



# Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 15-May-2023 | Report No: PIDC268198

**BASIC INFORMATION****A. Basic Project Data**

Project ID	Parent Project ID (if any)	Environmental and Social Risk Classification	Project Name
P179398		Low	Enhancing BPK Performance Audit Capacity
Region	Country	Date PID Prepared	Estimated Date of Approval
EAST ASIA AND PACIFIC	Indonesia	15-May-2023	
Financing Instrument	Borrower(s)	Implementing Agency	
Investment Project Financing	Republic of Indonesia	Badan Pemeriksa Keuangan (The Audit Board of the Republic of Indonesia)	

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

Total Project Cost	1.70
Total Financing	1.70
Financing Gap	0.00

**DETAILS****Non-World Bank Group Financing**

Trust Funds	1.70
Indonesia - Support Public Financial Management	1.70

**B. Introduction and Context**

## Country Context

1. Indonesia has made substantial progress in many areas of public financial management (PFM) in the last decade. There are PFM reform programs successfully implemented in the last ten years, including integration of routine and development budgets, computerization of budget and treasury system through the Government Financial Management Information System or *Sistem Perbendaharaan dan*



*Anggaran Negara* (SPAN), the introduction of a Treasury Single Account (TSA), and implementation accrual method in government financial reports.

2. Despite some progress, the government recognizes areas that need to be improved. These areas include optimization of state revenues, integration planning and budgeting, and internal and external audit. Starting from FY 2021, a new “Redesigning of the Planning and Budgeting Systems” (*Redesain Sistem Perencanaan dan Penganggaran – RSPP*) reform was introduced by the Ministry of Finance and Bappenas. The new system changed the program classification structure from “Money Follow Functions”, which aligns programs and activities with the organizational structure (1 Directorate General is 1 Program), to “Money Follows Programs”, in which a Program is now being implemented by “one or more than one” Echelon 1 units and/or “one or more than one” Line Ministries.
3. The money follows programs principle is intended to: (i) improve the alignment between planning and budgeting documents as mandated by government regulation (PP) No. 17/2017; (ii) enhance the convergence of a program that is implemented by different line ministries (cross programs) that contribute to one similar results; (iii) strengthen Performance Based Budgeting through improving performance orientation in planning, budgeting, implementation, and evaluation processes; (iv) improving the evaluation of the program’s performance enabling it to achieve its planned outcomes; and (v) using performance evaluation to inform the allocation of resources to the specified programs in the following years.
4. There are significant efforts to improve government internal audit through the achievement of level 3 of the Internal Audit Capability Model (IA-CM) and modernizing its practice. IA-CM level 3 requires internal audit units to focus on the evaluation of internal control adequacy and effectiveness as well as emphasizes in performance rather than transactions audit. BPKP, as Central Government Internal Auditor, leads this effort to improve the internal audit capacity. These capacities can open a synergy between internal and external audit. BPKP shares its report with BPK regularly as input to external auditor assignment and for coordination purposes. Further collaboration between BPK and BPKP is part of the government agenda and can strengthen them to support the successful achievement of all national development targets.

#### Sectoral and Institutional Context

1. BPK is the Audit Board of the Republic of Indonesia, the supreme audit institution in Indonesia. It is one of the state institutions which constitutionally sits at the same level as the Presidency and Parliament (*Dewan Perwakilan Rakyat - DPR*). BPK report is submitted to President and DPR. BPK plays a critical role in the accountability system in the country. BPK is mandated to audit all revenue and expenses in the country’s budget, including all central government, local government, State Own Enterprises (SOEs), and other agencies that manage government funds.
2. There are three types of audit assignments that are done by BPK:
  - a. Financial Audit (*Pemeriksaan Keuangan*)



- b. Performance Audit (*Pemeriksaan Kinerja*)
  - c. Audit for Special Purposes (*Pemeriksaan Dengan Tujuan Tertentu – PDTT*)
- 3. Referring to BPK 2020-2024 Strategic Plan, BPK has issued 4.812 reports from 2016 – 2019. There were 57.561 findings from the reports.
- 4. Considering resources constraint and a huge number of government programs, BPK plans to implement a thematic audit in its 2020 – 2024 strategic plan. BPK will conduct specific theme audit assignments simultaneously, nationally or locally. The thematic audit is carried out through performance audit and audit for special purposes. Performance audit will contribute more to thematic audit. Performance audit provides more insights and value for money. Based on the International Standards of Supreme Audit Institutions (ISSAI), a performance audit seeks to provide new information, analysis, or insights and, where appropriate, recommendations for improvement. BPK's performance audit plan is consistent with the government budgeting system, which moves toward performance-based budgeting. The performance audit could provide recommendations to the government on how to implement the performance base-budgeting further, as well as how the government to execute the budget more efficiently, effectively, and economically.
- 5. Based on the peer review 2019 and previous strategic plan results, the BPK report is oriented to output and outcome instead of impact. BPK needs further improvement on the governance IT system, business process, risk management, human capital, and financial resources. BPK stayed focused on financial audit assignments while performance audit assignments remained below 25%. In order to be consistent with BPK's strategic plan for 2021-2025, BPK needs to provide more resource allocation for performance audit assignments.
- 6. BPK started using private auditors to conduct financial audit assignments on behalf of BPK. BPK started with a relatively small program or entity. The private auditor should pass the minimum requirement set up by BPK. These private auditors' assignment creates free space for BPK to undertake more performance audit or other audit assignments.
- 7. BPK allocates its resources to undertake performance audit assignments for the government priority program and other programs that have a big impact on the community. Due to limited resources, BPK cannot conduct the audit in all priority programs. BPK had conducted an audit on the preparation and implementation of Sustainable Development Goals (SDG) at the output level. Despite the government-established monitoring dashboard for SDGs, BPK should conduct a comprehensive performance audit for SDGs at the outcome level. Bappenas, as Planning Agency, is responsible for updating and analyzing the achievement of the SDGs. BPK will coordinate with Bappenas when the performance audit for SDG is taken place. The project is expected to strengthen the BPK's capacity to deliver a comprehensive performance audit for SDGs, as well as other government priority programs.

