

Public Disclosure Authorized

# **Investing in Nutrition & Early Years (INEY)**

## **Fiduciary Systems Assessment**

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## I. Executive Summary

1. The Fiduciary System Assessment (FSA) of the Program 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 program fiduciary risks are high before mitigation and substantial after mitigation. The risk provided that all mitigating measures are effectively implemented and the program is effectively supervised.

2. The assessment confirmed that the program has followed government financial management systems, which included planning, budgeting, executing and auditing arrangements. The program has satisfactory arrangements at the national implementation unit level. However, there is a need to strengthen capacity of the Secretariat of the Vice President (SoVP) that plays a role as national program coordinator.

3. In addition to the enabling and executing roles of SoVP, the Coordinating Ministry for Human Development and Culture, the National Planning Agency (Bappenas), and the Ministry of Finance (MoF), the program will be implemented by six (6) main Implementing Agencies as well as district and village governments. The central government implementing agencies are: Ministry of Health (MoH), Ministry of Education and Culture (MoEC), Ministry of Social Affairs (MoSA), Ministry of Villages, Disadvantaged Areas and Transmigration (MoV), Ministry of Home Affairs (MOHA) and National Statistical Agency (BPS). The procurement carried out by all Implementing Agencies is governed by the Presidential Regulation (*Perpres*) No. 54/2010 on Government Procurement, last amended through *Perpres* No. 4/2015, along with 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 non-consulting services and will be carried out through competitive bidding.

4. The assessment identified the following key risk: (a) Complex multi-sectoral program organization structure and lack of coordination amongst the multiple IAs may make it difficult for the Executing Agency (SoVP) to monitor and supervise fiduciary performance of the overall Program. SoVP

5. **Mitigation Measures:** Key risk is proposed to be mitigated through: (a) the Executing Agency, SoVP, assign dedicated personnel to coordinate, monitor and supervise FM and Procurement performance of the IAs under the overall Program; (b) include as part of the Program Operations Manual, clear procedures, roles and responsibilities of the Executing Agency (SoVP) and IAs in carrying out their respective fiduciary functions, covering Program planning, budgeting, procurement, implementation, monitoring, reporting, evaluation, and coordination; and (c) provide technical assistance, using the IPF Component, to strengthen SoVP fiduciary capacity, particularly in monitoring and reporting procurement and financial performance of the overall program, and program audit arrangements.

6. **Fiduciary inputs for the Program Action Plan:** Based on the fiduciary assessment, the following areas are considered as compliance/institutional strengthening as part of the Program Action Plan: (a) Improve use of reserve coding for program expenditures (tagging) in the treasury system (SPAN) to monitor the program budget realization; (b) Conduct external audits and take follow up actions on audit findings and recommendations; (c) Conduct internal audits of the Program by each agencies' internal audit team, and (d) Enforce timely submission of financial (LRA) and progress realization reports; and.

## II. Introduction

7. This is an assessment of the fiduciary arrangements of Government of Indonesia Investing in Nutrition and Early Years (INEY) 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.

8. The objective of the proposed World Bank operation is to increase simultaneous utilization of nutrition interventions by 1,000-day households in priority districts.

9. Program fiduciary risks are high before mitigation and substantial after mitigation. The risks provided that all mitigating measures are effectively implemented and the program is effectively supervised.

10. 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 Program implementation and identify actions, as needed, to enhance those systems.

11. 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. It reviews the capacity of Implementing Agencies to manage the program which include to plan, budget, execute, record, control, and produce timely, relevant, and reliable financial information. It examined whether the Program expenditure framework is comprehensive, clearly defined, and part of the borrower's regular FM processes. It also identified key strengths and weaknesses of the system that may have an impact on the achievement of the overall PDO. Procurement systems, procedures and policies were also reviewed in detail to cover each step of the procurement cycle – planning, tendering, evaluation, and award and contract management.

12. The FSA has been carried out through a review of documents, regulations, review of procurement and financial records, collection and analysis of data, and interviews with implementing agencies' staff in various functions, i.e. commitment officer (*Pejabat Pembuat Komitmen/PPK*), financial unit, inspector general, field facilitator, external auditor, district consultant, provincial consultant, procurement committee, planning staff. The assessment took lessons learned from other Bank financed projects' experiences and results of our existing engagements at central as well as local governments.

### III. Assessment of Program Fiduciary Systems

#### (i) Legal Framework

13. *Stunting Reduction Acceleration Strategy* is a national program that will be implemented by multiple agencies at national as well as local level. Program implementation is to be coordinated by the Secretariat of the Vice President's Office (SoVP). To implement the stunting reduction program, there are three laws which form the basis for 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.

14. The procurement of goods, works, consultant services and non-consultant services carried out by implementing agencies are governed by Presidential Regulation (*Perpres*) No. 54/2010 on Government Procurement, last amended through *Perpres* No. 4/2015, along with its technical guidelines and operational technical provisions for electronic procurement. The *Perpres* sets out the main principles that 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 state the use of competitive procurement methods as the default requirement, though 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.

15. The use of the SPSE (*Sistem Pengadaan Secara Elektronik*) e-procurement system is mandated for procuring contracts exceeding IDR 200 million (equivalent to US\$ 15,000). 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 procurement in each agency. The result of contract awards is also required to be published on a national website. Government officials and local private sector suppliers and consultants are familiar with the existing procurement framework. The *Perpres* also includes provisions for handling complaints, resolution of disputes, as well as remedies for breaches in integrity during the procurement process. The Government is recently issuing a new procurement regulation, 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.

16. All procurement processes carried out both at the national and district level are governed by the above Government Procurement Regulations. For procurement at the village level refers to *Perpres* 50/2010 and its amendments, along with additional regulations regarding procurement of goods and services at villages level through the Head of National Public Procurement Agency (LKPP)'s decree No.13/2013, with amendments in Head of LKPP's decree No.22/2015. These decrees state that the procurement at the village level will be governed by additional regulations supported by an operational manual issued by each head of district after considering social and regional aspects. In principle, the procurement of goods and services is to be done through "swakelola" (self-management) by community groups, to maximize the use of local goods and resources.

