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Report No: PP5504

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT *AND/OR*
INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED GRANT

IN THE AMOUNT OF

US\$ 1.7 MILLION

TO THE

REPUBLIC OF INDONESIA

FOR A

ENHANCING BPK PERFORMANCE AUDIT CAPACITY
{DATE}

Governance Global Practice
East Asia And Pacific Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective {May 17, 2023})

Currency Unit =	Indonesian Rupiah (IDR)
=	US\$1

FISCAL YEAR

January 1 - December 31

Regional Vice President: Manuela V. Ferro

Country Director: Satu Kristiina Jyrintytar Kahkonen

Global Director: Arturo Herrera Gutierrez

Practice Manager: Alma Kanani

Task Team Leader(s): Christina I. Donna, Daniel Ortega Nieto

ABBREVIATIONS AND ACRONYMS

ASEANSAI	ASEAN Supreme Audit Institutions
BETF	Bank Executed Trust Fund
BPK	<i>Badan Pemeriksa Keuangan</i> (The Audit Board of the Republic of Indonesia)
BPKP	<i>Badan Pengawasan Keuangan dan Pembangunan</i> (Central Government Internal Auditor)
CPF	Country Partnership Framework
DA	Designated Account (<i>Rekening Khusus</i>)
DG	Directorate General
DIPA	<i>Daftar Isian Pelaksanaan Anggaran</i> (Budget document)
DPR	<i>Dewan Perwakilan Rakyat</i> (The Parliament)
ESCP	Environmental and Social Commitment Plan
ESF	Environmental and Social Framework
FMA	Financial Management Assessment
GBV	Gender-based violence
GOI	Government of Indonesia
HRM	Human Resources Management
IA-CM	Internal Audit Capability Model
IPF	Investment Project Financing
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
KPPN	<i>Kantor Pelayanan Perbendaharaan Negara</i> (State Treasury office)
LMP	Labor Management Procedures
M&E	Monitoring & Evaluation
MOF	Ministry of Finance
PDTT	<i>Pemeriksaan dengan Tujuan Tertentu</i> (Audit for Special Purposes)
PFM	Public Financial Management
PFM MDTF	Public Financial Management Multi-Donor Trust Fun
PIU	Project Implementation Unit
PMO	Project Management Office
POM	Project Operations Manual
PP	<i>Peraturan Pemerintah</i> (Government Regulation)
PPK	<i>Pejabat Pembuat Komitmen</i> (Commitment-making Official)
RETF	Recipient Executed Trust Fund
RSPP	<i>Redesain Sistem Perencanaan dan Penganggaran</i> (Redesigning of the Planning and Budgeting Systems)
SAI	Supreme Audit Institution
SDG	Sustainable Development Goals
SEA	Sexual Exploitation and Abuse
SPAN	<i>Sistem Perbendaharaan dan Anggaran Negara</i> (The Government Financial Management Information System)
SP2D	<i>Surat Perintah Pencarian Dana</i> (Payment remittance order)
SPM	<i>Surat Perintah Membayar</i> (Payment order)
TA	Technical Assistance

TSA	Treasury Single Account
VAC	Violence against children

**BASIC INFORMATION**

Is this a regionally tagged project? No		Country (ies)
Financing Instrument Investment Project Financing		Classification Small Grants
Approval Date 15-Sep-2023	Closing Date 30-Jun-2025	Environmental and Social Risk Classification Low
Approval Authority CDA	Bank/IFC Collaboration No	
Please Explain		

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.

Components

Component Name	Cost (USD Million)
Organizations	
Borrower :	Republic of Indonesia
Implementing Agency :	Badan Pemeriksa Keuangan (The Audit Board of the Republic of Indonesia)

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

Total Project Cost	1.70
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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

Expected Disbursements (in USD Million)

Fiscal Year	2023	2024	2025
Annual	0.02	0.35	1.11
Cumulative	0.02	0.37	1.48

INSTITUTIONAL DATA**Financing & Implementation Modalities****Situations of Urgent Need of Assistance or Capacity Constraints**

☐ Fragile State(s) ☐ Fragile within a non-fragile Country ☐ Small State(s) ☐ Conflict ☐ Responding to Natural or Man-made Disaster

Other Situations

☐ Financial Intermediaries (FI) ☐ Series of Projects (SOP)
☐ Performance-Based Conditions (PBCs) ☐ Contingent Emergency Response Component (CERC)
☐ Alternative Procurement Arrangements (APA) ☐ Hands-on Expanded Implementation Support (HEIS)

Practice Area (Lead)

Governance

Contributing Practice Areas

**OVERALL RISK RATING**

Risk Category	Rating
Overall	● Low

COMPLIANCE**Policy**

Does the project depart from the CPF in content or in other significant respects?

