monitoring mechanism for improved financial management of the *JKN* capitation funds, learning from the current development and implementation at *puskesmas*.

46. **In August 2008, the central government issued a Government Regulation (PP) No. 60/2008 which adopted COSO as its control framework**. Internal controls are already embedded in the existing government system. The Inspector General (IG) of MoH, is responsible for providing support to MoH. *BPKP* is providing assistance to all government agencies in implementation of PP 60/2008.

47. **In 2016, *BPKP* initiated preparation of guidelines to assess the internal control implementation in all government institutions in the country.** The internal control maturity is intended to provide comprehensive and comparable information on internal control implementation. It can also be used as the road map towards optimum maturity and provides information on areas for improvement. The guidelines take into consideration PP No. 60/2008 and international guidelines. As of 2017, while most of the central government units have reached level 3, MoH is still at level 2, due to weaknesses in many *satkers* within MoH, as indicated in MoH's audited financial statements by *BPK*. Therefore, internal control maturity in MoH still needs to be strengthened to reach level 3.

48. **The PEFA 2017 Report score on "PI-25: Internal controls on non-salary expenditure" is A at central government level.** A comprehensive set of controls, including segregation of duties, is in place at the central government level and throughout the expenditure process. The functions and accesses are defined in the FMIS (SPAN) integrated budget and treasury payment system with appropriations and commitment controls. In general, discrepancies related to compliance with payment rules and procedures occurred, but they are not material and can be considered negligible.

49. **Financial management for LGs is regulated through Ministry of Home Affairs (MoHA) regulation No. 13/2006 and its updated MoHA regulation No. 21/2011, basically using the same principle as the central government.** These regulations are then translated into LG regulations to guide implementation at LG level

50. **In January 2017, the Ministry of Finance issued PMK No. 09/2017, which provides guidelines for implementation, assessment and review of Internal Control over Central Government Financial Report (ICOFR).** Assessments should be conducted two times a year in all accounting and reporting units within the central government. Review by IGs should be conducted from August up to October each year. The detailed guidelines in conducting ICOFR is part of the PMK. ICOFR implementation is in line with PP No. 60/2008, which refers to the COSO framework and provides attention on Information Technology General Control (ITGC) as information technology has played an important role in producing reliable financial reports. The PMK No. 9/2017 is yet to be implemented, therefore it is not covered in this assessment.

51. **In internal audit, in December 30, 2013, the Government Internal Auditor Association (AAIPI) issued internal audit standards, a code of ethics and peer review standards.** AAIPI authority and responsibility are stated in Article 53 of PP No. 60/2008. The audit standards consist of guidelines that outline basic concepts of internal audit; general standards that will guide inspector generals for the planning and management of effective internal audit activities. AAIPI standards were prepared based on the International Professional Practices Framework (IPPF) issued by the Institute of Internal Audit (IIA). Inspectorate Generals IGhave the mandate to conduct audits, evaluations, review and monitoring of financial and non-financial operations[17], including the Inspectorate General of MoH, which plays the role as the internal auditor of the Program.

52. **The PEFA 2017 Report score on PI-26: Internal audit is C+.** Internal audit units are established in all agencies, conducting mostly compliance audits. There are national audit standards but the quality assurance process is effective mostly in MoF and *BPKP*. More than 90 percent of internal audit plans are completed for all the sampled agencies. In general, management response to the internal audit findings is partial and only for the majority of findings.

53. **In 2015, Indonesia President's instructed all internal audit practices in the country to adopt a world class model by 2019** (IA-CM/ Internal Audit Capability Model level 3) and *BPKP* is responsible to facilitate and monitor the progress in each internal audit unit, including IG MoH. The latest BPKP update (August 2017) on the status of IG MoH IA-CM level indicated that IG MoH still in level 2. IG MoH has agreed to expedite its effort to improve its level with support from BPKP in line with the instruction from the President.

54. **At the LG level, Local Inspectorates (LI) are the institutions responsible for conducting internal audit following the same standards issued by AAIPI.** The IGs and LIs also supervise and monitor follow up actions of external audit findings. While IG audit reports are mainly submitted to the Minister, LI audit reports are submitted to their respective Governor and Mayor. Capacities of Local Inspectorates (LIs) in general are weak. LI capacity needs strengthening to improve its ability to do internal audit of capitation funds utilization at *puskesmas.* Accreditation of *puskesmas* needs to cover regular internal audit conducted of *puskesmas*.