**(ii) Planning and Budgeting**

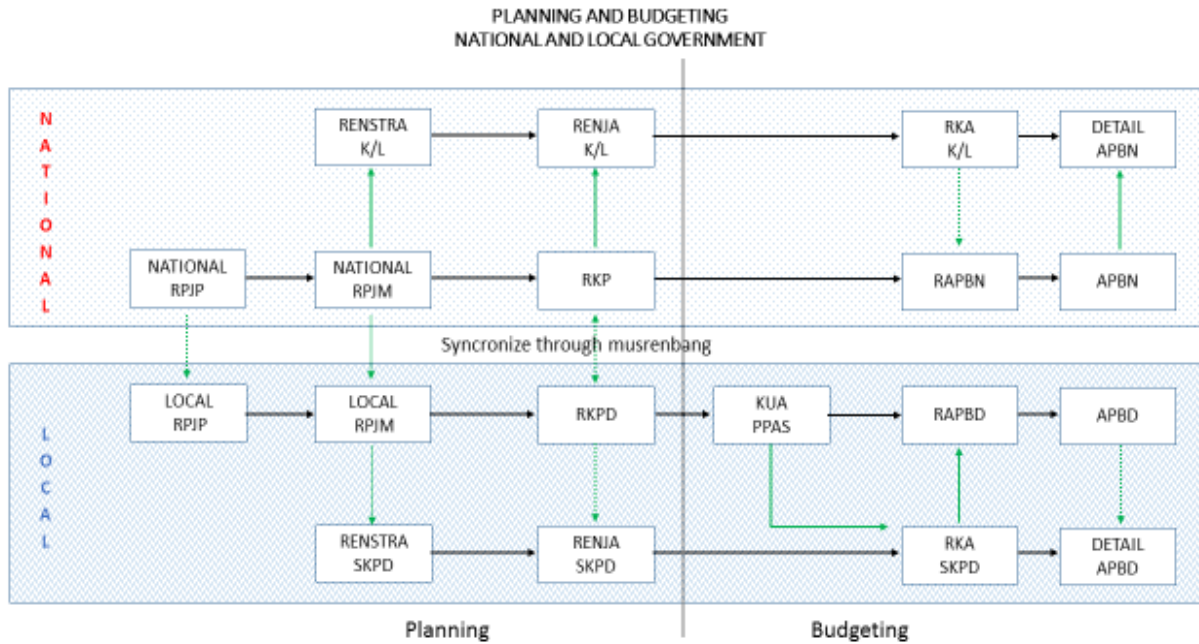
17. The planning and budgeting process is assessed as adequate. The INEY program is included in the government plan and budget. The budget is distributed to several line ministries and local governments. The program is budgeted annually like other government programs. Fiscal transfer budgets such as Special Allocation Funds (DAK) are budgeted and provided to local government for the stunting program purposes.
18. Based on PEFA 2017, The national budget has been allocated toward the government priority area. The reduction in fuel subsidies since 2015 has provided some fiscal space for the government to focus on more productive spending and fiscal decentralization. This has helped to develop priority infrastructure projects and target more efficient spending by expanding social assistance programs and fulfilling mandatory spending in education at 20 percent and health at 5 percent of total expenditure which include stunting program. The government showed its policy intent in the 2016 budget by maintaining low energy subsidies and sustaining the increase in pro-poor and pro-growth spending on infrastructure, health and social assistance.
19. Some progress in improving the quality of public spending is being made. In the 2016 budget, fuel and energy subsidies continued to decrease (at IDR 102 trillion). Supported in part by energy subsidy efficiencies, the 2017 allocation for infrastructure increased to 2.8 percent of GDP from 2.6 percent in the revised 2016 budget.<sup>1</sup> Allocations for health and social assistance remained constant at 1.4 and 0.6 percent of GDP, respectively. Household social assistance, however, was relatively low compared with the regional average of 1.0 percent of GDP and the developing country average of 1.5 percent of GDP. Similarly, Indonesia's health spending was low compared with its peers, which was an average 2.4 percent of GDP in East Asia and the Pacific, and 1.9 percent in lower middle-income countries.
20. The aggregate expenditure outturn was 95.5 percent of the original budget for 2014, but this declined to 87.4 and 88 percent of the original budget in 2015 and 2016, respectively. In 2015, the 12.6 percent deviation between the original budget and budget outturn reflects the transition period ushering in the new government elected in 2014, and the need for policy adjustment in the budget prepared by the previous administration. In 2016, the 12 percent deviation reflects the government's effort to maintain fiscal discipline through two significant budget revisions and reductions.
21. The program budgeting process follows the existing government procedures. After decisions are made in June regarding overall budget ceilings for the next fiscal year, implementing agencies prepare program budgets in July and submit them to Ministry of Finance (MoF) for budget consolidation and to Bapenas (Planning Ministry) to conform with national development plan, as with other government programs. All line ministries discuss the budget with relevant commission in the Parliament (DPR) during August-September. At the end of October, the Consolidated line ministry 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 with the DPR and adopted as the draft Annual Budget Law (RAPBN).
22. MoF issues circulars setting out definitive budget ceilings in November. Each Line Ministry (LM), including all implementing agencies 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 agencies' budget work plan and supporting documents, including Terms of Reference (ToR) and the

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<sup>1</sup> This follows the Ministry of Finance definition that includes selected central line ministry spending, estimates of transfers to subnational governments for infrastructure, and financing investment (e.g., capital injection to SOEs).

Expenditure Plan (RAB). DG Budget then approves the Budget per Work Unit document (SAPSK) and submits this to the Directorate General of the Treasury (DG Treasury) at the MoF.

23. Following the issuance of 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, INEY focuses on priority interventions.
24. At the local government level, local long-term plan (RPJP) should be prepared in accordance with Government Regulation (PP) No.8 Year 2008. Local RPJP should refer to National RPJP. Based on Local RPJP, the local government prepares a Local Medium-Term Plan (RPJM) which considers National RPJM. The local RPJM is a basis to prepare Local Strategic Plans (Renstrada). Based on the Renstrada, Local Working Units (SKPD) prepares Work Plans for the Working Unit (Renja SKPD). RPJMD will be detailed into the local government work plan (RKPD), which refers to Renja SKPD. National RKP and Local RKPDs are synchronized through a national development meeting (National Musrenbang). RKPDs are a basis for the budgeting process and help prepare general policy of local government priority and budget for preparation of Local Government Budget (APBD).
25. To synchronize with National Planning, local governments prepare 'General Policy of APBD' (KUA) and a 'Priority and Temporary Budget Ceiling' (PPAS). KUA and PPAS are agreed with Local Parliament (DPRD) and serve as a basis to prepare Local Government regulation on APBD. Provincial KUA and PPAS refer to provincial RKPD, which has synchronized with the National RKP. Districts refer to district RKPD, which has synchronized with National RKP and Provincial RKPD. Synchronization results are submitted to the Ministry of Home Affairs with draft PERDAs, APBDs and relevant supporting documents attachment. Diagram 1 shows the national and local level Planning and Budgeting process.



