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August 2016

# Financial Management Assessment

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 1 August 2016)

Currency Unit	–	rupiah (Rp)
Rp1.00	=	\$0.0000764643
\$1.00	=	Rp13,078

## ABBREVIATIONS

APFS	–	Audited Annual Project Financial Statements
ADB	–	Asian Development Bank
APBN	–	Anggaran Pendapatan dan Belanja Negara
BPK	–	Badan Pemeriksa Keuangan
BSC	–	Balance Score Card
BPKP	–	Badan Pengawasan Keuangan dan Pembangunan (internal control institution)
CPAR	–	Country Procurement Assessment Review
DED	–	Detailed Engineering Design
DG	–	Directorate General
DGH	–	Directorate General of Highways
DGHS	–	Directorate General of Human Settlements
DGWR	–	Directorate General of Water Resources
EA	–	Executing Agency
ESP	–	Engineering Services Project
FM	–	Financial Management
FMA	–	Financial Management Assessment
IA	–	Implementing Agency
IRM	–	Indonesia Resident Mission
IDR	–	Indonesian Rupiah
KPPN	–	Kantor Pelayanan Perbendaharaan Negara
LHKASN	–	Laporan Harta Kekayaan Aparatur Sipil Negara
LKPP	–	Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah
MTEF	–	Medium Term Expenditure Framework
MOF	–	Ministry of Finance
MPWH	–	Ministry of Public Works and Housing
ODA	–	Official Development Assistance
OSG	–	Office of Secretary General
PBB	–	Performance Based Budgeting
PISP	–	Participatory Irrigation Sector Project
PCO	–	Project Coordination Office
PIU	–	Project Implementation Unit
PMC	–	Project Management Consultant
PMO	–	Project Management Office
PPM	–	Project Preparation Mechanism
PEFA	–	Public Expenditure Financial Accountability
PFM	–	Public Financial Management
PPP	–	Public Private Partnership
RRDP	–	Regional Road Development Project
SPS	–	Safeguard Policy Statement
SDP	–	Strategic Development Plan
SPAN	–	Sistem Perbendaharaan dan Anggaran Negara
BPK	–	State Audit Agency

SOE	–	Statement of Expenditure
SAI	–	Supreme Audit Institution
TOR	–	Terms of Reference
USD	–	United State Dollar
WA	–	Withdrawal Application

#### **NOTE**

- (i) In this report, "\$" refers to US dollars unless otherwise stated.

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

## Table of Contents

<b>I. Executive Summary</b>	<b>1</b>
A. Project Description	1
B. Risk Assessment	1
C. Implementation Requirements	2
D. Conclusion	3
<b>II. Introduction</b>	<b>4</b>
<b>III. Detailed Findings</b>	<b>5</b>
A. Country Assessment and Progress	5
B. The Project	6
C. Executing Agency - Ministry of Public Works and Housing	8
D. Risk Analysis and Mitigation Measures	15
<b>IV. Executing Agency Measures</b>	<b>19</b>
A. Staffing	19
B. Accounting Policies and Procedures	20
<b>V. Funds Flow and Disbursement Arrangements</b>	<b>25</b>
A. ADB Loan's Fund Flow	25
B. Disbursement Arrangements	27
<b>VI. Reporting, Auditing and Public Disclosure</b>	<b>28</b>
<b>Appendix 1A: FM Questionnaire - Directorate General of Water Resources</b>	<b>31</b>
<b>Appendix 1B: FM Questionnaire - Directorate General of Human Settlement</b>	<b>48</b>
<b>Appendix 1C: FM Questionnaire - Directorate General of Highways</b>	<b>65</b>
<b>Appendix 2: Flow chart for Financial Management used nationally</b>	<b>81</b>
<b>Appendix 3: Terms of Reference of External Auditor</b>	<b>82</b>
<b>Appendix 4: Organization Chart of <i>Directorate General of Water Resources</i></b>	<b>90</b>
<b>Appendix 5: Standard Operating Procedure for Processing Payments at the Directorate General of Water Resources</b>	<b>92</b>
<b>Appendix 6: Control Sheet for Directorate General of Water Resources</b>	<b>93</b>

## **I. Executive Summary**

### **A. Project Description**

1. Improving infrastructure is critical to stimulating inclusive growth in Indonesia. The proposed Accelerating Infrastructure Delivery through Better Engineering Services Project (ESP) will help meet the infrastructure development objectives of the Ministry of Public Works and Housing (MPWH)'s Strategic Development Plan (SDP), 2015-2019 by improving the quality and timeliness of the delivery of the SDP's public investment program.<sup>1</sup>
2. The objective of the ESP is to help the MPWH attain the infrastructure development outcomes of the MPWH's SDP. The outcome will be strengthened capacity of the MPWH to efficiently implement its public investment program. The ESP's outputs are: (i) improved quality and timely start-up of infrastructure projects, and (ii) strengthened capacity in public investment management. The project is estimated to cost \$167.6 million (\$148.2 million from an ADB TA loan and \$19.4 million from the Government) and will support preparation of up to 40 projects from the SDP in the irrigation, flood management, bulk water, dams, national road, water supply, and sanitation sectors for an estimated total investment of \$6 billion.

### **B. Risk Assessment**

3. Major fiduciary risks of the ESP are related to: (i) lack of experience of the Directorates General (DGs) with the panel arrangement for engagement of consultants for infrastructure project preparation and the administration of lump-sum consultant contracts; (ii) lack of experience managing the selection and administration of a large number of sizable contracts with consultant firms; and (iii) non-implementation of ESP-supported projects due to issues with the budgeting process or discretionary decisions. These risks are considered manageable due to the following mitigation measures: (i) recruitment of a project management consultant firm to support the DGs in all fiduciary aspects of the ESP implementation on a daily basis and provide necessary on-the-job capacity building; (ii) engagement of TA-funded procurement advisors (international consultants) to safeguard the DGs during the consultant selection and management processes; (iii) suitable use of the government's e-procurement platform for the selection of project preparation consultants; and (iv) ensuring project coordination office (PCO)s' responsibility for aligning the project preparation schedules with the budgeting process.
4. The ESP's implementation arrangements also pose a medium risk due to several players involved: (i) project coordination office (PCO) at the OSG will serve as the secretariat to the ESP steering committee (though with no fiduciary responsibility); (ii) a project management office (PMO) at each DG will be responsible for selection of technical consultant firms for the DG's panel, payments to the selected technical consultants at the call-down stage, selection and payments to the project management consultant firm, and overall supervisory and coordination role for the ESP in the relevant DG; and (iii) project implementation units (PIUs) at the DGs will—together with the infrastructure project owners (*Satuan Kerja* or Satkers)—lead

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<sup>1</sup> Draft Sector Development Plan, 2015–2019; MPWH, Jakarta. 2015.

the selection and supervision of the technical consultants from the panels for project preparation assignments (at call-down stage). The PMOs and PIUs will need financial management capacity building to ensure smooth financial management of the ESP. Similarly, the PCO, PMOs and the PIUs will need to coordinate and work effectively together. The risk of poor internal coordination will be mitigated through development of clear working arrangements and protocols as part of the project administration manual.

5. The completed questionnaires identify that the PMOs and the PIUs may benefit from capacity strengthening in the following areas: (i) ADB's financial management and reporting requirements; and (ii) systems to ensure that data is well safeguarded during ESP implementation.

### C. Implementation Requirements

6. The MPWH, through the Office of Secretary General, will be the executing agency, with the Directorate General of Highways (DGH), Directorate General of Water Resources (DGWR), and Directorate General of Human Settlements (DGHS) as implementing agencies.<sup>2</sup> It will establish a steering committee to monitor the ESP's overall implementation and ensure that ESP-supported projects are prioritized for implementation.<sup>3</sup> A project coordination office (PCO) will be established at the Bureau of Budget Planning and International Cooperation of the MPWH's SetJen to support the steering committee.<sup>4</sup> The DGH, DGHS and DGWR will each establish: (i) a project management office (PMO) headed by a project director and supported by administrative staff; and (ii) project implementation units (PIUs) within their respective sector directorates to lead the selection and management of consultants for the preparation of infrastructure projects. The PIUs and local offices of DGH, DGHS, and DGWR will establish project teams to review and endorse the outputs of consulting firms for direct payment by the ADB. Advance procurement action will be considered for: (i) the establishment of panels of consultants by the PMOs; and (ii) the selection of project management consultants to support the PMOs and PIUs during ESP implementation. The selection of consultants and procurement of goods will be done by the MPWH in accordance with the ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time) and the ADB's *Procurement Guidelines* (2015, as amended from time to time). All disbursement will follow the ADB's *Loan Disbursement Handbook* (2015, as amended from time to time). The project implementation period will be from October 2016 to December 2019.
7. The role of the PMOs at the DGs will involve financial management for the consulting services and goods to be procured under the ESP. In accordance with the established rules, the director of the directorate at which the PMOs will be

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<sup>2</sup> Programming and budgeting of loan-funded infrastructure projects of the MPWH are carried out at directorate general level. In line with this, the government programmed separate engineering services projects for the DGWR, DGHS, and DGH. For efficiency, it was decided to integrate these separate projects into one operation. Hence, under the ESP the MPWH has been designated as the executing agency, with the DGH, DGHS, and DGWR as implementing agencies.