☐ Yes ☒ No

Does the project require any waivers of Bank policies?

☐ Yes ☒ No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

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

**Legal Covenants****Conditions****PROJECT TEAM****Bank Staff**

Name	Role	Specialization	Unit
Christina I. Donna	Team Leader(ADM Responsible)		EEAG2
Daniel Ortega Nieto	Team Leader		EEAG1
Budi Permana	Procurement Specialist(ADM Responsible)		EEAR2
I Gusti Ngurah Wijaya Kusuma	Financial Management Specialist(ADM Responsible)		EEAG2
Satoshi Ishihara	Social Specialist(ADM Responsible)		SEAS2
Suryaputrianita Satyanugraha	Environmental Specialist(ADM Responsible)		SEAE1
Agni Nur Primitasari	Social Specialist		SEAS2
Corry Huntangadi	Team Member		EACIF
Denada Stottele Ishmi	Team Member		EEAG1
Hani Maisarah Binti Mohamad	Team Member		SEAE1
Romawaty Sinaga	Team Member		EEAG1
Unggul Suprayitno	Team Member		EEAG2

Extended Team

Name	Title	Organization	Location
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INDONESIA
ENHANCING BPK PERFORMANCE AUDIT CAPACITY

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I. STRATEGIC CONTEXT

A. 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 (*Peraturan Pemerintah* - 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 (*Badan Pengawasan Keuangan dan Pembangunan*), 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.

B. Sectoral and Institutional Context

5. **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.

6. **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 – PDDT*)

7. **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 executes the budget more efficiently, effectively, and economically.

8. **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 percent. In order to be consistent with BPK's strategic plan for 2021-2025, BPK needs to provide more resource allocation for performance audit assignments.

9. **BPK allocates its resources to undertake performance audit assignments for the government's 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 programs¹. 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.

¹ 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 free time for BPK to undertake more performance audit or other audit assignments.



C. Higher Level Objectives to which the Project Contributes

10. **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.

11. **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).

12. **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 project development objectives 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.

13. **The operation is consistent with the country's Nationally Determined Contribution (NDC) and the Long-Term Strategy for Low Carbon and Climate Resilience 2050 (LTS-CCR 2050).** As stated in CCDD, Indonesia has made important commitments to meet its climate and development targets. Ongoing efforts are starting to pay dividends in slowing GHG emissions, maintaining growth, and strengthening economic and social resilience. On mitigation, the NDC and the LTS-CCR 2050 commit to GHG emissions reduction in the forestry, agriculture, energy and the waste sector. On adaptation, Indonesia's goal is to reduce risks, enhance adaptive capacity, strengthen resilience and reduce vulnerability to climate change. The focus priority sectors for adaptation, as stated in the National Adaptation Plan, include the marine and coastal, water, agriculture, and health while the LTS-CCR 2050 focus on four pillars to support in building resilience, including in strengthening national resilience and public sector governance. This operation does not hinder the achievement of these climate goals and is consistent with the effort to strengthen public sector governance.