26. Budget for village level activities take places at Puskesmas (Community Health Centre) and Village Government (Pemdes). Budget for Puskesmas comes from government health insurance (BPJS), central government special allocation fund (DAK) and local government subsidy. BPJS fund depends to some requirements, including number of clients/patients. DAK non-physic uses for Puskesmas' operation expenditures. Central government has allocated more DAK for Puskesmas activities in 2018.
27. Budget at Pemdes in FY 2017 was mostly come from central government village fund (DD) and provincial government village grants (ADD). There were not significant expenditures for health activities yet, especially for stunting reduction program. The central government as well local government encourage village government to allocate more budget to the stunting reduction program activities starting FY 2018.
28. Village government together with BPD and Community representatives, make the decisions at Village Planning Meeting on Activities and Budget. Village issues Village Regulations on Village RPJMDes (Village Mid Term Development Plan), RKPDes (Village Annual Work Plan) and APBDes (Village Budget). Village must develop RPJMDes by three months after the inauguration of Village Head. Each year between July to September, Village develops RKPDes for upcoming year planning. MoV issues annual Regulation on The Priority Use of Dana Desa to be referenced by Villages in developing RKPDes. The delay in issuance the regulation will cause delay in issuance of Villages RKPDes and delay the budget execution.

**(iii) Treasury Management**

29. The treasury management system for the program is adequate. The system has reasonable time to transfer funds from the treasury office to third parties in a reasonable amount of time. National budget (APBN) uses central treasury office (KPPN) which are in almost all provinces. While local budgets



(APBD) use local treasury office (Kasda). APBD includes budget from special allocation funds (DAK) for program activities.

30. Since 2015, Central Government Treasury System (SPAN) has been successfully implemented by the Treasury Offices (KPPNs) to process and control central government payments in their respective regions. It has been rolled out to 222 locations across Indonesia. SPAN now manages all the financial transactions performed by over 24,000 government spending units. It consolidates government revenues into a Treasury Single Account (TSA) held at Bank Indonesia (BI) and routes all payments through this account. Daily cash balances and comprehensive transaction data of central government treasury offices are captured on a real-time basis.
31. There is a risk of payment delay if an implementing agency submits incomplete documents. Based on random review sampling, if supporting documents are adequate, all payment order is processed within 1-2 days. A checklist of required supporting documents helps implementing agencies submit documents to KPPN and Kasda completely.
32. The program follows the existing government treasury system. Once the central budget document (DIPA) and local budget document (DPA) are effective, the commitment officer (PPK) in implementing agencies can execute the budget and enter into commitments with third parties. A new treasury system (SPAN) has been working effectively for national treasury system since 2015. The system simplifies and speed up the treasury process for central government budget. The local government systems vary. There is no single system for local government treasury.
33. The PPK enters into commitments and signs contracts with third parties. After signing the contracts, the flow of funds begins. PPK submits a payment request (SPP) to the Treasury Office (KPPN/Kasda) 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 treasury office (KPPN/Kasda).
34. KPPN/Kasda reviews the SPM and checks whether the SPM is made under the relevant DIPA/DPA and is supported by adequate budget balance. The KPPN/Kasda then issues a payment order/instruction (SP2D) to Government/Local Treasury Account (GTA/LTA). The GTA/LTA then transfers the funds directly to the third parties. KPPN/Kasda has one-working-day standard for processing SPMs when all documents are correct and complete. KPPN/Kasda processes in 1-3 days in practice. The line ministry can monitor the payment process online through the Treasury website for national budget. Not all local governments have an online monitoring system. Below is the diagram depicting the flow of funds process for APBN and APBD.

Figure 1: Central Government Flow of Funds Process Map

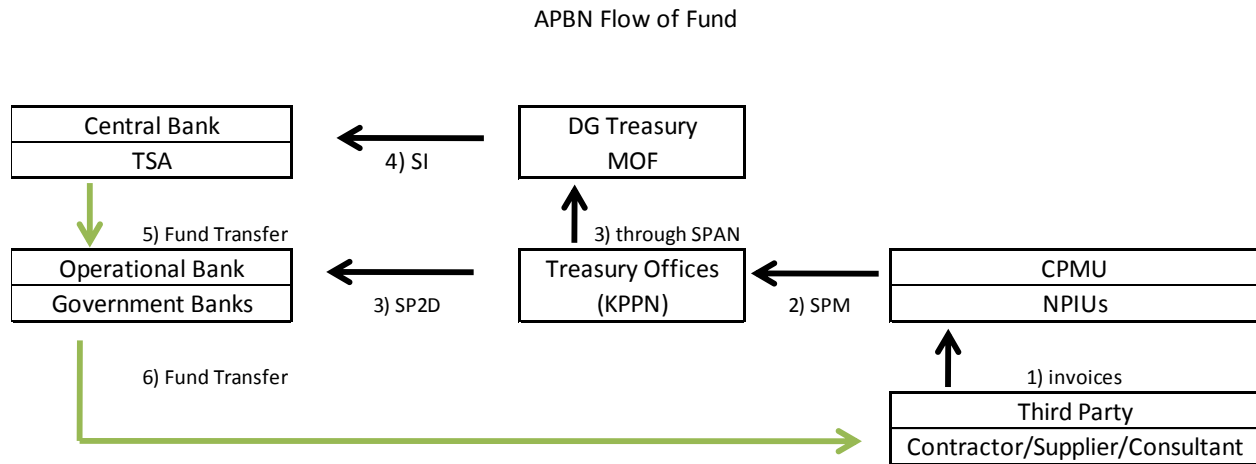
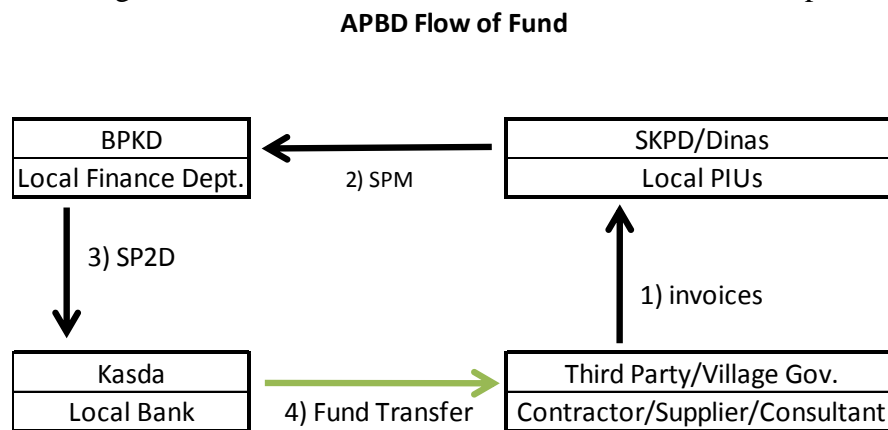


Figure 2: Local Government Flow of Funds Process Map



35. As community health center, Puskesmas manages its fund independently. As mentioned above that Puskesmas mostly receives the fund from BPJS, DAK non-physic and local subsidy. Puskesmas receives BPJS fund and local subsidy on a monthly basis; while receives DAK in two tranches. Puskesmas may receive a small registration fee (\$0.15) from the patient. This revenue should be transferred to local government treasury account in the following day. Puskesmas follows MOH technical guidelines to manage all the fund.