<sup>3</sup> This committee will be chaired by a director-level staff member of the MPWH's Secretariat General and include, among others, the director-level staff from the MPWH's unit on land acquisition coordination and the directorate general for construction development.

<sup>4</sup> The PCO will be supported through cluster technical assistance on a sustainable infrastructure assistance program (C-TA0013-INO).

organized will assign a staff member of that directorate to be responsible for financial management issues under the ESP.<sup>5</sup> This staff member will be supported by the financial management consultants engaged under the project management consultant (PMC).

#### D. Conclusion

8. The assessment indicates that, as a whole, the Government's prevailing financial, accounting, auditing rules, and systems meet generally accepted international accounting and auditing standards. The Government has adequate internal control systems and financial reporting arrangements. The executing agency (EA) has worked in the past with the ADB and is implementing well the on-going ADB-funded projects. The overall performance of the EA in implementing financial management of the on-going project is acceptable. The MPWH's Directorates General of Water Resources, Highways, and Human Settlements have been in charge of implementing a number of World Bank- and ADB-funded projects. They have substantial and relevant experience in implementing externally financed sub-projects and in managing ADB loan disbursements.
9. The TA loan and the nature of the project expenditures (i.e., no civil works and no major procurement of goods), the provision of PMC support to all DGs involved in the ESP, and the relative strength of the country's public financial management systems, suggest that overall the MPWH can be considered as **capable** of implementing the ESP, with the overall project financial management risk being assessed as **medium**.

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<sup>5</sup> Based on ministerial decree, every year the authorized budget user (Kepala Satker, Echelon II) issues a decree regarding the organization and appointment of officers for financial management at the Satker.

## II. Introduction<sup>6</sup>

10. The Asian Development Bank (ADB) requires a financial management assessment (FMA) of the executing agency (EA) systems to be undertaken for financial and management accounting, reporting, auditing, and internal controls. The Ministry of Public Works and Housing (MPWH) is the EA for the *Accelerating Infrastructure Delivery through Better Engineering Services*, referred to as the engineering services project (ESP). In addition, the FMA involves a review of the EA disbursement and cash flow management arrangements. The FMA is not an audit. It is a review designed to determine whether or not the EA's financial management arrangements are considered capable of and adequate for recording all transactions and balances, supporting the preparation of regular and reliable financial statements, safeguarding the entity's assets, and are subject to audit (of substance and form acceptable to the ADB). Issues or weaknesses identified during the FMA should be taken into consideration either through project design (i.e., including a component to strengthen financial management systems) or the development of project implementation arrangements (i.e., including a project administration/management office within the entity with the necessary financial management skills and/or procedures).
11. The FMA of the MPWH, which is the EA for the ESP, draws on 3 major components:
  - (i) Overall financial management assessment of Indonesia;
  - (ii) Completed FMA questionnaires related to the MPWH's Directorate General of Water Resources (DGWR), the Directorate General of Human Settlements (DGHS), and the Directorate General of Highways (DGH); and
  - (iii) Financial management assessment's findings and conclusions.
12. This FMA has been prepared in accordance with the ADB's *Guidelines for the Financial Management and Analysis of Projects*<sup>7</sup> (Guidelines), and *Financial Due Diligence: A Methodology Note*.<sup>8</sup> This FMA incorporates the Financial Management Internal Control and Risk Management Assessment required by the Guidelines. Appendix 1A-1D presents the consolidated results of the completed FMA questionnaires for the four Directorates General (DGs) of the Ministry of Public Works and Housing, the executing agency (EA) for the ESP. This report was prepared by reviewing relevant documents prepared for other ADB-funded projects and interviewing and receiving inputs from the staff of the four Directorates General and ADB consultants engaged under MPWH's projects. Mitigating actions were identified together with the stakeholders.
13. The purpose of this assessment is to determine the robustness of the accounting, financial controls, and internal audit arrangements, and the capability of the DGs to meet all the fiduciary requirements which are set out in the loan agreement, and other project documents. Within this context, the report presents results of a FMA of

<sup>6</sup> The discussions with OSG and DGs of MPWH and the initial draft FMA were carried out by Prakash Rao, ADB consultant. Aziz Haydarov, Infrastructure Economist/Mission Leader, IRM finalized the report, with inputs and supervision by Renadi Budiman, Senior Finance Specialist/IRM.

<sup>7</sup> ADB. 2005. *Financial Management and Analysis of Projects*. Manila. Refer to page 14 of Knowledge Management Addendum for more information on the Financial Management Assessment.

<sup>8</sup> ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila. Refer to page 3 for more information on the Financial Management Assessment.



the MPWH's DGs, including agreed project financial arrangements and financial responsibilities, as well as perceived financial risks and risk management measures. The assessment concludes that the overall project financial management risk is **medium**.

### **III. Detailed Findings**

#### **A. Country Assessment and Progress**

14. In recent years, the country has made significant changes in the way its public finances are managed and in increasing transparency and independent oversight. In particular, roles for Indonesia's Parliament and the government through the Ministry of Finance (MOF) and spending agencies have been well reformed and articulated in new public financial management (PFM) laws. There has been a strengthening of the position and capacity of the Badan Pemeriksa Keuangan (BPK), the Indonesian Supreme Audit Institution, as the external audit institution. Its constitutional mandate has been clarified and budgetary resources increased to enable it to function more effectively. Reforms in several other areas are at various stages of implementation.
15. As presented in Indonesia's 2012 Public Expenditure Financial Accountability (PEFA) assessment,<sup>9</sup> Indonesia has made steady progress in strengthening the quality of the PFM system and processes from 2007 to 2011. The report states that, on average, improvements were made in five of the six main categories of the budget cycle considered by the PEFA methodology, which are: (i) the comprehensiveness and transparency of the budget; (ii) policy-based budgeting; (iii) predictability and control in budget execution; (iv) accounting; (v) recording and reporting; and (vi) external audit and scrutiny.
16. Improvements in the PEFA ratings reflect the government's commitment to continue on its reform agenda set out in the Government White Paper of 2002. The assessment underlines progress in the area of budget execution, with the development of a unified budget and a Treasury Single Account to strengthen control over spending and cash management. Improvements also have been made in the coverage of fiscal accounts, accounting practices, payroll, internal controls, and fiscal risk management. However, in some reform areas it was too early to measure the improvements, such as: (i) the medium-term expenditure framework (MTEF) and performance-based budgeting (PBB) in 2011 budget, which still require considerable refinement in the next few years; (ii) the on-going capacity building effort to strengthen internal and external audit; (iii) the implementation of the computerized Government Financial Management Information System (SPAN) in 2012, which will strengthen financial management capabilities; (iv) the new procurement law and introduction of e-procurement and new disclosure policies, which still indicate weaknesses in the system application; and (v) accrual accounting, which was due to be introduced in 2015.

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<sup>9</sup> Under the PEFA framework, performance is assessed in relation to eight dimensions of public financial management: (i) credibility of the budget; (ii) comprehensiveness and transparency; (iii) the degree to which the budget is prepared with due regard to government policy; (iv) predictability and control in budget execution; (v) accounting, recording and reporting; (vi) external scrutiny and audit operations; (vii) appropriateness of development partner practices in-country; and (viii) intergovernmental fiscal relationships. The latest PEFA on Indonesia was prepared by the World Bank in 2012.

## B. The Project

17. Improving infrastructure is critical to stimulating inclusive growth in Indonesia. Inadequate infrastructure has hampered growth and poverty reduction, and poses significant obstacles to doing business in Indonesia. Poor road infrastructure is a major factor behind logistics costs in Indonesia, which account for 24% of GDP. Food security is affected by poor irrigation infrastructure: since 2005, irrigated land with good infrastructure has declined from 78% to less than 50% today. Access to basic urban water and sanitation services lag far behind other middle-income countries. In 2012, just 77% of the urban population had access to safe water, while 76% had access to sanitation. Such gaps in basic infrastructure provision are the result of both low government infrastructure investment (an average of 3% of GDP during 2005–2014) and under-utilization (about 85%) of the capital budget, due to inadequate infrastructure project preparation, complex land acquisition processes, and weak implementation capacity.
18. The proposed Accelerating Infrastructure Delivery through Better Engineering Services Project (ESP) will help meet the infrastructure development objectives of the MPWH's SDP, 2015-2019 by improving the quality and timeliness of the delivery of the SDP's public investment program.<sup>10</sup>
19. The ESP's outputs are as follows:
  - (i) **Output 1: Improved quality and timely start-up of infrastructure projects.** This output will support the preparation—based on new technology and improved design standards<sup>11</sup>—of 15 irrigation, flood management, bulk water, and dam projects of the MPWH's Directorate General of Water Resources (DGWR); 13 water supply and sanitation projects of the MPWH's Directorate General of Human Settlements (DGHS); and 9 national road projects of the MPWH's Directorate General of Highways (DGH) for an estimated total investment of \$6 billion. These projects are to be financed mainly from the government budget.<sup>12</sup> All infrastructure projects are from the MPWH's Strategic Plan, 2015–2019 and are to be financed mainly from the government budget.<sup>13</sup> This output will support preparation of: (i) master plans and feasibility studies; (ii) detailed engineering designs, including geotechnical, topographical, and other surveys; (iii) environmental impact assessments and

<sup>10</sup> Draft Sector Development Plan, 2015–2019; MPWH, Jakarta 2015

<sup>11</sup> In the road sector, these are improved design standards on pavement, drainage, geometric, grade-separated junction, and at-grade junction aspects. In the irrigation sector, the new technologies are related to the web-based integrated asset management information system with geospatial interface, high-resolution aerial surveys for survey of irrigation assets, and satellite-based water accounting. The detailed engineering design guidelines of the irrigation sector will be also be updated to incorporate climate change and water efficiency, among other issues. In the wastewater sector, in 2016 the MPWH is expected to adopt new technical guidance on feasibility studies and new design standards for wastewater treatment systems.