II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

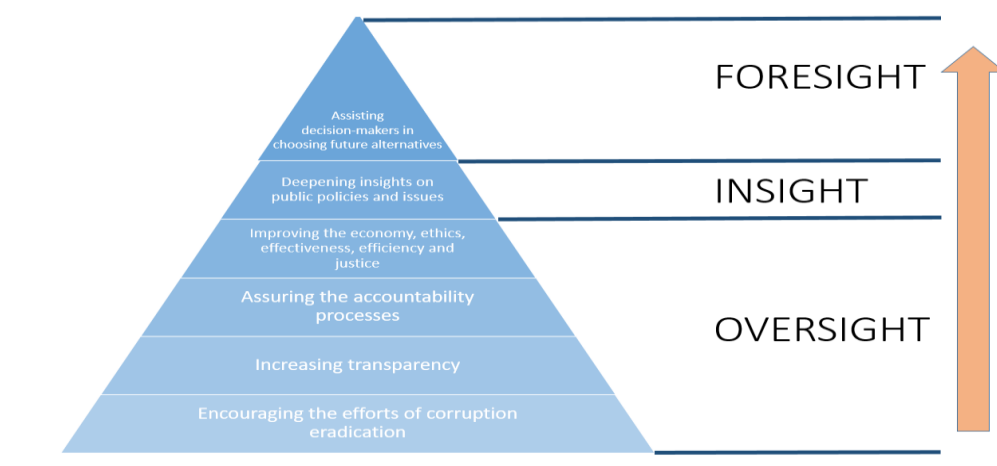
The project development objective of this project is to enhance the capacity of BPK to conduct performance audits in accordance with the International Standards of Supreme Audit Institutions.

B. Project Beneficiaries

14. In addition to BPK as direct beneficiary, there are four indirect project beneficiaries, as follow:

- (a) BPK will be the direct beneficiary of the project. BPK will have specialized auditors to carry out performance audit assignments. BPK will have specialized auditors to carry out performance audit assignments. Referring to the SAI maturity model (Diagram1), BPK is currently at the insight level. The proposed project will strengthen BPK in insight level, achieve foresight level and provide quality recommendations on how the government executes the budget more efficiently, effectively, and economically.

Diagram 1
SAI Maturity Model



- (b) Government institutions will benefit from better quality recommendations to improve program implementation, which in turn will positively influence the government's resource allocation and execution of the programs.
- (c) Parliament (DPR) can play a better role in oversight the government program after reading the result of the report to relevant programs. DPR can play a better role in reviewing resource allocation to government budget proposals.
- (d) Civil Society can participate in program oversight and get better public service when the government improves the program management.
- (e) Donors' community may have a better picture and focus on donors' assistance to



priority areas that come up from the performance audit report.

C. PDO-Level Results Indicators

15. Achievement of the PDO will be measured by:

- (a) Performance audit assignments conducted benefited from improved IT management system (number).
- (b) BPK staff conducting audit performance with skill set acquired under the project (number).

III. PROJECT DESCRIPTION

A. Project Components

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

17. **Component 1. Strengthening BPK's Information Technology (IT) systems and use of data (US\$ 722,500).** This component will support BPK with developing performance audit information system. The grant will support the following: (i) strengthening the existing audit management system to accommodate the planning and implementation of performance audit; (ii) improving data quality to enhance the performance audit report and recommendations; and (iii) improving the BPK digital platform to host the performance audit management system.

18. *Subcomponent 1.1. Strengthening audit management system.* The grant will provide technical assistance to strengthen the existing audit management system, including an integrative audit planning system and to include the result from the government's internal audit in the database. Capacity building will be provided under this subcomponent to the BPK IT staff. The subcomponent will also support expansion of storage capacity of BPK data center.

19. *Subcomponent 1.2. Improving data quality to enhancing BPK audit reports and recommendations quality.* This subcomponent will provide technical assistance to support improvement of the data quality to enhance BPK performance audit reports and recommendations. The grant will finance technical assistance to enable the use of text analysis and development of Master Data Management. The subcomponent will also support capacity building to BPK staff through comparative study with other SAI on data mining.

20. *Subcomponent 1.3. Improve the BPK Digital Platform for the PA management system.* The subcomponent will provide technical assistance to improve the quality of BPK digital enterprise architecture as a platform for the performance management system. The TA will support on strengthening the BPK digital enterprise architecture to ensure the capacity to host the performance audit management system and big data analytics, and create digital content for the performance audit reporting.

21. **Component 2. Enhancing the institutional capacity of BPK to deliver performance audit (US\$ 748,100).** The component will support BPK to ensure that BPK staff has the skill set required by the ISSAI to conduct performance audit.



22. *Subcomponent 2.1. Roadmap of performance audit certification program.* This subcomponent will focus on the performance audit certification program. Technical assistance will be provided to assist BPK with preparing roadmap for performance audit certification program. The roadmap will provide input to BPK on establishing its in-house performance audit certification program.