36. Dana Desa (village fund) is made in three tranches from local treasury office. The first Tranche (20%) in January till Week 3 of June. This requires notification letter on issuance of Perda APBD (District Regulation on District Budget) and District Head Regulation on Dana Desa Distribution. The second tranche 40% in March to Week June which require Report on Disbursement Realization of Dana Desa for previous year and Consolidated report on Utilization and Output Achievement of Dana Desa for previous year. The third tranche 40% in July to December which require Report on Disbursement

Realization of Dana Desa up to Tranche 2 and Consolidated report on Utilization and Output Achievement of Dana Desa up to Tranche.

37. Once village government receives the fund, they can execute the village annual budget (APBdesa). For Alokasi Dana Desa (local village grant), the disbursement and its conditions are regulated by Bupati/Walikota. In some districts it follows the Dana Desa disbursement, in some other districts it's done quarterly. Delay in submission of required reports by villages will delay in disbursement of all funds allocated to villages.

**(iv) Accounting and Financial Reporting**

38. As part of government program, all program implementing units (satker) use the government accounting and reporting system (SAI) application to record overall program expenditures as well as line item expenditures. SAI application produces financial reports on a regular basis quarterly, bi-annually, and annually. The government has been following accrual basis of accounting since FY 2015. In the last five years, all central and local government agencies produce financial reports in a timely manner.
39. PEFA 2017 noted that There has been an improvement in the quality of the government's annual financial reports (LKPP), shown by the achievement of an unqualified audit opinion from BPK for the first time in 2016. This unqualified opinion is the first such opinion achieved since the first annual financial accountability report was prepared and initiated in 2004. Based on audit results, BPK confirms that LKPP 2016 was presented fairly on all aspects in accordance with Government Accounting Standards (SAP). Results of the LKPP 2016 were based on the results of 87 financial statements of ministries/agencies (LKKL) and one State Treasurer Financial Report. Seventy-four LKKLs, or 84 percent of the total, obtained an unqualified opinion, while LKKLs, or 9 percent of the total, were provided with a qualified opinion, and six LKKLs, or 7 percent of the total, received a disclaimer opinion. However, the qualified and disclaimer opinions did not affect BPK's overall audit opinion for the 2016 LKPP.
40. Program financial reports will use a standard government report for Budget Realization (LRA) that produced by government accounting system. LRA are prepared and follow a cash basis by each implementing agency. SoVP will compile the LRA reports for program financial purposes both from central as well as local government agencies every semester. SoVP compile the reports manually using excel sheet. The annual report will be used for monitoring program implementation and for audit purposes. Due to inadequate FM capacity at SoVP, there is substantial risk in SoVP preparing the consolidated LRA. SoVP will prepare also project financial report for IPF component. There is a need to strengthen FM capacity and provision of FM technical assistance to the SoVP during program implementation.
41. Puskemas use standard accounting and reporting based on MOH decree number 61 year 2017 with a standard report format. The reports are submitted to Dinas Kesehatan (Local Health Agency) and Local Government Financial Agency (BPKAD). Dinas Kesehatan compiles the reports at district level and forward it to MOH at national level. BPKAD submits utilization of DAK report to DG fiscal balance, MOF. As MOF will transfer the next DAK transfer upon receiving the reports from previous trance utilization.

42. At village government, all villages use standard bookkeeping and reporting system based on Permendagri 113/2014. 87% of priority locations have used Siskeudes, a formal software for village financial management developed by BPKP and MOHA to record revenue and expenditures as well as produce necessary financial reports. Village submit financial reports (APBDes Realization Report and Dana Desa Utilization & Output Achievement Report) to District. The use of Siskeudes has enabled Villages to produce necessary reports timely and accurately.
43. District will compile all Village APBDes Realization Reports which then use it as an annex to District Financial Report which will be audited by BPK (Supreme Audit Board). No national compilation on Village APBDes Realization Reports being done yet. District will report the Dana Desa Utilization & Output Achievement through manual input the report from Villages to OM-SPAN (*Online Monitoring Sistem Perbendaharaan & Anggaran Negara*) managed by DG Treasury of MOF. This is required to disburse the Dana Desa. The manual inputting data onto OMSPAN in many districts has caused delay in the disbursement of Dana Desa.

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

44. The procurement expenditure under the Program represents only a small fraction of the total Program value. The procurement under the program is mainly for procurement of goods such as procurement of medicines and vitamins under MoH, and procurement of modules, flipcharts and books under MoEC. The share of procurement in the annual Program budget ranged between 1% to 3% for each Implementing Agency. However, 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. Training and socialization associated to the Program will also be done by each Implementing Agency.

**(vi) Procurement Methods for the Program**

45. In practice, all Implementing Agencies apply 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 (equivalent to US\$ 385,000) were procured by IAs following public bidding method which requires advertising of the bidding notice for at least 7 working days.
46. For the remaining smaller value contracts of a non-complex nature with an estimated cost between IDR 200 million (equivalent to US\$ 15,000) and IDR 5 billion (equivalent to US\$ 385,000), IAs follow the simplified competitive bidding method which requires advertising of not less than 3 working days. This includes procurement of medical equipment, medicine, vitamins and related goods.
47. Procurement of goods and services at the district level is carried out by a Procurement Service Unit in the district for contracts above IDR 200 million through competitive bidding. District Office such as District Health Office in Cianjur District also carried out the procurement of goods, particularly medicines through an e-catalogue, given the value is relatively small and included in the e-catalogue. Based on data provided, the average contract amount for 12 contract packages in 2017 was about IDR 23.70 million with a total cumulative contract amount of IDR 284,361,950 (US\$ 21,063).
48. Procurement of goods and services at the village level is divided into three (3) categories: i) For values up to IDR 50 million (equivalent to US\$ 3,700), the procurement of good and services is done through direct purchase to the supplier without any needed documentation; ii) For values between IDR 50 million up to IDR 200 million (US\$ 3,700 – US\$ 15,000), the procurement process is done to one supplier with request for quotation and supplier's quotation documentation attached; iii) for values

above IDR 200 million, the community is to send a request for quotation in writing to two (2) suppliers to submit their quotations in writing as well.