<sup>12</sup> The list of projects to be prepared under the ESP is in Appendix 1 of the PAM. Based on the request of the Government and in accordance with the provisions of the 2016–2019 Country Partnership Strategy, the ADB may consider financing selected projects prepared under this operation through either a results-based lending or a project loan modality.

<sup>13</sup> The total amount of public investment associated with these projects is estimated at \$6 billion. ADB may consider financing selected ESP-prepared projects through either a results-based lending or a project loan modality. ADB's safeguards and fiduciary requirements will be considered for these projects, as appropriate.

land acquisition documents as per government requirements; and (iv) advance contracting for civil works.<sup>14</sup>

- (ii) **Output 2: Strengthened capacity in public investment management.** This output will support the DGWR, DGHS, and DGH of the MPWH in: (i) improving master planning and public investment management systems; (ii) on-the-job capacity development of project staff, especially at the local level, in such areas as design-and-build contracts, design standards, construction supervision, enforcement of civil works contractor performance via technical and financial assessment consultants, multiyear contracting, asset management, etc.; (iii) strengthening of the MPWH's safeguards<sup>15</sup> and procurement systems;<sup>16</sup> (iv) strengthening value engineering during preparation of infrastructure projects; and (v) implementing the ESP, including monitoring of project preparation activities.

20. The ESP is the first “umbrella” project fully dedicated to the preparation of a large number of SDP infrastructure projects according to the requirements of the Government. It is also the first engineering services project that covers three directorates general (DGs) of the MPWH at the same time and is fully aligned with the timeline of Indonesia's National Medium-Term Development Plan (RPJMN), 2015–2019. The ESP will help the MPWH set up a mechanism that will ensure: (i) better quality project preparation to address the large backlog of projects that need to be prepared to help address the nation's daunting infrastructure gap; and (ii) adequate mainstreaming of international best practices and technology in project feasibility, design, environmental and land acquisition assessments, and construction supervision of infrastructure projects.<sup>17</sup>
21. The ESP's estimated cost is \$167.6 million, of which \$155.7 million is to cover the cost of output 1 and \$11.9 million to cover the cost of output 2 as described above. The ADB will provide a technical assistance (TA) loan of \$148.2 million from ADB's ordinary capital resources (OCR).<sup>18</sup> The Government will provide \$19.4 million to finance taxes, duties, interest during implementation, and incremental administration costs.
22. The project is expected to be implemented from 1 October 2016 to 31 December 2019. Most activities related to the preparation and bidding of projects are planned to be completed by the end of 2018 and mid-2019 respectively. A significant share of ESP-prepared projects is expected to be at various phases of civil works by end 2019. Project preparation and construction periods have been considered as 12–18 months each, based on MPWH's approach to strictly align the ESP term with the

<sup>14</sup> This output will also support construction supervision (for selected DGHS and DGH projects), and technical and financial assessment during construction (for selected DGH projects).

<sup>15</sup> Assessment of DGH, DGHS, and DGWR's safeguards systems and the areas for institutional and capacity building are in Appendix 7 of the PAM.

<sup>16</sup> Such as in implementation of the MPWH's regulation on design-and-build contracts adopted in May 2015.

<sup>17</sup> The ESP builds on MPWH good practices, such as the DGH's Australia-funded East Indonesia National Roads Improvement Project which won the International Road Federation's 2015 Global Road Achievement Award for Program Management. In such sectors as highways, the ESP will also help the Government implement improved policy, planning tools, design standards, and project supervision practices as developed under the leadership of DGH with support from the Australia-funded Indonesia Infrastructure Initiative.

<sup>18</sup> In accordance with ADB's Operations Manual Section D12/BP, the TA loan amount is normally repaid over a 15-year period, including a grace period of 3 years, with no commitment charge and the rest of the loan charges in line with sovereign and sovereign-guaranteed OCR loans. Final terms of the TA loan for the ESP will be discussed and agreed between the Government and ADB during loan negotiations.

terms of RPJMN and MPWH's Renstra, which both end in 2019. The period between mid-2018 and end-2019 is expected to be used for construction supervision as well as the technical and financial assessment of selected infrastructure projects prepared under the ESP. The implementation period of the ESP is expected to be 3.3 years, while the grace period is 3 years.<sup>19</sup>

### C. Executing Agency – Ministry of Public Works and Housing

23. The MPWH will be the executing agency with the DGH, DGWR, and DGHS as implementing agencies.<sup>20</sup> The MPWH is responsible for regulating the construction and investment of infrastructure in Indonesia, in accordance with Government Regulation (PP no. 24, 2010) and PP no. 29 2010. The tasks of the ministry, in relation to the construction and investment in infrastructure are to: (i) formulate; (ii) enact; and (iii) implement policies in the field of public works, nationwide. Government Regulation PP no. 24, 2010 is a formal establishment of various ministries in the new cabinet.<sup>21</sup> The MPWH's organizational structure is given in Chart 1.

24. The MPWH consists of 10 Echelon-I structures that include:

- (i) Operational Echelon I: Directorate General (DG) of Water Resources (DGWR), DG of Human Settlement (DGHS), DG of Highways (DGH), DG of Housing Provision (DGHP), and DG of Housing Finance; and
- (ii) Other Echelon-I structures that assist the minister: the Secretariat General, Inspectorate General, the Agency for Research and Development, the Agency for Construction Guidance, the Agency for Toll Road Management, and the Agency to Support Development of Water Supply.

There are also 5 Echelon-I advisors (*Staff Ahli Menteri*) who report directly to the minister and who cover ministry-wide tasks and assignments.

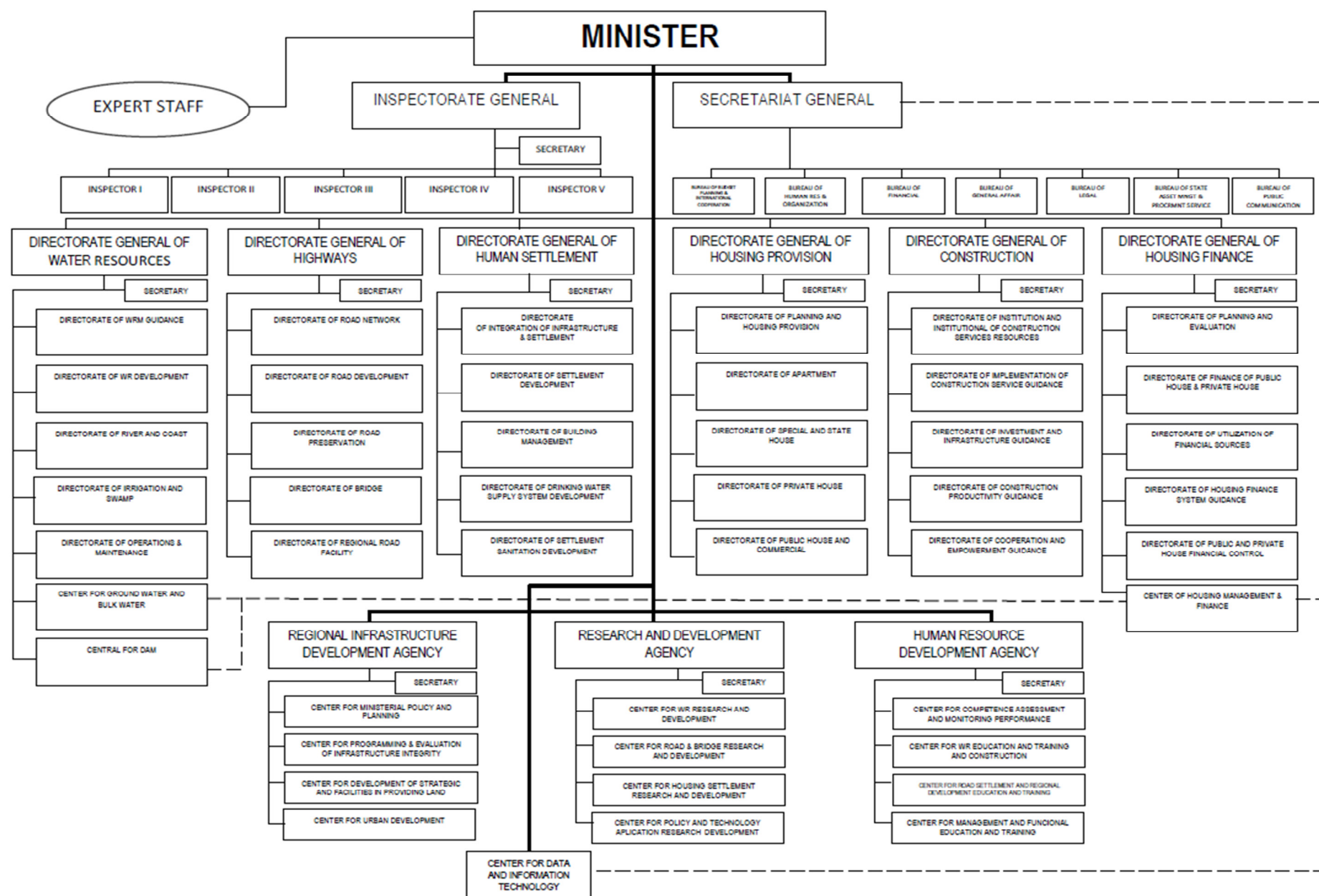
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<sup>20</sup> Programming and budgeting of loan-funded infrastructure projects of the MPWH are carried out at directorate general-level. In line with this, the government programmed separate engineering services projects for the DGWR, DGHS, and DGH. For efficiency, it was decided to integrate these separate projects into one operation. Hence, under the ESP the MPWH has been designated as the executing agency, with the DGH, DGHS, and DGWR as implementing agencies.