23. *Subcomponent 2.2. Performance Auditor Capacity Building.* The subcomponent will focus on capacity building activities on performance audit to ensure the BPK auditor has adequate skills to conduct performance audit. This sub-component is supporting BPK to ensure BPK auditors have the in conducting thematic audit in 2024 and 2025. Selected auditors will participate in online short course and certification program in different topics relevant to performance audit.

24. **Component 3. Project management and implementation support (USD 229,400).** 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, monitoring and evaluation, 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.

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	



B. Project Cost and Financing

Project Components	Project cost (in US\$'000)	Trust Funds (in US\$'000)
Component 1 Strengthening BPK's IT system and use of data	722.50	722.50
Component 2 Enhancing the institutional capacity of BPK to deliver performance audit	748.10	748.10
Component 3 Project management and implementation support	229.40	229.40
Total Costs	1,700	1,700

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

25. **Badan Pemeriksa Keuangan (BPK), the Audit Board of the Republic of Indonesia, will be the project implementing agency.** A Project Implementation Office (PMO) and a Project Implementation Unit (PIU) are already established under the Secretary General of BPK. The Public Relation and International Relationship Bureau as the PMO will be responsible for overall project coordination and provide administrative support to the PIU in implementing the project. The PIU established under the Secretary General is responsible for day-to-day management, budgeting, financial management, safeguards monitoring, project progress monitoring, evaluation, and reporting. The PIU will prepare an annual work plan, budget, update monitoring and evaluation indicators, procurement plan, and required reporting.

B. Results Monitoring and Evaluation

26. **The project will use existing monitoring and evaluation (M&E) systems in BPK.** M&E functions will be housed within the PIU and will be assisted by individual consultant. Relevant staff in BPK will provide project implementation status reports to PIU following reporting requirements. Relevant units will report progress of the components activities and indicators in the project's result framework. The POM will include an M&E chapter that outlines data gathering and reporting requirements. A result framework for this grant is attached as Annex 1.



C. Sustainability

27. **The proposed closing date of this project is June 30, 2025. The available resources are adequate to cover the project components.** The exit strategy is important to ensure the sustainability of the project deliverables after the project closing. The same with the risk during the project implementation, the sustainability depends on the leadership, capacity and buy-in from the BPK Board. The project will provide information to the Board on regular basis and show the project benefit to strengthened BPK performance audit capacity. The Bank will ensure during implementation that BPK is ready with the exit strategy including securing annual budget to maintain the operations for the continuity of project key results.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

28. The Task Team rated a “Low” risk for this project.

Table 2. Risk Matrix and Ratings

<i>Risk Categories</i>	<i>Rating</i>
Political and Governance	Low
Macroeconomic	Low
Sector Strategies and Policies	Low
Technical Design of Project	Low
Institutional Capacity for Implementation and Sustainability	Moderate
Fiduciary	Moderate
Environment and Social	Low
Stakeholders	Low
Overall	Low

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

29. **Establishment of a recipient executed project brings multiple benefits.** First, it increases Government ownership by giving them greater responsibility for the preparation and implementation of the project activities, thereby enhancing capacities that can be applied to other activities implemented under state budget. Secondly, outcomes from grant funded activities can potentially leverage additional outcomes from changed performance audit practice developed and applied under complementary initiatives or other reforms financed by either donors or government’s own resources. Given the small size of this RETF Grant and the close relationship the proposed activities has with BETF activities, attribution of financial and economic benefits exclusively to this RETF grant will



not be practical. Accordingly, a financial or economic rate of return has not been calculated for this RETF Grant.

B. Fiduciary

30. **A Financial Management Assessment (FMA) was carried out** to assess the adequacy of the financial management system of the implementing agency to produce timely, relevant, and reliable financial information on project activities. The FMA also assesses the adequacy of the accounting systems for project expenditures and underlying internal controls to meet fiduciary objectives and allow the World Bank to monitor compliance with agreed implementation procedures and progress toward its objectives. The financial management aspect of the project will be using the government system that includes budgeting, accounting, reporting, internal control, and auditing. The implementing agency is experienced in implementing World Bank-funded operations and demonstrated satisfactory financial management performance. Financial reports were received timely, and the previous projects consistently received an unqualified opinion on their annual financial report. The fund will be channeled following the country system, through project budget allocation from MOF to BPK budget document (DIPA) based on BPK's budget proposal that is in line with the annual work plan agreed with the World Bank. Some actions were agreed during the assessment including budget (DIPA) revision that will be proposed upon signing of the grant and refresher training on FM that will be given to PIU staff prior to the first withdrawal application. A more detailed financial management arrangement is provided in Annex 1. The FMA concludes that with the implementation of the agreed actions, the risks will be substantially mitigated, and the proposed financial management arrangements will satisfy the World Bank's minimum requirements under the Bank Procedures October 1, 2018, to provide, with reasonable assurance, accurate and timely information on the status of the loan, as required by the World Bank.