55. **A review of IG MoH FY 2015 and 2016 internal audit reports shows more administrative issues at the central level, while IG MoH internal audit reports at LG level present findings on weak management of operational costs allocated via *DAK non-fisik* and weak inventory management at *puskesmas* and hospitals.**

56. **The monitoring of utilization of capitation funds falls under the responsibility of LGs health *dinas* and local inspectorates.** As local inspectorates have limited capacity and budget, monitoring of activities on capitation funds implementation is also limited. No monitoring on capitation funds utilization is conducted by MoH and *BPJS.* ICW[18] and KPK recently released observations and a study related to the use of capitation funds in 2014-2017. Further, ICW requested *BPK* to do an audit of capitation funds utilization[19]. More detailed information is available in the Fraud and Corruption section of this report. *BPJS* capitation fund management lies with each *puskesmas*. *Puskesmas* as a working unit is managed by the head of *puskesmas* and supported by the commitment maker and treasurer, and payment verifier. The capacity of *puskesmas* management varies as it depends on the capacity building initiative of the LGs.

57. **Good *puskesmas* financial management is one of the criteria of *puskesmas* accreditation yet the accreditation process focuses more on health service delivery.** As a result, the financial management of *puskesmas*

[17] Article 48 of PP 60/ 2008

[18] Kompas 14 February 2018, Triliunan Dana Kapitasi Rentan Dikorupsi (Trillions of Vulnerable Capitation Funds Corrupted) by Dewi Anggareni, ICW

[19] Detiknews dated April 4, 2018, ICW minta BPK audit Dana Kapitasi di Puskesmas (ICW requested BPK to conduct audit in Puskesmas.

is still generally weak. The Program is also focused on the improvement of accreditation of *puskesmas* for better delivery of services. The *puskesmas* accreditation process is financed in part by *DAK non-fisik*, covering also improvements in the management of *puskesmas*. Currently MoH is revising the *puskesmas* accreditation instrument. It is timely for the Bank to propose that the accreditation instrument cover good internal control, especially in managing capitation funds. Among others, the instrument should require the following:

a. There should be financial management procedures for *puskesmas* (covering budget preparation, payment verification, procurement, internal audit, financial statement and accountability report preparation for LGs finance unit, etc.).
b. *Puskesmas* should be using the computerized system as part of the LG's system.
c. *Puskesmas* should have their own bank accounts with two signatories (head and treasurer of *puskesmas*) required for expenditures.
d. Funds received from patients (if any) should be deposited into the bank on the same day.
e. All payments should be made through electronic transfers, with no cash transactions.
f. *Puskesmas* should have good medicine inventory management, which includes a first-expired-first-out (FEFO) mechanism.
g. *Puskesmas* should allocate sufficient funds for continuous training for management support of *puskesmas*.
h. LGs should allocate sufficient funds to monitor *puskesmas* management by local inspectorates.
i. Other necessary controls to reduce possible fraud and corruption in *puskesmas*.

**(viii) Audit**

58. **Based on Law No. 15/2014, *BPK* as Indonesia's Supreme Audit Institution (SAI) has a mandate to audit all the government agencies, including MoH.** *BPK* has achieved many good results in public sector auditing as pointed out by peer review reports from the Netherland SAI in July 2009 and the Poland SAI in April 2014.

59. **The PEFA 2017 Report score on PI-30: External audit is C+.** The National Audit Standards are consistent with ISSAI[20] and external audit reports are submitted to parliament within three months of their receipt by *BPK*. A formal response without comprehensive follow-up was issued by the executive, and *BPK* has direct access to most of the financial information on budget execution.