**(vii) Evaluation and Award Criteria**

49. The procedures for qualification, evaluation and award are relevant and non-discriminatory. The pass/fail evaluation under *Perpres 54/2010* criteria is used by IAs mainly for the procurement of goods/other services, whilst scoring evaluation systems and lifetime economic value evaluation systems are applied for complex procurement of goods/other services. The evaluation criteria are stated clearly in the bidding documents.

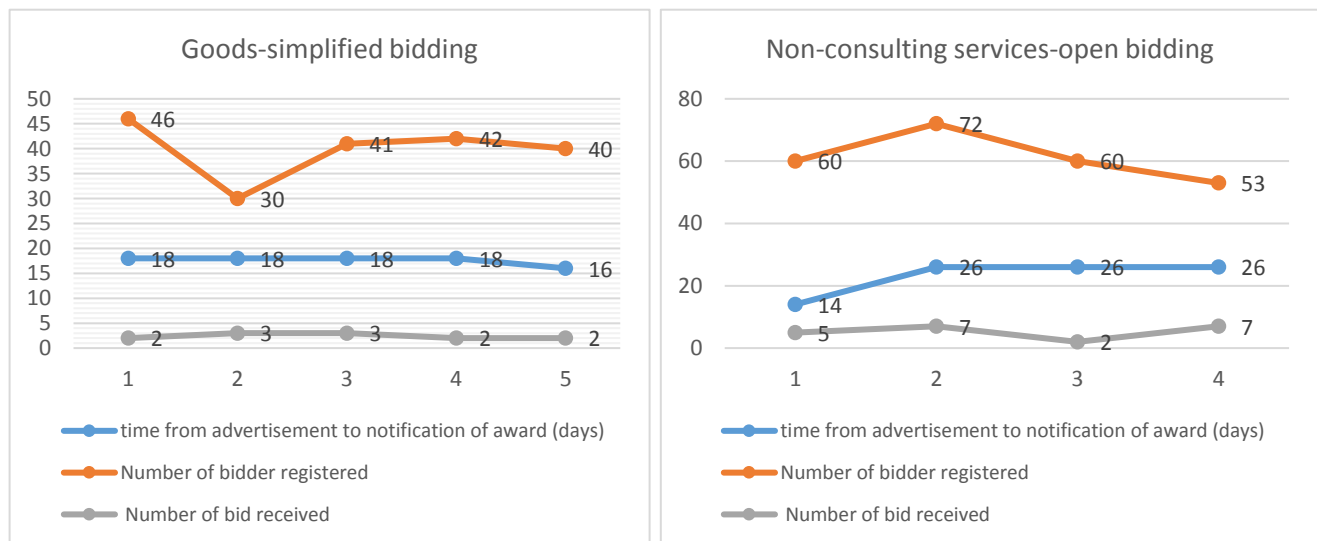
**(viii) Procurement Organization and Capacity**

50. The procurement process of goods and other services under the Program is carried out in central procurement units at Implementing Agency head offices *as well as through Unit Layanan Pengadaan-ULP (Procurement Service Units) at the district level*. The procurement is required to be carried out by procurement accredited staff in ULPs, 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 and district level manages all procurement packages (works/goods/other services and consulting services) under the Program. Its current staffing level and capacity is considered adequate for meeting the procurement needs of the Program.

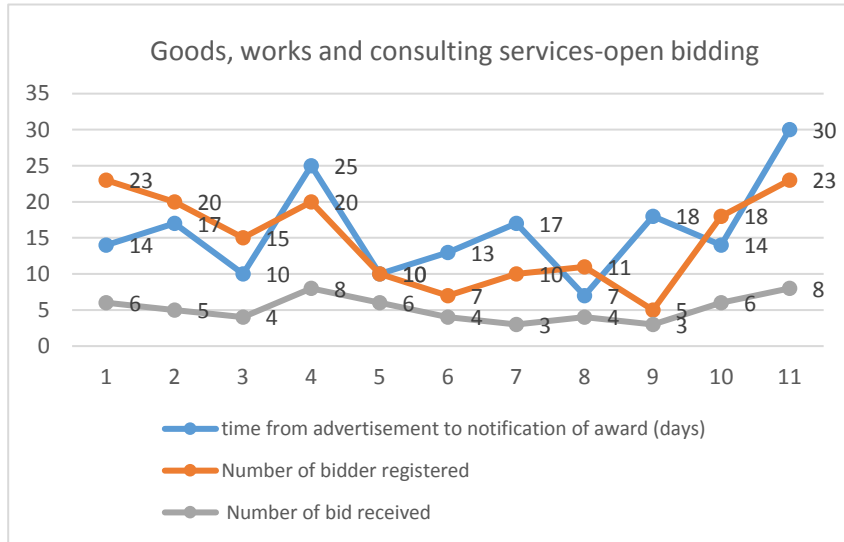
**(ix) Procurement Performance**

51. The information provided by each Implementing Agency varies in terms of procurement contract management data. Contract management data are limited to name of supplier/contractor/consultant, contract signing date, contract amount and completion date. The following is summary of procurement performance for each Implementing Agency:

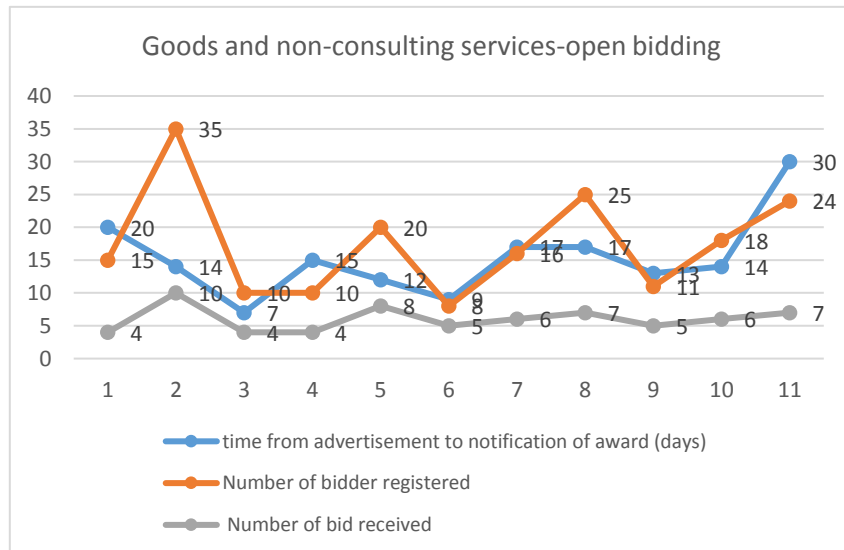
- a. Ministry of Villages: It is indicated that the time period to complete the procurement process through simplified bidding is between 16-18 days while for open competitive bidding it took between 14-26 days. The level of competition, in terms of number of bid submissions, is limited. Between 2 and 3 bidders are given the simplified bidding method, while for non-consulting services, the number of bids received is between 2 to 7. Data show that the procurement process was carried out in a timely manner.