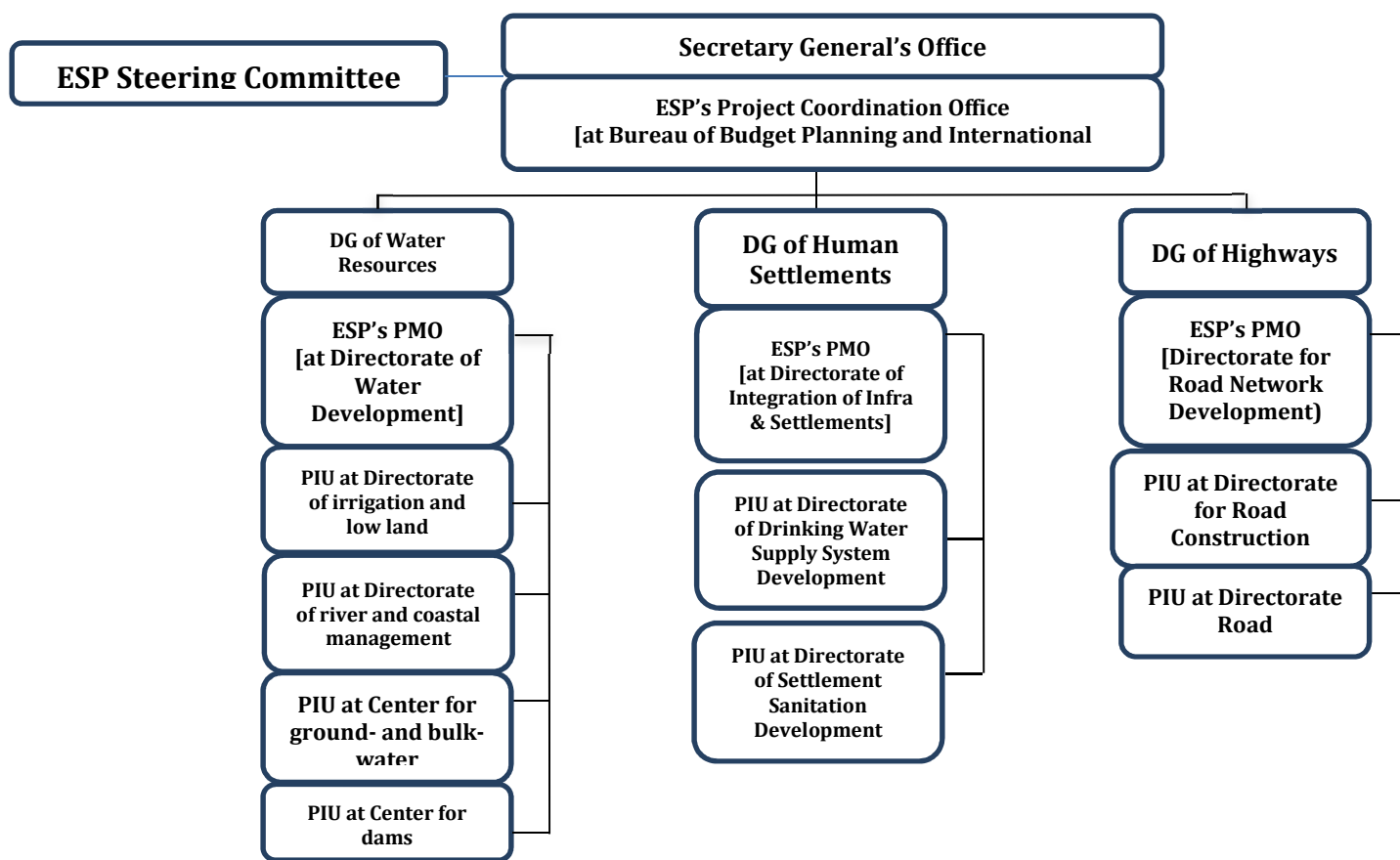
<sup>21</sup> Under the new cabinet, the ministry underwent a structural reorganization in November 2014, with the merging of the Ministries of Public Works and Public Housing. However, there will be no significant change in the role of the new Ministry of Public Works and Housing in relation to the functional responsibilities.

Chart 1: MPWH's Organizational Structure



25. Annually, the MPWH receives the largest budget among ministries. In FY 2014 the *Anggaran Pendapatan dan Belanja Negara* (APBN) budgeted allocation was Indonesian Rupiah (IDR) 84.15 trillion (approximately \$7 billion), while for 2015 the allocation increased to IDR 97.24 trillion (approximately \$8 billion). The 3 operational DGs (i.e., DGWR, DGHS, and DGH) share the largest allocation.
26. The ESP's implementation arrangements also pose a medium risk associated with the several players involved (Chart 2 and Table 1 below): (i) the Project Management Office (PMO) at the OSG will serve as the secretariat to the ESP steering committee; (ii) the Project Coordination Office (PMO) at the Bureau of Budget Planning and International Cooperation of the MPWH's SetJen will undertake the overall supervisory and coordination role under the ESP; (iii) Project Management Offices at each DG will lead the ESP fiduciary and coordination work at the DG level; and (iv) Project Implementation Units (PIUs) at the directorates of the DGs—together with the infrastructure project owners (Satkers)—will lead preparation of infrastructure projects. These new units will need capacity building to ensure smooth management of the ESP. Similarly, the PMO, the PCOs and the PIUs will need to coordinate and work effectively together. The risk of poor internal coordination will be mitigated through the development of clear working arrangements and protocols as part of the project administration manual.

**Chart 2: ESP's Implementation Arrangements**



**Table 1: Highlights of PMO, PCO, PIU, and Satker Functions**

<b>Project implementation organizations</b>	<b>Management Roles and Responsibilities</b>
<ul style="list-style-type: none"> <li>Ministry of Public Works and Housing, Office of Secretary General</li> </ul>	<ul style="list-style-type: none"> <li>➤ Administer the ESP as the executing agency of the ADB loan;</li> <li>➤ Facilitate disbursement and withdrawal applications;</li> <li>➤ Communicate with ADB for any amendments in the reallocation of the loan amount.</li> </ul>
<ul style="list-style-type: none"> <li>ESP Steering Committee, Ministry of Public Works and Housing</li> </ul>	<p>The ESP Steering Committee will be chaired by the Secretary General of the Ministry of Public Works and Housing. Other members of the ESP Steering Committee will include Director General for Water Resources, Director General for Highways, Director General for Human Settlements, and Director General for Construction Development.</p> <p>The roles and responsibilities of the ESP Steering Committee will include the following:</p> <ul style="list-style-type: none"> <li>➤ Provide overall coordination and guidance during the implementation of the ESP;</li> <li>➤ Monitor status of preparation of individual infrastructure projects and facilitate that viable ESP-supported projects receive the required capital budget;</li> <li>➤ Monitor status of institutional strengthening and capacity building activities;</li> <li>➤ Ensure alignment of the ESP with MPWH SDP targets and time-lines;</li> <li>➤ The steering committee will meet regularly; ad-hoc meetings may take place at request of the Chairperson.</li> </ul>
<ul style="list-style-type: none"> <li>Project Coordination Office (PCO), Secretary General's Office</li> </ul>	<p>Staff from the Secretariat General's Office (SetJen) will be assigned to the PCO. SetJen will engage consultants to support PCO thru APBN and ADB cluster technical assistance on sustainable infrastructure assistance program (C-TA0013-INO).</p> <p>The roles and responsibilities of the PCO will include the following:</p> <ul style="list-style-type: none"> <li>➤ Serve as secretariat to ESP steering committee;</li> <li>➤ Consolidate and review information on ESP implementation, including on the inclusion of viable ESP-supported projects in the capital budget of MPWH based on the status of the project preparation and budgeting process;</li> <li>➤ Prepare consolidated reports on ESP implementation status for MPWH management and other government agencies;</li> <li>➤ Ensure follow-up to the steering committee meetings and instructions of MPWH leadership.</li> </ul> <p>The PCO will be supported by one international and one national project implementation specialists (supported by administrative assistant) to be engaged by ADB under cluster technical assistance "Sustainable Infrastructure Assistance Program" (C-TA0013-INO). TORs of these consultants are in Appendix 2.</p>