60. ***BPK* audits all central and local government agencies financial statements on an annual basis.** The external auditors provided unqualified opinion for audited financial statements of MoH for the past 3 years (2014-2016). However, internal control in MoH still needs to be improved. The audited financial statements indicated weaknesses in many *satkers* within MoH implementing the program. This condition is confirmed in internal control maturity conducted by *BPKP*. Review of the 2016 audited financial statements of 65 participating LGs in East Nusa Tenggara, Maluku and Papua representing LGs in eastern part of Indonesia and four additional LGs[21] representing the western and central parts of Indonesia (as the sample for this fiduciary assessment), showed that *BPK* rendered an unqualified opinion to the financial statements of 19 participating LGs (28%), while the rest received either qualified opinion (36 LGs or 52%) and no opinion (14 LGs or 20%). The poor financial management performance was mainly due to poor inventory, assets management (48%) and poor accountability in general (46%). Relevant to the Program, many findings related to poor inventory management of medicine and weak accountability in *puskesmas*. After further discussions, this Assessment found that there are no compulsory financial management trainings (especially on treasury, inventory management and accountability of funds) received by working units (Satker) at *puskesmas*. There is no requirement and no sufficient budget allocated for such trainings. To mitigate this

[20] International Standards of Supreme Audit Institutions. INTOSAI Guidance for Good Governance.
[21] FY 2016 audit reports of additional 4 LGs were also reviewed, representing western and central parts of Indonesia Kota Banjarmasin (in Kalimantan), Kota Gorontalo (in Sulawesi), Kulon Progo (in Central Java), Humbang Hasudutan (North Sumatera).

situation, sufficient budget should be allocated for financial management training for *puskesmas* staff and management by MoH and LGs. MoH should also modify accreditation guidelines to ensure *puskesmas* will receive annual financial management training and a monitoring system for *JKN* capitation funds and *DAK non-fisik* as a factor in *puskesmas* accreditation.

61. **Based on the FY 2016 audit report review, MoH has partially conducted follow up actions on FY 2015 *BPK* audit findings and recommendations.** The IG of MoH monitors the audit follow up actions and provides the status of follow up to *BPK* regularly. BPK launched, in February 2017, a web-based monitoring system of audit follow up actions allowing *BPK* to more directly monitor the status of follow up actions.

62. **The procurement process at MoH is also audited by BPK as part of the annual audit of all the government agencies.**

63. **The finance bureau and planning and budgeting bureau in the Secretary General's Office of MoH will assist in the preparation of the Program annual financial statements (part of MoH's annual financial statement) for audit by *BPK***. The Program annual financial statement is expected to be submitted to BPK for audit at the latest six months after the end of the fiscal year. The Program annual financial report should be reviewed by IG MOH before being submitted to *BPK*. The audit report should be submitted to the Bank within nine months after the end of the fiscal year.

64. **In the last two years (2015 and 2016), *BPJS* received an unqualified opinion from its auditor.** *BPJS* is an State-Owned Enterprise (SOE), audited by the private sector. The *BPJS* summary financial statement is publicly available on its website. As part of the Program, *BPJS* financial statements will be prepared separately and audited by a private external auditor. *BPJS's* audit report should be submitted to the Bank within nine months after the end of the fiscal year.

**(ix) Transparency**

65. **Based on Law No. 14/2008 regarding Transparency of Public Information, public information should be open and accessible.** An exception to public information is information that is restrictive and limited. An applicant is supposed to be able to obtain public information promptly, and at low cost. When it is classified as confidential information pursuant to the Law, ethics, and the interest of the public, a decision for information to be shared is based on an examination of the consequences that occur if the information is provided to the public.

66. **Line Ministries (LM) may use electronic and non-electronic media as facilities to disseminate 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 the Ministry of Information on whether LMs follow the law and regulation on transparency of public information.

67. **Procurement plans and bidding opportunities are publicly disclosed on the *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. 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 the SPSE e-procurement system. Contract award information is also published on the national website of the public procurement agency, which is freely accessible to the public. However, procurement data in respect of procurements through direct contracting, as well for procurements carried out from the e-catalogue, are not publicly disclosed, as such procurements are carried outside SPSE.

**(x) Complaints Handling**

68. **For public complaints, the Staff President Office, Ombudsman, and Ministry for State Apparatus Reform have developed an online public complaint portal called LAPOR (*Laporan Aspirasi dan Pengaduan Online Rakyat*/online public aspiration and complaint).** *LAPOR* is web based, available via a mobile application (both android and ios), on social media (such as twitter and facebook) and via text massage (SMS). The portal is connected to 81 LMs/Institutions, 5 LGs, and 44 SOEs in Indonesia. The complaint can be followed up with the related government agency, if the agency is connected to *LAPOR*. If not, the complaint will be delayed and followed up only after the government agency has been connected to *LAPOR*. The portal requires the public to register prior to submission of their complaint. However, the complaints received and the responses from relevant government agency are publicly accessible.