31. **The Procurement under the project will be carried out under the World Bank's Procurement Regulations** for IPF Borrowers of November 2020 (The World Bank's Procurement Regulations), the provisions of the Grant Agreement and the Procurement Plan agreed by the Bank. BPK is the Implementing Agency and the PIU established under the Secretary General will be responsible for carrying out all procurement activities and contract management under the project. It is envisaged that several consulting firms and individual consultants will be hired to support BPK in implementing the project. In addition, procurement of small goods will also be procured under the project. BPK with support by the Bank has prepared Project Procurement Strategy for Development (PPSD) and Procurement Plan. Both the PPSD and the Procurement Plan will be updated, as needed, during project implementation. The project will use the Systematic Tracking of Exchanges in Procurement (STEP) to plan, record, and track procurement transactions and contract implementation. Further details on procurement arrangements are provided in Annex 1.

C. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No



D. Environmental and Social

32. **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.

33. **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.

34. **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.

35. **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.

36. **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).

37. **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 mechanism 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.



E. Paris Alignment

38. **This operation is aligned with the goals of the Paris Agreement on both mitigation and adaptation.**

39. **Assessment and reduction of mitigation risks:** Activities financed under this operation are related to capacity building and data infrastructure, excluding data centers, for processing, storing, and securing digital data, and are universally aligned. Activity to expand the digital storage is to add a server dedicated for performance audit to an existing data center. It does not require any changes in the existing data center set up (i.e., no expansion of the data center) and considered to have negligible impact on GHG emissions, with no adverse effect on the country's low-GHG emissions development pathway, thus is considered aligned. Furthermore, as part of BPK Strategic Plan, BPK is implementing smart and eco-office covering energy efficiency, wastewater reuse, and recycle.

40. **Assessment and reduction of adaptation risks:** Climate change presents significant risks for Indonesia but it is unlikely to have a material impact on the operations and its development objective. While Indonesia's climate risk is determined to be high, with risks of increase in temperature, the intensity of rainfall, floods, drought, and sea-level rise, most of the activities financed under this operation are related to capacity building and have low risks from climate hazards having a material impact on the operation. The storage expansion activity is to expand the capacity of the existing data center which is established in the BPK premises in a secure location with existing procedures on safety guidelines. BPK data center has certification on the design and the facilities construction. There is an established contingency planning in the case of disaster recovery covering safety and back up services. BPK conducts regular training to the staff to raise awareness in dealing with impacts of climate hazards. As such, risks from climate hazards have been reduced to an acceptable level and thus, the operations are considered aligned.

VII. World Bank Grievance Redress

Grievance Redress. Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY : Indonesia

Enhancing BPK Performance Audit Capacity

Project Development Objectives

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.

Project Development Objective Indicators

Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Name: Number of performance audit assignment conducted which benefited from the project		Number	0.00	5.00	Annual	BPK Internal system	PMO
Description: Number of performance audit assignment							
Name: Number of certified BPK staff involved in performance audit assignment		Number	0.00	40.00	Annual	BPK internal system	PIU



Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Description: Number of staff benefited from the project through the capacity building activities that will conduct performance audit assignments							
Intermediate Results Indicators							
Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
Name: Integrated performance audit module		Yes/No	N	Y	Annual	BPK Internal system	PIU
Description: The availability of the performance audit module in the BPK audit source planning system							
Name: Performance audit procedures has connectivity with Big Data Analytics		Number	0.00	20.00	Annual	BPK Internal system	PIU
Description: Number of performance audit procedures that has connectivity with Big Data Analytics							
Name: Improvement in performance audit business process		Text	Level 2	Level 5	Annual	BPK Internal system	PIU
Description: Level of cascading of business process on performance audit in the BPK audit management system							
Name: Big Data Analytics		Yes/No	N	Y	Annual	BPK Internal system	PIU