<b>Project implementation organizations</b>	<b>Management Roles and Responsibilities</b>
<ul style="list-style-type: none"> <li>Project Management Offices (PMOs) at DGWR, DGHS, and DGH</li> </ul>	<p>DGWR, DGHS and DGH will be the implementing agencies for the projects to be prepared for implementation under the ESP. These DGs will be represented by their PMOs. The PMO for each of the DG will be headed by Director of relevant directorate for planning and programming and will include necessary staffs to cover procurement and financial management areas. The roles and responsibilities of PMOs will include the following:</p> <p>Overall:</p> <ul style="list-style-type: none"> <li>➤ Lead communication and reporting on the ESP with PCO and ADB;</li> <li>➤ Establish and maintain a monitoring framework for all ESP-supported projects in the respective DG and ensure all viable ESP-supported projects are prioritized in the DG's request for capital budget for the year, in which the projects are expected to be implementation ready;</li> <li>➤ Ensure compliance with agreed guidelines and procedures for the procurement of goods and selection of consultants;</li> <li>➤ Review and process payments to consultants under outputs 1 and 2;</li> <li>➤ Manage financial reporting and accountability aspects (withdrawal applications, financial reports, audits, bank account statements, etc.);</li> <li>➤ Lead financial management per ADB's Loan Disbursement Handbook;</li> </ul> <p>Output 1:</p> <ul style="list-style-type: none"> <li>➤ Lead selection of panels for respective DGs, including development of generic Terms of Reference (TOR), and evaluation of submitted EOIs (with contribution of the PIUs at relevant directorates);</li> <li>➤ Lead the review of panel performance and issues related to selection and maintenance of the panel;</li> <li>➤ Provide recommendation to respective DGs to sign indefinite delivery contracts with panel members;</li> <li>➤ Contribute to review of consultant outputs and quality assurance;</li> <li>➤ Incoordination with PIUs, monitor status of project preparation and facilitate timely action by all structures of the respective DG.</li> </ul> <p>Output 2:</p> <ul style="list-style-type: none"> <li>➤ Lead selection and management of ESP project management consultants;</li> </ul> <p>Each PMO will receive consultant support for implementation of the ESP through a project management consulting firm. TORs of each PMC are in Appendix 2.</p>



<b>Project implementation organizations</b>	<b>Management Roles and Responsibilities</b>
<ul style="list-style-type: none"> <li>Project Implementation Units (PIUs) at DGWR, DGHS, and DGH</li> </ul>	<p>The PIU for each of the DG will be headed by a Director and will include necessary staffs to cover procurement, financial management, and technical areas. The management roles and responsibilities of each of the PIUs will include the following:</p> <p>Output 1:</p> <ul style="list-style-type: none"> <li>➤ Closely monitor status of each contract and ensure timely action by the consultant and all structures of the respective DG.</li> <li>➤ For project preparation, establish joint PIU-Balai/Satker Direction Teams to review consultant outputs to ensure quality and timeliness;</li> <li>➤ Contribute to development of TORs for selection of firms for the panel;</li> <li>➤ Contribute to evaluation of submitted EOIs for empanelment;</li> <li>➤ Provide feedback on performance of panel consultants;</li> <li>➤ For project preparation, act as chair of tender committees:             <ul style="list-style-type: none"> <li>○ lead development of project specific TORs and RFP for selection of consultants from the panel;</li> <li>○ lead technical and financial evaluation of submitted proposals, and contract negotiations;</li> <li>○ sign the contract with the technical consultant selected from the panel;</li> </ul> </li> <li>➤ Lead quality assurance of the technical consultants' outputs, including review of consultant's deliverables;</li> <li>➤ Upon endorsement of joint PIU-Balai/Satker Direction Team, confirm deliverable of the consultants for payment processing by PMO;</li> <li>➤ Lead consultant performance evaluation upon completion of contract.</li> <li>➤ Submit monitoring status of each contract to PMO and ensure timely action by the consultant and Satkers;</li> <li>➤ Ensure compliance with ADB consultant selection guidelines.</li> </ul> <p>Output 2:</p> <ul style="list-style-type: none"> <li>➤ Contribute to implementation of capacity building and institutional strengthening activities (including in public investment management, safeguards, and procurement) in the relevant DG.</li> </ul> <p>Each PIU will receive support for the ESP through the Project Management Consultant (PMC).</p> <p>REOIs for panels of DGH, DGHS, and DGWR are in Appendix 2.</p>
<ul style="list-style-type: none"> <li>Project Team (PIU-</li> </ul>	<p>Established by the concerned PIU with participation of local Balai or Satker</p>

Project implementation organizations	Management Roles and Responsibilities
Balai/Satker)	Tasks are to: <ul style="list-style-type: none"> <li>➤ review project preparation consultant firms' outputs</li> <li>➤ submit consultant outputs to PIU for approval and endorsement of payment to the project preparation consultant firms.</li> </ul>
○ PIU	See above
○ Balai/Satker)	Output 1: <ul style="list-style-type: none"> <li>➤ Provide feedback to respective PIU and PMO on performance of panel consultants;</li> <li>➤ contribute to development of project specific TORs and RFP for selection of consultants from the panel for a specific project;</li> <li>➤ Lead coordination with other local agencies and government offices.</li> <li>➤ As member of Project Team:               <ul style="list-style-type: none"> <li>○ be the lead counterpart for the consultants during their assignments, including managing and supervising the consultants on daily basis;</li> <li>○ review and quality assurance of consultant output;</li> <li>○ contribute to consultant performance evaluation upon completion of contract.</li> </ul> </li> </ul> Output 2: <ul style="list-style-type: none"> <li>➤ Participate and contribute to capacity building and institutional strengthening activities under the ESP.</li> </ul>
• ADB project team	<ul style="list-style-type: none"> <li>➤ Review and monitor implementation of the ESP, including facilitation of review by ADB of procurement, financial management and other types of project reporting and submissions of MPWH.</li> <li>➤ Coordinate with development partners and other stakeholders on ESP implementation.</li> <li>➤ Facilitate transfer of infrastructure related knowledge and best practices to MPWH from ADB experiences in the Asia Pacific region.</li> </ul>

#### D. Risk Analysis and Mitigation Measures

27. Major fiduciary risks of the ESP are related to: (i) lack of experience of the DGs with the panel arrangement for engaging consultants for infrastructure project preparation and the administration of lump-sum consultant contracts, (ii) lack of experience managing the selection and administration of a large number of sizable contracts with consultant firms, and (iii) non-implementation of ESP-supported projects due to issues with the budgeting process or discretionary decisions. These risks are considered manageable due to the following mitigation measures: (i) recruitment of a project management consultant firm to support the DGs in all fiduciary aspects of the ESP implementation on a daily basis and provide necessary on-the-job capacity building; (ii) engagement of TA-funded procurement advisors (international consultants) to safeguard the DGs during the consultant selection and management processes; (iii) suitable use of the government's e-procurement platform for the selection of project preparation consultants; and (iv) ensuring PMOs' responsibility for aligning the project preparation schedules with the budgeting process (see the discussion on the role of the PMOs in the Table 1 above).
28. The key project design specific risks, activities to mitigate risks, responsibilities to address these risks, and timelines are summarized in Table 2 below.

**Table 2: Overview of ESP's Risk and Mitigation Measures**

Key Risks	Mitigation Activities	Timeline	Responsibility
<b>Project specific risks</b>			
Insufficient experience of the PCO, PMOs and PIUs with implementation of ADB-funded projects, including with financial management arrangements under ADB-funded projects	<ul style="list-style-type: none"> <li>Recruitment of an ESP-financed project management consultant firms to support the PMOs and PIUs with implementation of the ESP, including assistance in financial management</li> <li>Recruitment of a TA-financed international and national project implementation specialists to provide safeguarding support to the PCO, PMOs and PIUs in ensuring compliance with ADB financial management requirements</li> </ul>	<p>Soon after loan effectiveness</p> <p>May 2016</p>	<p>PMO</p> <p>ADB, PCO</p>
Lack of experience of PMOs and PIUs with administration of lump-sum contracts	<ul style="list-style-type: none"> <li>Recruitment of an ESP-financed project management consultant firms to support the PMOs and PIUs with implementation of the ESP, including assistance in financial management and contract administration</li> <li>Recruitment of a TA-financed international and national project implementation specialists to provide safeguarding support to the PCO, PMOs and PIUs in ensuring compliance with ADB</li> </ul>	<p>Soon after loan effectiveness</p> <p>May 2016</p>	<p>PMOs, ADB</p> <p>ADB, PCO</p>

Key Risks	Mitigation Activities	Timeline	Responsibility
	financial management <ul style="list-style-type: none"> <li>Capacity building by ADB on consultant selection guidelines and lump-sum contract management</li> <li>Use of direct payment procedure</li> </ul>	During implementation  During implementation	TA consultants and PMC firms  PMOs, PIUs
Inadequate coordination and inefficient information flow between the PMOs, PIUs and Saters (including Saters at local offices of MPWH)	<ul style="list-style-type: none"> <li>Establishment of the ESP's steering committee to ensure regular coordination to address issues, resolve it within a short time span and communicate it to the PCO, PMOs, and PIUs.</li> </ul>	August 2016	OSG, in consultation with DGs
<b>Generic PFM risks</b>			
Introduction of accrual-based accounting may impact preparation of financial management reports.	Strengthening of the PMOs and PIUs capacity in preparing the financial management reports	After the establishment of PCO, PMOs and PIUs	ADB, TA-financed consultants, project management consultant firms
Weak internal controls and internal audit capabilities and reconciliations.	Coordinate with Inspectorate General of MPWH (with guidance from BPKP, if needed) to address internal control system issues specific for the project.  As part of the project management consultant firms, recruit financial management consultants and provide guidance to improve project staff capacity in internal control and audit.	After the establishment of PMOs and PIUs  After loan effectiveness	MPWH, ADB  PMOs and ADB
Inadequate segregation of duties in bank reconciliations	Establish clear organizational structure of the ESP.  Reflect this aspects clearly in the TORs of financial management consultants to be recruited as part of the project management consultant team to support each DG with ESP implementation	To be reflected in PAM	PCO, PMOs, PIUs, and ADB
Reliance on excel spreadsheets (and the associate risks) for preparation of financial statements	Develop accounting and financial management manuals to empower accounting system; strengthen the internal audit function; and put in place the system to ensure data reliability.	After PMOs' establishment.	PMO, with support of ADB