69. **MOHA decree No. 33/2011 facilitates complaints within MOHA and with local governments.** This decree has been translated into local government regulations (*perda*). In general, all participating local governments visited as part of the FSA have complaints handling mechanisms on their websites. Discussion of monitoring the compliance with such complaint handling mechanisms in-line with the Program will be pursued.

70. **MoHA has developed an online public complaint system called SaPA (Sarana Pengaduan dan Aspirasi/Complaint and Aspiration Media).** SaPA is a one-stop communication service which facilitates public complaints and aspirations towards the implementation of services, policies, programs, and the activities of MoHA. SaPA is a web and android-based application, and users are required to register prior to submitting a complaint. This application provides data on the number of complaints received, follow up, cases completed, and publishes the number of complaints by subject. This application is integrated between MoHA and LGs.

71. **MoH also maintains a complaint handling mechanism through the Inspectorate General website.** Citizens are able to submit questions, requests or complaints online.

72. **BPJS has a complaint handling mechanism in its website.** All *BPJS* members are able to submit questions, requests or complaints online.

73. **The national procurement regulation includes provisions for the submission and handling of procurement complaints.** It allows submission of procurement related complaints within a specified period after announcement of the bidding result and requires the complaint to be reviewed in the first instance by the procurement service unit (*ULP*) of the implementing agency, which must respond within a specified number of days. In case the *ULP's* response is not satisfactory to the bidder, the complainant can submit an appeal to higher levels within the same implementing agency. The complaints should be submitted by the bidder to the *ULP* with a copy to *APIP* (Government Internal Supervisory Apparatus). For contracts above the threshold procured through the *SPSE* e-procurement system, complaints can be submitted by bidders through *SPSE* and responses by the *ULP* can also be sent through *SPSE*, which are recorded in the system.

**(xi) Fraud and Corruption**

74. **Program implementation of capitation funds in *puskesmas* (43% of the Program boundary) needs to improve.** Indonesia ICW[22] recently released its observation of eight corruption cases related to the use of capitation funds in 2014-2017. Those cases involved the head of the district/municipality, head of health *dinas*, secretary of health *dinas*, and *puskesmas* head and treasurer. The most recent case happened on February 3, 2018, when a mayor

[22] Kompas 14 February 2018, Triliunan Dana Kapitasi Rentan Dikorupsi (Trillions of Vulnerable Capitation Funds Corrupted) by Dewi Anggareni, ICW

in East Java was caught for misuse of capitation funds received to finance advertisement for his re-election. *KPK* also conducted a study[23] on the use of capitation funds. The study revealed the following weaknesses:

a. Capitation fund implementation so far is ineffective to increase the quality of health services in *puskesmas.*
b. Weak human resource capacity in *puskesmas* to manage capitation funds.
c. No regulation related to the management of remaining capitation funds in *puskesmas.*
d. Weak verification of *BPJS* membership.
e. Possible fraud due to request for gratification from Health *dinas* and Mayor.

To solve the above weaknesses, the following are recommended:

(i) The whistleblower mechanism related to *BPJS* implementation should be actively socialized and follow-up actions taken widely publicized.
(ii) A regulation on how to manage capitation funds should be prepared by MoHA and adopted by each LG through preparation of procedures for *puskesmas* which refer to the regulation.
(iii) Budget should be made available for training of *puskesmas* staff to improve their capacity in managing capitation funds.
(iv) Sufficient funds should be allocated to monitor capitation funds by local inspectorates. Capacity building should also be provided for local inspectorates to better conduct monitoring of capitation funds.

All the above are expected to be included in the instrument of *puskesmas* accreditation financed by *DAK non-fisik*.

75. **The President issued Presidential Instruction (*INPRES*) No. 10/2016 regarding prevention and eradication of corruption.** This INPRES requires all ministries and local governments to act to prevent and eradicate possible corruption. *Bappenas*, together with *BPKP* and MoHA, is responsible for regularly monitoring and evaluating actions taken by all. Compliance with the *INPRES* and achievement of the criteria of all ministries and participating local governments in the Program will be pursued.