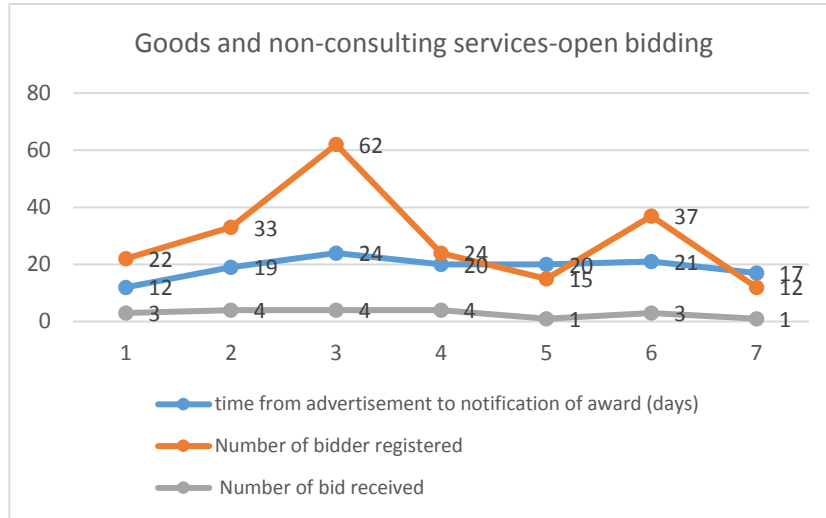
- b. Ministry of Health: It is indicated that the time period to complete the procurement process through open competitive bidding is between 10-30 days. The level of competition, in terms of number of bid submissions ranged from 3 to 8 bidders per bidding package, while a much larger number of firms (5 to 23) were registered in the SPSE system. It is shown that the procurement process was carried out in a timely manner.



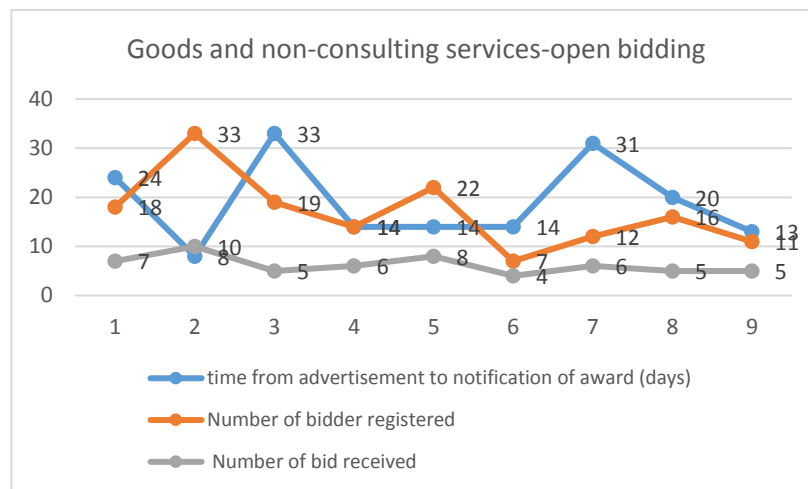
- c. Ministry of Education and Culture: It is indicated that the time period to complete the procurement process through open competitive bidding is between 7-30 days. The level of competition, in term of number of bid submissions ranged from 4 to 10 bidders per bidding package, while a much larger number of firms (8 to 35) were registered in the SPSE system. It is shown that the procurement process was carried out in a timely manner. The procurement of modules and flipcharts will be carried out under MoEC for the program.



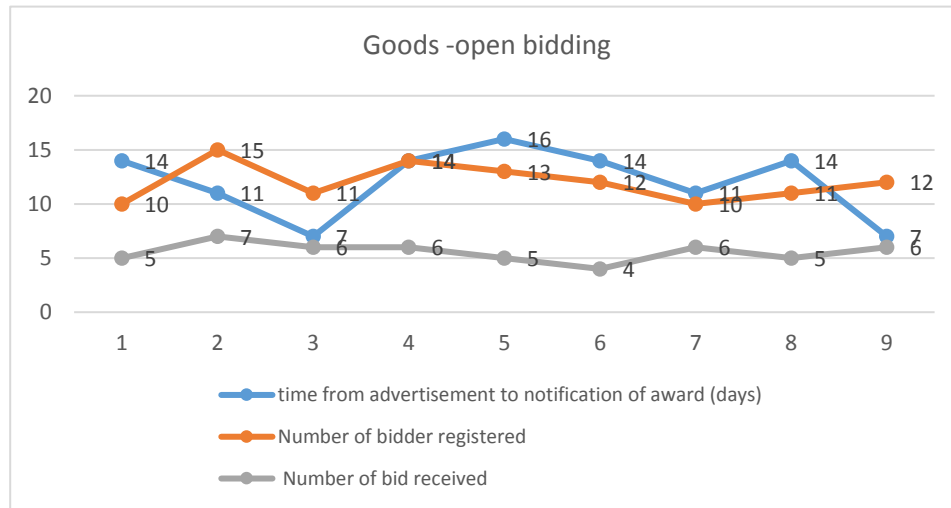
- d. Ministry of Social Affairs: It is indicated that the time period to complete the procurement process through open competitive bidding is between 12-24 days. The level of competition, in terms of number of bid submissions ranged from 1 to 4 bidders per bidding package, while a much larger number of firms (12 to 62) were registered in the SPSE system. It is shown that the procurement process was carried out in a timely manner.



- e. Ministry of Home Affairs: It is indicated that the time period to complete the procurement process through open competitive bidding is between 8-33 days. The level of competition, in terms of number of bid submissions ranged from 4 to 10 bidders per bidding package, while a much larger number of firms (7 to 33) were registered in the SPSE system. It is shown that the procurement process was carried out in a timely manner.



- f. National Statistical Agency (BPS): It is indicated that the time period to complete the procurement process through open competitive bidding is between 7-16 days. The level of competition, in terms of number of bid submissions ranged from 5 to 7 bidders per bidding package, while a much larger number of firms (10 to 15) were registered in the SPSE system. It is shown that the procurement process was carried out in a timely manner. However, it is expected that there will be no procurement under BPS related to the program.