29. A financial management internal control and risk management assessment were conducted.<sup>22</sup> The following risk assessment is based on the existing public financial management environment in the country and in the MPWH, relying on existing staff and finance and accounting policies, procedures, and practices. The risk mitigation measures consider factors which will significantly reduce or eliminate the risks identified.
30. Based on the project preparation activities required for the ESP and considering the experience from other recent projects, the following are assessed to be the risks associated with the financial management of the MPWH and proposed mitigation. "Risk" here is qualified as being "residual", i.e., after mitigation measures. The following risk assessments are based on existing circumstances, staffing, and procedures, and include recommendations for risk mitigation measures.

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<sup>22</sup> ADB.2005. Financial Management and Analysis of Projects. (page 24). The risk-assessment approach is based largely on International Standard on Auditing 400: Risk Assessment and Internal Control.

Risk Type	Risk Assessment	Risk Description	Mitigation Measures
Accounting procedures and compliance with ADB practices	Medium		<ul style="list-style-type: none"> <li>• Early establishment of PCO at OSG and PMOs at DGs</li> <li>• Clear allocation of financial/accounting support from experienced senior staff and support from ADB Indonesia Resident Mission (IRM) in capacity building related to ADB procedures.</li> </ul>
Country-Specific Risks	Negligible or Low	PFM reform program such as the introduction of accrual-based accounting may impact in the preparation of financial management report.	<ul style="list-style-type: none"> <li>• Efforts will be made to properly monitor the preparation of the financial management report.</li> <li>• Training will be made available to the PMOs and PIUs in coordination with Ministry of Finance.</li> </ul>
Entity-Specific Risks	Medium	Unclear job descriptions or delineated roles of the project staff to affect accountability.	<ul style="list-style-type: none"> <li>• Will establish a clear organizational structure of the PMO and also the TORs of experts in the project management consultant team that will assist MPWH with implementation of the ESP.</li> <li>• Capacity building in the area of PFM and ADB's financial management and reporting requirements, especially for PMOs and PIUs; and clear coordination between PCO, PMOs and PIUs.</li> </ul>
Coordination between PCO, PMOs and PIUs	Medium		<ul style="list-style-type: none"> <li>• Will establish a clear organizational structure for the ESP's implementation with clear roles and accountability frameworks for the PCO, PMOs, and PIUs.</li> <li>• Closer monitoring and more consultation to improve inter-coordination among them.</li> </ul>

Reporting and Monitoring	Medium	Incomplete and late submission of quarterly financial progress reports	<ul style="list-style-type: none"> <li>Recruit a financial management specialist to help PMOs and PIUs to consolidate reports from all DGs.</li> <li>Develop accounting and financial management manuals to empower accounting system; strengthening the internal audit function; and putting in place systems to ensure data is safeguarded for related development.</li> </ul>
Funds Flow - Internal Audit	Medium	Lack of internal control for fund flow from MOF to end users	<ul style="list-style-type: none"> <li>Coordinate with <i>Badan Pengawasan Keuangan dan Pembangunan</i> - internal control institution (BPKP) to improve internal control system and work closely with EA to improve the internal control system, specific for the project.</li> <li>Recruit financial management consultants and provide more guidance to improve project staff capacity.</li> </ul>
External Audit	Medium	Incomplete and late submission of audited project financial statements	<ul style="list-style-type: none"> <li>Coordinate with BPKP on how to further improve the quality of audited annual project financial statements (APFSs) and update the TOR for auditors and explore potential participation of private sector auditors to further improve the APFS quality.</li> </ul>
Procurement matters	Medium	Lack experience, especially the PIUs at local government levels in procurement capacity	<ul style="list-style-type: none"> <li>Intensive coordination between PIUs in procurement process,</li> <li>Provide training in ADB financial management, disbursement and procurement procedures</li> </ul>
<b>Overall Risk</b>	<b>Medium</b>		

Source: MPWH and ADB

## IV. Executing Agency Measures

### A. Staffing

31. Each DG will assign one staff member at the PMO to be responsible for the overall financial accountability at that DG for the use of the ESP funds. This staff member will be supported by two national consultants (one financial management specialist

and one accountant/finance clerk) as part of the project management consultant firm for the respective DG. These national consultants will also support, as required, the PIUs at the respective DG in financial management issues.

32. A full-time monitoring and evaluation (M&E) consultant will be recruited as part of the project management consultant team to support the PMOs in carrying out the M&E of the ESP, including for the status of preparation of each project and linking the projects with the budget preparation process. The M&E consultant at the PMOs will be responsible for overseeing the data collection by the M&E consultants, and identifying issues requiring corrective measures. The M&E consultant, with the support of the financial management consultant, will prepare quarterly progress reports for submission to the ESP's project steering committee, Secretariat General, relevant DGs, and the ADB (via OSG).

## **B. Accounting Policies and Procedures**

33. **Accounting policies.** The PMO at each DG will maintain separate project accounts and records by funding sources for all expenditures incurred in the ESP. In accordance with Minister of Finance Decree 213/2013 (on the Government accounting system and financial reporting),<sup>23</sup> the EA has an accounting system that allows for the proper recording of financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds. Controls are in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained. The chart of accounts is adequate to properly account for and report on sub-project activities and disbursement categories. Cost allocations to funding sources are made accurately and in accordance with established agreements. The general ledger and subsidiary ledgers are reconciled and in balance. All accounting and supporting documents are retained on a permanent basis in systematic manner that allows authorized users easy access. Access is possible by authorized personnel, but the documents are not stored in a centralized computerized database.
34. The financial reporting at MPWH can be presented as follows:
  - a. Unit Akuntansi Kuasa Pengguna Anggaran (UAKPA)–Saters accounting unit (the smallest unit within the ministry accounting system) is required to prepare financial reports. Saters are usually attached to a directorate level (the immediate supervisor of a head of Sater is a director).<sup>24</sup> Projects financed under foreign financing are usually included under the strategic program Saters. Hence, for ESP implementation, it is likely that each DG will establish an ESP Sater to manage/implement the ESP budget/project.
  - b. Unit Akuntansi Pembantu Pengguna Anggaran Wilayah (UAPPA-W). These are Saters at regional/provincial level, which are assigned to implement MPWH programs in provinces.
  - c. Unit Akuntansi Pembantu Pengguna Anggaran Eselon I (UAPPA-E1): a unit at the directorate general (Echelon 1) level, which is responsible for compiling

<sup>23</sup> The government system is in line with the International Financial Reporting Standards and will be applied for project reporting (as required by ADB's *Guidelines on Financial Management and Analysis of Projects*).

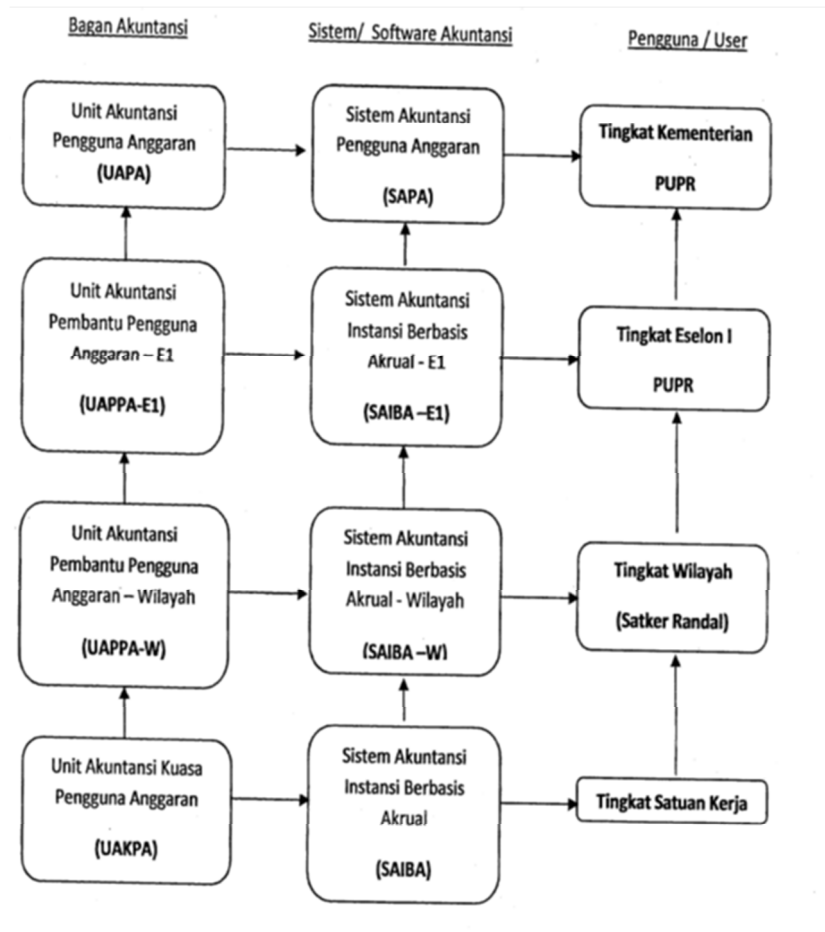
<sup>24</sup> For example, within DGHS, normally at the directorate level there will be Saters for strategic programs and Saters for routine activities.



and coordinating financial statements/reports from the Satkers (UAKPA and UAPPA-W).