#### Relationship to CPF

**The project directly relates to the World Bank Group's Indonesia Country Partnership Framework (CPF) for FY21-FY25.** The project will contribute to the CPF objective in Engagement Area 1, Strengthen Economic



Competitiveness and Resilience, in particular objective 1.2, Increase efficiency, equity, and effectiveness of public spending. Enhancing BPK's performance audit capacity will improve the quality of BPK's performance audit report and eventually will improve the effectiveness of public spending.

Enhancing public institutions is a core development challenge and a priority for the Government of Indonesia (GOI). The project is consistent with BPK's objectives of enhancing its capacity and further involvement in providing "Insight and Foresight" through performance audit assignments. These are higher roles in the Supreme Audit Institution (SAI) maturity model in which BPK takes the advisory role of giving recommendations related to public policies (Insight) and assisting the stakeholder, especially the government, in making alternative decisions for the future (Foresight).

This activity is part of the Modernizing the Management of Public Resources in Indonesia Multi-Donor Trust Fund (PFM MDTF III) (TF073459). The MDTF was established with the purpose to support the Government of Indonesia in improving the quality of revenue and expenditure policy and management at central and sub-national levels by enhancing their performance orientation, including through digital technology in a gender-responsive manner. The European Union has indicated its priority to strengthen the institutional capacity of BPK in performance audits by implementing the International Standards of Supreme Audit Institutions (ISSAI) as foreseen in the Strategic Plan of ASEANSAI (2012-2025). Improving the quality of performance audits can effectively contribute to the PDO of PFM MDTF, which has been set as enhancing the performance orientation of expenditure management. Enhancing the institutional capacity and practices of BPK can also contribute to enhancing the 'accountability' of public financial management, thereby enabling the project to achieve more than what was originally envisaged.

### **C. Project Development Objective(s)**

#### **Proposed Development Objective(s)**

The proposed development objective of this project is to enhance the capacity of BPK to conduct performance audits in accordance with the International Standards of Supreme Audit Institutions.

#### **Key Results**

The Key Results for the PDO will be measured by the achievement of the following indicators:

1. Improved Performance Audit (PA) reports data and information quality supported by:
  - a. Improved existing PA Management Information System
  - b. Establishment of a Master Data Management system, including policy on data governance and data management
  - c. IT Application for text analysis, online platform (such as social media) analysis, and other data sources
  - d. In-house knowledge of improved IT system
  - e. Improved Digital Enterprise Architecture as the platform of the PA management system
2. Enhanced BPK capacity in delivering PA supported by:
  - a. Number of PA training programs delivered



b. PA certification curriculum and first PA cohort started

Baselines will be established after the implementation of the baseline survey, to be implemented by the implementing agency within the first semester after the grant agreement has been effective.

#### D. Preliminary Description

##### Activities/Components

The project will achieve the PDO through three components and several activities as follows:

#### Component 1. Strengthening BPK's IT systems and use of data

- Activity 1.1. *Strengthening audit management system.* Currently BPK has an audit management system for general audit assignments. The grants will provide technical assistance to strengthen the system, including an integrative audit planning system and improvement of the PA system, and include the result from the government's internal audit in the database. Improving data quality is very much needed in improving BPK's audit reports and their recommendations. The use of this grant is needed to produce a data accountability policy that ensures the single point of truth of data and data authorization. This policy includes data governance and management that enables BPK to trace the data lineage, establish Master Data Management, control the data flow, and secure the confidential data, and protect data from unauthorized access.
- Activity 1.2. *Improving data quality to enhancing BPK audit reports and recommendations quality.* BPK requested support to improve the data quality to enhance its audit reports and recommendations. The grant will finance technical assistance to enable the use of text analysis, online social media, and other data sources.
- Activity 1.3. *Improve the BPK Digital Platform for the PA management system.* BPK needs to improve its Digital Enterprise Architecture (EA) which will become the host of the PA management system. The grant will finance technical assistance on better management of its EA to ensure the capacity to host the PA management system, support to host and analytics of big data, and create digital content delivery for the PA reporting.