**(x) Internal Controls**

52. The internal control system at the national and local level follows the existing government system. Government issued a Government Regulation No. 60/2008 and adopted COSO as its control framework in August 2008. Each ministry/agency has internal audit unit (Inspectorate General) that report to minister or head of the agency. BPKP has collaborated with the Inspector General (IG) and Local Inspector (ItDa) to ensure they are providing support to implementing units in strengthening controls.
53. Overall, the internal control framework of the public spending entities in Indonesia is now in place and aligned with the five components of internal control from the COSO framework. Based on BPKP's evaluation of internal control maturity as mentioned in PEFA 2017, the mission noted that except MOF, two major ministries that executed Stunting Program has not achieved level 3 yet in internal control maturity level as shows in table below. The internal control for all ministries should be improved and followed MOF circular letter PMK No. 09/2017, which provides guidelines for the implementation, assessment and review of Internal Control over the Central Government Financial Report (ICOFR).

Ministry	Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring
MOH	2	1	3	3	1
MOEC	2	2	3	3	3
MOF	4	4	4	4	4

54. Based on PEFA 2017, internal controls on non-salary expenditure are adequate. 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 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.

55. The internal audit function, through the Inspectorate General (IG), is effectively in place in all spending agencies and local government agencies. The IG/ItDa also supervises and monitors the follow up actions of external audit findings. IG/ItDa's assignment mostly involves conducting compliance audits on the operational aspects of the Program. However, the capacity and therefore the effectiveness of the internal audit function is still limited and mostly devoted to compliance-related checks.
56. The mission reviewed some IG audit reports from related line ministries for FY 2015-2016. The audit assignments mostly operational and compliances audit. The main findings are: non-compliance to rules and regulations; inefficiency; inadequate supporting documents; ineligible expenditures and should be refunded to government account; and weaknesses in internal control system.
57. Besides conducting an audit to the technical activities, one of technical IG also conducted an audit of Puskesmas (community health center). One example of the findings in Puskesmas is, Puskesmas did not do orderly bookkeeping and the records are not in accordance with the provisions in the Puskesmas operational manual. In addition, the auditor found that there were activities that have not been supported by sufficient evidence.
58. We noted that one IG plays supervisory roles to local government administration. The IG conducted a compliance audit to development of local government planning. The IG found that local government plan was not consistent with national policy and lack of control and lack of evaluation to the local plan.
59. Even though IG does not conduct financial audit assignment. However, IG also conducted an audit to financial transaction related as well. One of technical IG found overpayment of travel allowance of IDR 8,1 million (USD 600) and workshops expenses of IDR 6.7 million (USD500) which not supported by adequate supporting documents. The auditor required the person to refund the money to treasury account.
60. Internal audit plans and reports are implemented, but findings are not followed up in a consistent and effective manner (PEFA 2017). In general, Management response to the internal audit findings is partial and only for the majority of findings. Based on sample, follow up internal audit findings FY 2015 in three major implementing agencies are 81%, 46% and 74% subsequently.
61. BPKP has developed a tool to measure the depth and maturity of the internal control implementation at the public sector level (implementation level of internal control with a level 5 as the most comprehensive implementation of internal control). From a total of 628 IGs and local inspectors (LIs) in the country, 328 are in level 2 and 26 are in level 3 as of 2016.
62. Based on internal audit maturity level, most of the IG and ItDa are at level 1 and 2. While the government set up a target that by 2010 most of IG/ItDa should be in level 3. Based on internal control review, there are some areas need to be improved, especially on planning, human capacity, inventory and assets management. The risk relating to internal controls is high and can be mitigated through several steps, which include internal auditing, external auditing, improvements to budget tagging, and inventory and assets management.
63. ItDa conduct operational and compliance audit to local government units as well as Puskesmas and Pemdes (village government). Due to limited resources, ItDa conduct the audit assignment on sample

and risk-based, especially to Puskemas and Desa. ItDa may conduct the audit to Puskemas and Desa within 10-30% samples.

**(xi) Program Financial Audit**

64. Based on Law 15/2014, BPK is mandated to audit all the government agencies, including local government units. BPK audits all line ministries and local government financial statements annually. There are three types of audit assignment by BPK: i) Financial Audit ii) Performance Audit and iii) Special Audit, Inc. investigative audit. BPK has achieved many good results in public sector auditing, as recognized by peer review reports from Netherland SAI in July 2009 and Poland SAI in April 2014. BPK has been following national financial audit standards (*Standard Pemeriksaan Keuangan Negara*, or SPKN) since 2007. Over time, BPK has revised and improved the SPKN, which are generally aligned with ISSAIs. BPK recently approved the standards through BPK Decree No. 1/2017 issued on January 6, 2017.
65. BPK expressed unqualified opinion to all six ministries that implement INEY program. However, based on BPK 2016 internal control review, there are some areas that need to be improved as shows in the table below.

Line Ministry	Auditor Opinion	Follow-up 2015 Rate (%)	Internal Control Review Areas need to be improved
Ministry of Health (MOH)	Unqualified	38	non-taxes revenue, procurement, petty cash, receivables, inventory, fixed assets, short term liabilities and direct grants management.
Ministry of Education (MOE)	Unqualified	70	Block grant to community and Indonesia smart program management,
Ministry of Home Affair (MOHA)	Unqualified	100	Petty cash and inventory management
National Statistical Agency (BPS)	Unqualified	100	Receivable collection, Asset management and construction management
Ministry of Village (MOV)	Unqualified	100	Block Grants and asset management
Ministry of Social Affair (MOSA)	Unqualified	86	Budget classification, inventory, intangible and social fund management

66. Even though BPK expressed unqualified opinion to the financial report of ministry education, the auditor also found that social fund for Indonesia smart program did not disburse IDR 8.3 billion (USD 615K) as of December 31, 2016 to the beneficiaries. In addition, there are some beneficiary students which not accordance to the requirement.
67. BPK found inadequate lease payment on government assets of IDR 3.4 million (USD 250) and late payment of non-taxes revenue of IDR 210 million (USD 15.500) in ministry of social affair (MOSA). The auditor recommended that PIU refunded such amount to the government treasury account.
68. Based on Law No. 15/2004 states that the auditee (officer) needs to respond to the follow-up actions stated in BPK audit findings within 60 days. Otherwise, the officer may be subject to administrative sanctions in accordance with the provisions of the law and regulations on personnel. Most agencies

submit their formal responses within 60 days. However, these responses are formal responses without comprehensive follow-ups that list the implementation of the recommendations. Based on PEFA 2017, the agencies' response rate for FY 2014 and FY 2015 was 35 percent and 46.5 percent, respectively. However, the cumulative response rate as of December 31, 2016 was 69 percent. This indicates that it requires more than one year for agencies to follow up on BPK's findings to achieve the rate.