Indicator Name	Corporate	Unit of Measure	Baseline	End Target	Frequency	Data Source / Methodology	Responsibility for Data Collection
governance framework							
Description: Big Data Analytics governance framewok for developing, implementing, and monitoring the Big Data Analytics process in the BPK platform							



Target Values

Project Development Objective Indicators

Indicator Name	End Target
Number of performance audit assignment conducted which benefited from the project	5.00
Number of certified BPK staff involved in performance audit assignment	40.00

Intermediate Results Indicators

Indicator Name	Baseline	End Target
Integrated performance audit module	N	Yes
Performance audit procedures has connectivity with Big Data Analytics	0.00	20.00
Improvement in performance audit business process	Level 2	Level 5
Big Data Analytics governance framework	N	Yes



ANNEX 1 - Implementation Arrangements and Support Plan

1. **The BPK will act as the Implementing Agency for activities financed by the PFM MDTF grant.** A Project Management Office (PMO) and a Project Implementation Unit (PIU) are already established under the Secretary General of BPK. The Public Relation and International Cooperation Bureau as the PMO will be responsible for overall project coordination and provide administrative support to the PIU in implementing the project. The PIU established under the Secretary General is responsible for day-to-day management, budgeting, financial management, safeguards monitoring, project progress monitoring, evaluation, and reporting. The PIU will prepare an annual work plan, budget, update monitoring and evaluation indicators, procurement plan, and required reporting. The PIU staffing arrangements and roles and responsibilities will be detailed in the Project Operations Manual (POM).
2. **The BPK will assign its staff** as project manager, financial management, procurement, environmental and social risk management, monitoring, evaluation and reporting officers, and administrative assistants. The PIU will be supported by individual consultant, to assist with, among others, financial management, procurement, environmental and social risk management, monitoring, evaluation, and reporting.
3. **The PIU is supported by IT bureau, Human Resources Management (HRM) bureau, and the BPK Training Institute of State Financial Audit during the project implementation.** The IT bureau will implement Component 1, and the HRM bureau and the BPK Training Institute of State Financial Audit will implement Component 2. The PIU will be responsible for all procurement work (planning and preparing the technical requirements), contract signing and contract management work; and the bidding process will be centralized in General Affair bureau.
4. **A POM will guide project implementation.** The POM will include details on institutional and implementation responsibilities, technical aspects of all components and activities, guidance related to monitoring and evaluation of the results framework, environmental and social safeguards, disbursements and financial management aspects, applicable procurement rules and plans, and supervision and reporting.

Financial Management

5. **Budgeting** The budgeting system follows the existing government procedures. The grant financing will be included in the annual BPK budget document. The budget for the project will be allocated in the bureau of public relations and international cooperation under BPK Secretary General where PMO is established. Budget preparation is well defined, but there are frequent delays in execution due to delays on budget revision. As flexibility on budget from foreign grant is regulated under the MoF's regulation on budget revision, it was agreed that any budget revision for the project will be processed early in accordance with the annual work plan approved by the World Bank without having to wait until the overall revision process in BPK is completed. As for 2023 budget, BPK will process the budget revision to MoF as soon as the grant agreement is signed.
6. **Accounting and reporting.** The project maintains separate accounting records for all payment orders (SPM) and remittance orders (SP2D) on a cash basis in accordance with Ministry of Finance Regulation 224/PMK.05/2016. All financial transactions are recorded in the government accounting system and included in government accountability reports. The original records are maintained in the file for auditing purposes. The PMU will prepare a set of financial reports (Interim Financial Reports, IFRs) for project monitoring



purposes and for requesting advances from the Bank. The PIU can obtain the financial information needed to prepare the IFR from the government treasury information system (SPAN). The PIU is responsible for submitting the report to the Bank no later than 45 days after the end of each quarter.

7. Internal controls. The internal control including payment verification process will rely on government systems. The PIU established under the Secretary General with segregation of duties with the finance bureau that processes payments. Direct and independent documentary evidence will be verified by finance staff under PIU before payments are proposed to finance bureau that will review and process the payment to MoF. Payment validation procedures will require attachment of direct original supporting evidence of completion of all these activities. The BPK inspectorate will also involve in reviewing budget proposal/revision process and annual financial reporting.