#### Component 2. Enhancing the institutional capacity of BPK to deliver performance audit

- Activity 2.1. *Performance Auditor Capacity Building.* The grants will finance training programs in PA. The grant will finance some short courses/workshop/knowledge sharing with other countries.
- Activity 2.2. *Establishing an in-house PA certification program.* The grant will finance the curriculum development and an in-house PA certification program.

#### Component 3. Project management and implementation support

- The grants will help BPK operationalize and support the grant implementation. This component will support BPK with technical assistance for project management and day-to-day implementation support and will improve coordination, data sharing, project reporting, and audit process. This



component will also support by providing incremental operating costs, such as project audit fees and reasonable project office expenses.

## Theory of Change

**Table 1. Theory of Change**

Key Issues	Input Activities	Output	Intermediary Outcome	Outcome
Strengthening BPK IT System and use of data	Technical Assistance (TA) to strengthen the IT system and improve data quality	New data governance and management structure  Digital Enterprise Architecture (EA) able to host the PA system	Improved PA data and reports	BPK conducts performance audits in accordance with the ISSAI
Institutional Capacity of BPK to deliver performance audit	PA Training  Development and pilot in-house PA certification program	BPK staff trained on PA  Establishment of BPK in-house certification program	BPK staff PA skills improved	

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## Environmental and Social Standards Relevance

### E. Relevant Standards



ESS Standards		Relevance
ESS 1	Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10	Stakeholder Engagement and Information Disclosure	Relevant
ESS 2	Labor and Working Conditions	Relevant
ESS 3	Resource Efficiency and Pollution Prevention and Management	Not Currently Relevant
ESS 4	Community Health and Safety	Not Currently Relevant
ESS 5	Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7	Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8	Cultural Heritage	Not Currently Relevant
ESS 9	Financial Intermediaries	Not Currently Relevant

#### Legal Operational Policies

Safeguard Policies	Triggered	Explanation (Optional)
Projects on International Waterways OP 7.50	No	
Projects in Disputed Areas OP 7.60	No	

#### Summary of Screening of Environmental and Social Risks and Impacts

The overall environmental and social risks are low. The project seeks to strengthen performance-based budgeting and improve evaluation of program performance in order to achieve its planned outcomes, using the evaluation to inform the following years program planning, in line with international standards. It seeks to promote government capacity as well as adoption of digital technology to improve efficiency and service delivery. Thus, downstream implications of the key program results are expected to be positive. The project will support Technical Assistance (TA) type of activities for BPK and the overall environmental impact on the environment and human health is anticipated to be minimal with no adverse risk. No physical investments, nor direct community engagement, including with vulnerable groups are envisaged under the operation. The project does not finance feasibility or design of any future investments in specific footprints with potential downstream adverse impacts. The project will only support capacity building type of activities and procurement of four laptops. The environmental impacts of carrying out the capacity building activities are minimal. The typical potential capacity building activities will be in the form of workshops and trainings, range between in-class learning as well as e-learning activities. Additionally, the project may also involve in country and international visits to enhance BPK's institutional capacity in delivering performance audit and the Sustainable Development Goals (SDGs) and gender equality related programs' audit. The outcomes of the capacity building activities will not have important environmental implications going forward for the project and no downstream implications are expected from this type of support. The four laptops to be





procured under the project will not replace existing computer/laptop that currently in use by the BPK, instead are expected to support establishment of the integrated performance audit planning system. The procurement of laptops are not expected to generate significant hazardous waste during the project lifetime. BPK is following the national regulation in managing used laptops including Government Regulation No. 22 of 2021 on Environmental Protection and Management, as well the protocol for management of state property under the Regulation of The Minister of Finance No. 83/PMK.06/2016 concerning Implementation Procedure for the Destruction and Elimination of State Property. Considering current measures in place as stipulated in national regulations, the environmental risks are deemed to be minor. Additionally, BPK's exposure to the World Bank ESF and the environmental risk management capacity of BPK, although limited, is not considered a concern given the overall low project environmental risk. Public participation will be sought through stakeholder engagement to promote transparency, citizen feedback, and equitable access to participation for activities related to government capacity building. Relevant measures to promote public participation will be addressed as part of program implementation, guided by the stakeholder engagement principles as outlined in the Environmental and Social Commitment Plan (ESCP). Labor management procedure will also be integrated in the POM and outlined in the ESCP to guide management of workforces who will be involved in the program, including personal safety measures and other provisions in compliance with ESS2 provisions and the national law, such as fair and equal opportunity for selection process and participation in capacity building program, and a grievance redress mechanisms for workers. The LMP will be prepared as per Indonesia regulations and adopt ESS2 and relevant international best practices standards. Risks pertaining to potential Gender Based Violence (GBV)/Sexual Exploitation and Abuse/Violence Against Children (GBV/SEA/VAC) are assessed as low and will be addressed as part of Codes of Conduct for project workers in the labor management procedure.

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### Implementing Agencies

Implementing	Badan Pemeriksa Keuangan (The Audit Board of the Republic of Indonesia)
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