- d. Unit Akuntansi Pengguna Anggaran (UAPA), a unit at the ministerial level, which is appointed as the reporting entity of the Ministry and responsible for submitting the ministry's financial report to the Parliament and to the BPK (Audit Board of the Republic of Indonesia). The BPK will audit the report and provide its opinion.

The relations of these units and the software they use are charted below:



35. The Ministry of Finance (in accordance with PP 71/2010) has developed an accounting system called *Sistem Akuntansi Instansi Berbasis AkruaI* (SAIBA), which is an accrual-based accounting system for government agencies. The SAIBA enables preparation of financial reports in stages starting from the Satkers, regions, Echelon 1, and ministry level. This accounting system was developed by the Directorate General of Treasury of the Ministry of Finance. It is mandatory for use by all Satkers in Indonesia. This system enables production of following reports:

- Budget execution reports: (i) disbursed fund report; (ii) statement of changes in balance budget surplus (*Laporan Perubahan SAL*)
- Financial reports: (i) balance; (ii) operational report; (iii) statement of equity change; and (iv) cash flow statement
- Notes to the financial statements

36. The Satker's accounting officer is authorized to access SAIBA and communicate with the State Treasury: this officer has a password and access permit to State Treasury Office (KPPN), for the monitoring of financial reports. Another Satker officer is authorized to communicate with KPPN and is the official signatory for payment orders (PP-SPM).
37. The following functional responsibilities will be performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) functions of ordering, receiving, accounting for, and paying for goods and services are appropriately segregated; and (v) bank reconciliations are prepared by someone other than those who make or approve payments.
38. **Budgeting system.** Budgets include physical and financial targets. The budgets are prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance. The actual expenditures are compared to the budget with reasonable frequency, and explanations are required for significant variations from the budget. Approvals for variations from the budget are required in advance. Budgets are prepared by the planning official, approved by the minister, and submitted to MOF for final approval by the parliament (DPR). The procedures are in place to plan infrastructure project preparation activities, collect information from the project/budget management units (*Satuan Kerja* or Satkers) in charge of infrastructure project implementation, and prepare the budgets. The infrastructure project plans and budgets of project activities are realistic, based on valid assumptions, and developed by experienced staff, who may be supported by consultants.
39. The Minister of the MPWH is considered as the budget user (*pengguna anggaran*). The budget user can delegate his/her authorities in using the budget to the officers named as *kuasa pengguna anggaran* (KPA) or Satker. The head of a Satker is appointed through the decree issued by the minister.
40. The launch of SPAN, the automated financial management information system, enables management of the full cycle of budget, appropriation, allotment, execution and financial statements from 2015 onwards. The SPAN allows on-line generation in MS Excel format of: (i) the report on special account status; (ii) balance sheets on a daily and weekly basis; and (iii) the list disbursements under payment warrants. A flow chart for financial management using the SPAN, which is used nationally, is given in Appendix 2.
41. **Payments.** Invoice-processing procedures provide: (i) copies of purchase orders and receiving reports to be obtained directly from issuing departments; (ii) comparison of invoice quantities, prices, and terms, with those indicated on the purchase order and with records of goods actually received; (iii) comparison of invoice quantities with those indicated on the receiving reports; and (iv) checking the accuracy of calculations. All invoices are stamped PAID, dated, reviewed and approved, and marked for account code assignment. Controls exist for the preparation of the payroll, and changes to the payroll are properly authorized. The role and responsibility of relevant staff of the DGWR in the payment process are presented in the standard operating procedure in Appendix 5.

42. **Policies and procedures.** The standard operational procedure of the accounting system at the MPWH is in accordance with the Minister of Finance Regulation No. 213/PMK.05/2013 regarding the Accounting and Financial Reporting System for Central Government Agencies, and Director General of Treasury Regulation No. 42/PB/2014 regarding the Guidelines for the Preparation of Ministry/Agency's Financial Report/Statement. The basis of accounting is cash and the manuals are distributed to appropriate personnel.<sup>25</sup>
43. The Office of the Secretary General (OSG) and the DGs have an adequate policy and procedures manual to guide activities and ensure staff accountability. An example of the institutional arrangement of financial management at the planning directorate of the DGWR is in Appendix 4.B. Such an arrangement of financial management is similar across all DGs—hence, that of DGWR may be considered as representative of all DGs involved in the ESP. The financial management arrangement at the planning directorate of DGWR shows adequate staffing as well as division of responsibilities in fiduciary aspects to avoid conflict of interest and to ensure discretion, transparency, and accountability. The accounting policy and procedures manuals are updated for the specifics of individual infrastructure project activities. The procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy, or procedure to be used by the EA. There are written policies and procedures covering all routine financial management and related administrative activities. The policies and procedures do not clearly define conflict of interest and related party transactions (real and apparent) and safeguards to protect the organization from fraud and corruptions. Therefore, the managerial independence and authority of the EA require strengthening, which will be provided through the project management consultant firm.
44. Each authorized budget user (Echelon II or director level) is subject to an integrity pact as per the format established by the State Treasury Office (KPN). Integrity pacts are signed by the authorized budget user (which can be also a head of Satkers) when they are sworn in. The new Law on Civil Service requires all civil servants to disclose their financial condition through the submission of a Report on the Wealth Status of Civil Servants (*Laporan Harta Kekayaan Aparatur Sipil Negara*). This report is submitted to the Bureau of Finance of the Office of the Secretary General or the MPWH, then sent to the State Employment Agency (Badan Kepegawaian Negara). There is, however, no practice of financial disclosure of high-ranking staff (except the minister).
45. **Cash and bank accounts.** The Ministry of Finance determines the names and positions of authorized signatories in the bank accounts. The organization maintains an adequate, up-to-date cashbook, recording receipts and payments. Controls exist for the collection, timely deposit, and recording of receipts at each collection location. Bank accounts and cash are reconciled on a monthly basis. All unusual items in the bank reconciliation are reviewed and approved by a responsible official. All receipts are deposited on a timely basis.

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<sup>25</sup> The operation manual for financial management is referenced in the annual decree of the head of the Satker (who is also the authorized budget user), through which the Satker organization is approved, and Satker's financial management officer is appointed. Information about the control of the payment process can be seen in the *Lembar Kendali* (Sheet Control) see **Attachment 4**.

46. **Safeguard of assets.** There is a system of adequate safeguards to protect assets from fraud, waste, and abuse. The Ministry of Finance provides a Management and Accounting Information System for State-Owned Assets (SIMAK-BMN) for use by the accounting unit. Government Regulation 6/2006 regulates the management of state-owned assets. Subsidiary records of fixed assets and stocks are kept up to date and reconciled with control accounts. There are periodic physical inventories of fixed assets and stocks. The assets are sufficiently covered by insurance policies.
47. **Internal audit.** The internal audit organization at the MPWH is headed by the Inspectorate General who has an on-going responsibility to monitor and report on the accounting and related operations of the MPWH.<sup>26</sup> Accordingly, officers of the Inspectorate General conduct internal audits to prevent, correct, and follow-up problems. An internal audit report is done at least once a year. Upon receipt of the internal audit report, the Satkers prepare answers and clarifications for all matters raised in the internal audit report. Monitoring and evaluation of overall auditing matters at each DG is performed by the Finance Division of DGs.
48. The results of the internal audit should be submitted to the Supreme Audit Board of the Republic of Indonesia (BPK) and to the Minister of the MPWH. The BPK normally considers the Inspectorate General audit report as a reference. The BPK executes auditing according to its own methodology not bound to the internal audit report. The finance division at the Secretariat of MPWH DGs normally meets twice a year with Satkers, usually after the audit by the Inspectorate General or the Financial and Development Supervisory Agency (BPKP), or before the BPK audit.
49. **Internal control and anti-corruption measures.** The internal control system comprises all organizational activities concerning the determination and evaluation of what has been achieved and how far implementation agrees with the plans and policies of management. The system of internal control implemented by the MPWH focuses on: (i) safeguarding the organization's property; (ii) securing accurate and reliable accounting information; (iii) promoting operational efficiency; and (iv) fostering compliance with managerial policies. To address these concerns, the Ministry requires submission of weekly, monthly, quarterly, half-year and annual reports, so that irregularities and weaknesses in implementation can be quickly identified and remedied. It monitors projects through computerized reports introduced in the MPWH's DGs. It also carries out field inspections of work in progress in order to promote economic, efficient, and effective methods. Likewise, it conducts coordination for the evaluation of performance, discussion of construction problems, and planning for future activities. In the ESP project, internal control will focus on the transparent, compliant, and speedy selection of consultants. This will require intensive coordination among the PIUs, PCOs, and the PMO. The PMO and PCOs should also ensure that the grievance mechanism is installed and being used by the ESP's stakeholders.
50. **External audit.** The audit of the MPWH is within the mandate of the BPK (Supreme Audit Board of Indonesia), as set out in Article 23 of the 1945 Constitution and in the Act No. 5 of 1973 on BPK. The audit objectives of the BPK with respect to the activities of the MPWH cover programs or sectors of development which are directly