76. **The national procurement regulation, Perpres No. 54/2010, includes provisions against fraud and corruption.** Also, the Commitment Making Official (*PPK*), procurement officer, and work acceptance officer are required to sign an integrity pact to declare that they will not be involved in fraudulent and corrupt practices and that they will report to the authorities if there is any fraud and corruption in the procurement process. Contractors are also required to sign an integrity pact to declare that they: (a) will not be involved in fraudulent and corrupt practices; (b) will provide correct and accountable information and be transparent; and (c) agree to be black listed if they violate the regulations and the provisions in the integrity pact.

77. **Applicability of the World Bank Anticorruption Guidelines (ACGs) for the PforR**. Through the PforR's legal documents, the recipient of the loan is formally committed to the obligations under the ACGs for PforR operations. In particular, in the context of this PforR, all the implementing agencies will be required to agree to the application of the ACGs, and promptly inform the World Bank of any credible and material allegations of fraud and/or corruption regarding the PforR as part of the overall PforR reporting requirements. The World Bank will inform the recipient about any allegation that it receives. The applicability of the ACGs has been conveyed to MoH, *BPJS*, Maluku province and *Kabupaten* Maluku Tengah.

78. **Under the ACGs, the World Bank has a right to conduct an investigation into allegations of fraud and corruption.** The investigation can be conducted independently or in collaboration with the borrower, regarding activities and expenditures supported by the PforR. This requires access to persons, information, and documents in accordance with the standard arrangements for this purpose between the Government of Indonesia and the Integrity Vice Presidency (INT) of the World Bank.

[23] Kabar 24 bisnis.com, 5 February 2018, Dana Kapitasi BPJS Kesehatan Rentan Dikorupsi (BPJS Health Capitation Fund vulnerable from Corruption) by MG Noviarizal Fernandez.

79. **Ineligibility of firms and individuals sanctioned by the Bank to participate in the Program:** The assessment revealed that MoH, and LGs generally comply with the requirement of ineligibility of firms blacklisted by the Government and published on LKPP's website. The obligation of the Borrower under the World Bank's ACG to ensure that any person or entity debarred or suspended by the World Bank is not awarded a contract or otherwise allowed to participate in the Program during the period of such debarment or suspension, was highlighted to MoH and also pointed out to the Government's delegation during the Technical Discussion meetings prior to Program Negotiations. Since this is one of various requirements of the ACG, and given that application of the entire ACG is legally binding through the loan agreement, it was decided not to specify this as a separate action in the Program Action Plan, which is also in line with guidance received at the Regional Operations Committee to avoid duplication between the PAP, the DLIs, and the legal agreement.

## IV. Fiduciary Risk Assessment and Capacity Improvements

80. **Risk Assessment: Based on the information available at the time of the Assessment, the overall fiduciary risk is rated as Substantial.** A description of risks and mitigation actions, including actions to be included as proposed DLIs and/or in the PAP, is given below:

| Risk | Mitigation Measure | Type of Action |
|---|---|---|
| 1. No basic or compulsory financial management training (especially on annual budget preparation, treasury, inventory management and accountability of funds) received by working unit (*satker*) at *puskesmas*.<br><br>2. No monitoring of implementation of the capitation funds at *puskesmas* by MoH and *BPJS*. | MoH to include financial management training and fund utilization monitoring system as part of the *puskesmas* management training. | PAP |
| Weak internal control practices in the program, especially for implementation by *puskesmas*. | 1. *BPKP* should put in place a mechanism to systematically monitor internal control implementation in the Program and ensure achievement of level 3 internal control by 2019.<br>2. MoH should work together with MoHA to prepare guidelines for enabling effective implementation of internal control of capitation funds and *DAK non-fisik.* | |
| Weak internal audit practice in the program in MoH | *BPKP* should monitor internal audit implementation in the Program and ensure achievement of level 3 of IA-CM of MoH by 2019 | PAP |
| Absence of effective citizen compliant handling mechanism for Program implementation | Strengthen complaints handling mechanism under MoHA decree number 33/2011 for the Program. | |

| | | |
|---|---|---|
| Absence of effective initiatives to prevent and eradicate corruption related to Program implementation | *Bappenas*, together with *BPKP* and MoHA should monitor compliance with *INPRES* 10/2016 and achievement of the criteria of all ministries and participating local governments in the program should be in place. | |