8. Funds flow. A Designated Account denominated in US dollars will be opened by the DG Treasury (MOF) in the Bank Indonesia (the central bank) specifically for the project. Access to funds in the Designated Account for payment to third parties will follow the government's treasury system. Dedicated commitment officer (PPK) in BPK supported by the finance staff under PIU will review requests for payment from third parties and issue payment request (SPP) to finance unit under BPK secretary general who will issue payment orders (SPMs) to the MoF treasury office (KPPN) for payment. The treasury office inputs the payment request to the treasury information system (SPAN) and process the payment to third parties through payment remittance (SP2Ds) issued to the GoI operational bank and charged to the project's Designated Account. The finance unit under BPK secretary general submits information to the PMU on all payment remittances (SP2Ds) charged to the project to use as a basis to develop consolidated withdrawal applications. The PMU submits to the World Bank through the MoF the consolidated withdrawal application quarterly along with the IFRs to record the expenditures and request additional funds. All financial management processes will be included in the Project Operation Manual that is currently being developed by BPK and is expected to be submitted to WB for approval before the grant signing.

9. Disbursement arrangement. The applicable disbursement methods are Advance and Reimbursement. A Designated Account (DA) denominated in US dollars will be opened in Bank Indonesia under the name of the Ministry of Finance. The DA will be a segregated account used solely to finance eligible project expenditures. Payments from the DA will follow the government mechanism and be authorized by MoF's treasury office (KPPN). The ceiling of the advance to the DA will be variable based on six months' projected expenditures. Reports on the use of the DA funds and requests for additional advances will be based on the quarterly IFR, which should be submitted to the Bank no later than 45 days after the end of each quarter. The PMU will be responsible for reconciling the DA and preparing applications for withdrawal of advances and preparing reports on the use of the DA, duly approved by DG Treasury before submission to the Bank. All documentation for the expenditures as reported for disbursements would be retained at the PMU and shall be made available to the auditors for the annual audit and to the Bank and its representative if requested. The disbursement category of the Project will be arranged, as follows

Category	Amount of the Grant Allocated (expressed in US\$)	Percentage of Expenditures to be Financed (inclusive of Taxes)
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(1) Goods, non-consulting services, consulting services, Training and Workshops, incremental operating cost	1,700,000	100%
TOTAL AMOUNT	1,700,000	

10. **Audit arrangement.** The proposed project will be subject to external audit by an independent audit firm with term of reference approved by the World Bank. Each audit will cover a period of one fiscal year of the recipient. Audit reports and audited financial statements will be furnished to the Bank by not later than six months after the end of the fiscal year concerned and shall be made available to the public. The audit will go beyond merely providing an opinion on the financial statements, but would also include opinions on internal control frameworks and compliance with the grant covenants and related regulations.

11. **Implementation Support Plan.** Financial management implementation support will be performed on a risk-based approach. The supervision will review the project's financial management system, including but not limited to accounting, reporting and internal control. The financial management supervision will be conducted by the World Bank's financial management specialist

Procurement

12. **Procurement arrangements.** Procurement under the project will be governed by the World Bank's Procurement Regulations for Investment Project Financing (IPF) Borrowers, November 2020, and by the provisions stipulated in the Grant Agreement and the Procurement Plan agreed with the Bank.

13. **Procurement capacity and risk assessment.** BPK has previous experience in handling Bank's financed project several years ago. However, BPK has no experience in carrying out procurement process in accordance with the Bank's Procurement Regulations. The PIU established under the Secretary General of BPK would be responsible for carrying out procurement activities and contract management. The procurement activities under the project mainly hiring consulting services both firm such as technical assistant on audit software development, managing and improve the digital enterprise architecture BPK, which will be procured through Consultant's Qualifications Based Selection (CQS), and individual consultant through competitive selection. In addition to consulting services, small goods such as hardware for data center and IT equipment will be procured through either Request for Quotation or e-purchasing/e-catalogue. The Bank conducted a procurement capacity and risk assessment of the BPK and rated the procurement risk as Moderate.