69. Implementing agencies will submit the program budget realization report to SoVP. Then SoVP, will provide compilation financial reports to BPK for audit purposes. However, since SoVP is not accounting entity and only compiling the financial reports from the line ministries. Moreover, there is no budgeting relationship between SoVP and the line ministries. As all line ministries have their own budget and execute the budget independently. In addition, they use government own fund, instead of the Bank's sources. Therefore, BPK will audit and provide audit opinion to the program expenditures under each ministry.

**(xii) Transparency**

70. Based on Law No. 14 year 2008 regarding Transparency of Public Information, all Public Information is to be open and accessible by every User of Public Information. An exception to the Public Information is that if information is restrictive and limited. Every Public Information Applicant shall be able to obtain Public Information promptly, at low cost and in a simple manner.
71. The exception is when it is classified as confidential information pursuant to Law, ethics, and the interest of the public; based on an examination of the consequences that may 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.
72. Line Ministry (LM) and Local Government (LG) may use electronic and non-electronic media as facilities to disseminate information. However, it is not clear whether LM/LG should provide the information actively or passively (only on demand basis). There is no monitoring and evaluation from Ministry of Information on whether LMs/LGs follow laws and regulations on transparency of public information.
73. It is noted that LMs/LGs provide some basic information regarding their activities in the ministry/LG website. The information does not go into detail regarding budget amounts, locations and end users. TNP2K typically provides more information on programs compared to LM/LG websites. To improve transparency, there is a plan to make INEY information more open and accessible to all stakeholders. Implementing agencies plan to improve its communication strategy at central as well local level, develop monitoring and evaluation systems, and strengthen complaint-handling mechanisms. Implementing agencies expect that the program will be more transparent by implementing this action plan. We will further assess transparency issues with SoVP/TNP2K.
74. 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 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 the SPSE e-procurement system. Contract award information is also published in the website of the national 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 e-catalogue are not publicly disclosed, as such procurements are carried outside SPSE.

**(xiii) Complaint Handling**

75. The *Perpres 54/2010* includes provisions allowing bidders to submit complaints on the procurement process within 5 (five) working days after announcement of the bidding result through SPSE system and requires the complaint to be reviewed in the first instance by the procurement service unit (ULP) of the implementing agency, which must be responded to within a specified number of days. During the procurement assessment, IAs staff had informed that procurement related complaints have rarely been received in the contracts awarded during the last three years. Should complaints be received, they are forwarded to the concerned ULP for action.

**(xiv) Fraud and Corruption**

76. Like other programs, INEY's implementation challenges are related to governance and anti-corruption. INEY is nationwide and requires a high volume of financial transactions. It is politically high-profile and engages multiple government actors at the national and sub-national levels. The program locations are often in remote and inaccessible areas, exacerbating implementation challenges and increasing risk. The program has main exposure on fraud and corruption procurement, especially at the local level. The risk is of noncompliance to the World Bank's list of debarred/temporarily suspended firms.

77. The national procurement regulation, *Perpres 54/2010*, includes provisions against fraud and corruption. Also, the Commitment Making Official (PPK), procurement officer, and work acceptance officer are required to sign 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 practice in the procurement process. Contractors are also required to sign 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.

78. **Detection Risks:** Detection risk will continue to be a challenge as some level of fraud and corruption is inevitable due to the sheer scale of coverage. Some factors contributing to this risk are: a) Collusion with implementing agencies and among bidders; b) Splitting packages into smaller value contract to avoid the bidding process. To mitigate these risks, many controls are in place, such open bidding and transparency of payment processes. In addition, LMs/LGs have set up complaint-handling mechanism for recipients to report any issue regarding the government program. Moreover, beneficiaries or others may raise issues to other grievance resolution systems, such as Ombudsman, On-line community complaints (LAPOR), internal/external auditors and the anti-corruption commission (KPK).

79. **Applicability of the World Bank Anticorruption Guidelines for the PforR.** Through the PforR's legal documents, the recipient of the loan is formally committed to the obligations under the Anti-Corruption Guidelines (ACG) 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 ACG, 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.

80. **The World Bank has a right to conduct an inquiry into such allegations** or other indications, independently or in collaboration with the borrower, regarding activities and expenditures supported by the PforR and the related access to require 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.

#### IV. Fiduciary Risk Assessment

81. Based on the information available at the time of assessment, the overall Fiduciary Risk is high mainly because program implementation involves a unique multi-sectoral structure with multiple implementing agencies that may make it difficult for the Executing Agency (SoVP) to: (a) monitor and supervise the budget preparation, procurement, and execution of the overall Program; (b) prepare consolidated program financial reports or budget realization reports (LRA) without delays; and (c) assess the overall efficiency and effectiveness of Program expenditure. The mitigation measures listed below will bring the residual fiduciary risk of the Program down to Substantial.

Risk	Mitigation Measures
<p>Complex multi-sectoral program organization structure and lack of coordination amongst the multiple IAs may make it difficult for the Executing Agency (SoVP) to monitor and supervise fiduciary performance of the overall Program</p>	<ul style="list-style-type: none"> <li>• The Executing Agency, SoVP, assigned dedicated personal to coordinate, monitor and supervise FM and Procurement performance of the IAs under the overall Program.</li> <li>• Include as part of the Program Operations Manual, clear procedures, roles and responsibilities of the Executing Agency (SoVP) and IAs in carrying out their respective fiduciary functions, covering Program planning, budgeting, procurement, implementation, monitoring, reporting, evaluation, and coordination.</li> <li>• Provide technical assistance, using the IPF component, to strengthen SoVP fiduciary capacity, particularly in monitoring and reporting procurement and financial performance of the overall program, and program audit arrangements.</li> </ul>

#### V. Fiduciary Inputs for Program Action Plan

82. Based on the fiduciary assessment, the following areas are considered for compliance/institutional strengthening as part of the Program Action Plan: (a) The Executing Agency, SoVP, assigned dedicated personal to coordinate, monitor and supervise FM and Procurement performance of the IAs under the overall Program; (b) Include as part of the Program Operational Manual, clear procedures, roles and responsibilities of the Executing Agency (SoVP) and of the IAs in carrying out their respective fiduciary functions, covering Program planning, budgeting, procurement, implementation, monitoring, reporting, evaluation, and coordination (c) Provide technical assistance, using the IPF component, to strengthen SoVP/TNP2K fiduciary capacity, particularly in monitoring and reporting procurement and financial performance of the overall program, and program audit arrangements.