14. **Key procurement risks and mitigation measures.** Procurement risks and mitigation actions are shown in the following table.

Table 1. Procurement Risks and Mitigation Measures

Risk Description	Mitigation Measures
1. Conflicts between Bank procurement Regulations and the provisions of the	<ul style="list-style-type: none">The POM will consist of a procurement chapter to clarify that procurement will follow the World Bank Procurement Regulations as specified in the Grant Agreement.



Government's procurement rules and documentation	<ul style="list-style-type: none"> For open national competitive procurement, the Indonesia National Procurement Procedures (NPP) can be applied subject to the conditions specified in the PPSD and the project textual part of the procurement plan. At the project preparation stage, national open competitive method is not expected.
2. Delays in procurement process due to capacity constraints	<ul style="list-style-type: none"> Early setting up of exclusive Pokja for the Bank financed project, accelerate the IA's internal approval of procurement documents. The Bank will provide training on Procurement Regulations and the use of STEP The Bank's prior and post review, regular implementation support missions, hands-on operational/fiduciary advice, and guidance.
3. Low procurement readiness in the first year of the project	<ul style="list-style-type: none"> Enhancement of procurement readiness by mobilizing resources to prepare TORs of critical consultancy services, training on procurement procedures, and STEP before project effectiveness.
4. Improper packaging plan, inappropriate technical requirements/design, and low levels of interest from the market	<ul style="list-style-type: none"> Preparing a Project Procurement Strategy for Development (PPSD) to work out appropriate procurement packaging arrangements, detailed and realistic procurement schedules, contract management plan Preparing TOR/technical specifications based on market survey and engagement activities.

15. Use of National Procurement Procedures. All contracts for goods, works, and non-consultancy and consultancy services to be procured in line with the national market approach should follow Indonesia's national procurement procedures (NPP) set out to follow PERPRES No. 16/2018 as amended No 12/2021, which were found to be broadly consistent with the requirements of the World Bank Procurement Regulations, section V - paragraph 5.4, National Procurement Procedures (subject to a few conditions specified in the Project Procurement Strategy for Development [PPSD]) and in the project text section of the Procurement Plan). The national bid document acceptable to the Bank should be used.

16. PPSD Summary and Procurement Plan. With the World Bank's support, the Implementing Agency (BPK) has prepared a Project Procurement Strategy for Development (PPSD), which forms the basis for the Procurement Plan (PP) of the contract packages to be procured under the project. The PPSD identifies the risks and sets out mitigation measures. A PP for the first 18 months of the project should be subsequently uploaded through the Systematic Tracking of Exchanges in Procurement (STEP) system. The PP will be updated annually or as needed during project implementation to reflect the project needs, institutional capacity improvements, and procurement risk adjustments. It will also be published on the website of the Implementing Agency and the Bank's external website.

17. Systematic Tracking of Exchanges in Procurement (STEP). The project shall use the STEP system to plan, record, track procurement transactions, and monitor contract implementation. The applicable method of procurement for each specific contract and the Bank's review requirements (prior or post-review) will depend on the nature, value, and risk of each contract and are specified in the Procurement Plan approved by the Bank. STEP will help the World Bank to monitor procurement progress and take appropriate supportive actions in due course. All relevant procurement and contract documents will be recorded in STEP.

18. Frequency of procurement supervision. The World Bank's oversight of procurement will be through



increased implementation support and increased procurement post-review of a sample of contracts awarded based on risk. All contracts not covered under Bank prior review will be subject to post-review during implementation support missions and/or special post-review missions, including missions by consultants hired by the Bank.

Implementation Support Plan

19. **Joint Implementation Support.** The World Bank and the Government of Indonesia (GOI) will conduct implementation support missions at least twice a year. Aide-Memoires and Management Letters will be issued at the conclusion of all formal missions. Findings, recommendations, and agreed decisions in the Aide-Memoire will be used jointly by the GOI and the World Bank to improve project implementation.

20. **The World Bank will maintain a core team based in Jakarta, comprised of specialists in public financial management, financial management, procurement, social and environmental safeguards, and monitoring and evaluation (M&E).** The team will maintain frequent and intensive coordination and collaboration with the GOI, particularly with BPK. The team will collaborate with other relevant sectoral specialists, including World Bank experts on performance audit.