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<sup>26</sup> The Government's internal audit organization is the Financial and Development Supervisory Agency (Badan Pemeriksa Keuangan Pemerintah, BPKP) which may also conduct internal audits based on special requests of the President.

connected with the welfare of individual citizens and the public interest. These audit objectives, among others, are selected from problems set out in the Broad Outlines of State Policy, and represent material for consideration in the Five-Year Work Plan and the Annual Work Plan of the BPK. In carrying out its audit activities, the BPK follows audit procedures which are set out in Auditing Standards for the Audit of the Accountability of State Finance. These audit procedures are: (i) the preliminary audit, where data and information are collected to obtain indications of problems; (ii) on the basis of the preliminary audit, the preparation of an audit program for implementation of a detailed audit; and (iii) the detailed audit comprising more intensive examinations of indicators already identified during the preliminary audit to ascertain irregularities and their causes. The audit methodology involves the use of sampling methods in selected areas to be audited. The audit involves a review of financial reports, contracts and their supporting documents, and physical checks in the field. The Asian Organization of Supreme Audit Institutions, however, noted two weaknesses in the conduct of the external audit by the BPK. The first is in the field of technical engineering knowledge, as most BPK auditors do not have an engineering educational background. Second is the very limited time provided to auditors compared to the much longer period required to carry out an extensive audit of public works.

51. The Financial and Development Supervisory Agency (BPKP)'s external audit reports on the financial statements on the following most recent ADB-funded projects were reviewed: (i) *Regional Road Development Project* (June 2015; the implementing agency is the DGH);<sup>27</sup> (ii) *Integrated Citarum Water Resources Management Investment Program* (29 June 2015, implementing agency DGHS);<sup>28</sup> and (iii) *Participatory Irrigation Sector Project* (27 September 2013; implementing agency DGWR).<sup>29</sup> All audit reports indicate no major findings, noting that the financial statements had been: (i) "reasonably prepared in all material respects"; (ii) the EA had utilized all proceeds of the loan from the ADB only for the purposes of the relevant project and in accordance with the loan agreement; and (iii) the EA was in compliance with all financial covenants of the loan agreement.

## V. Funds Flow and Disbursement Arrangements

### A. ADB Loan's Fund Flow

52. The ESP's estimated cost is \$167.6 million, of which ADB will provide a technical assistance (TA) loan of \$148.2 million and the Government will provide \$19.4 million to finance taxes, duties, interest during implementation, and incremental administration costs.
53. The loan proceeds will be disbursed in accordance with the ADB's *Loan Disbursement Handbook* (2015, as amended from time to time),<sup>30</sup> and detailed arrangements agreed upon between the Government and ADB in the ESP's project administration manual. The Directorates General (DG) involved in the implementation will maintain separate accounts and records for the ESP. Project

<sup>27</sup> ADB Loan No. 2817-INO and co-financing by IsDB loan IND-0161.

<sup>28</sup> ADB Loan No. 2500/2510-INO.

<sup>29</sup> ADB Loan No. 2064/65 (SF)-INO and Government of the Netherlands' Grant No. 4299-INO.

<sup>30</sup> Available at: <http://www.adb.org/documents/loan-disbursement-handbook>.

staff will make use of the ADB's disbursement training to help ensure efficient disbursement and fiduciary control.<sup>31</sup>

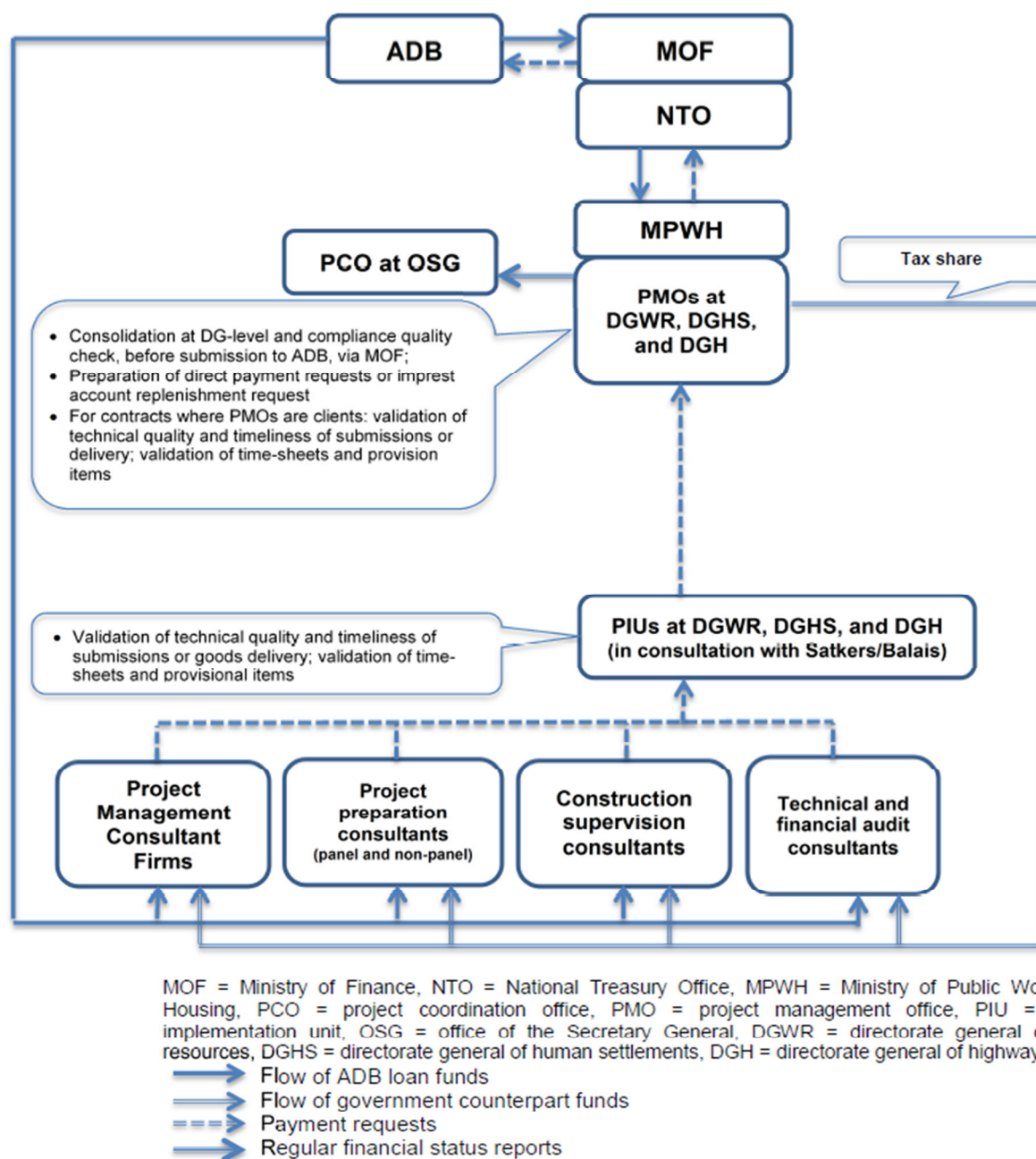
54. Pursuant to the ADB's Safeguard Policy Statement (SPS) (2009),<sup>32</sup> ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the SPS. The DGs will ensure that ESP proceeds are spent in compliance with applicable laws and regulations of Indonesia and will apply the prohibited investment activities list to the ESP, if and when applicable.
55. Fund flow arrangements under the ESP are presented in Chart 3 below.

**Chart 3: ESP's Fund Flow**

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<sup>31</sup> Online training for project staff on disbursement policies and procedures is available at:  
[http://wpqr4.adb.org/disbursement\\_elearning](http://wpqr4.adb.org/disbursement_elearning)

<sup>32</sup> Available at: <http://www.adb.org/sites/default/files/pub/2009/Safeguard-Policy-Statement-June2009.pdf>



## B. Disbursement Arrangements

56. The loan proceeds will be disbursed in accordance with the ADB's *Loan Disbursement Handbook* (2015, as amended from time to time),<sup>33</sup> and detailed arrangements agreed upon between the Government and the ADB in the ESP's project administration manual. The DGWR, DGHS, and DGH involved in the implementation will maintain separate accounts and records for the ESP. Project staff will make use of the

<sup>33</sup> Available at: <http://www.adb.org/documents/loan-disbursement-handbook>.

ADB's disbursement training to help ensure efficient disbursement and fiduciary control.<sup>34</sup>

57. The ESP will have three (3) budget users: the DGWR, DGHS, and DGH. Each budget holder will establish a project management office (PMO), which will be headed by a commitment officer (PPK).<sup>35</sup> The PPK at PMOs at DGWR, DGHS, and DGH will be responsible for procurement (i.e., selection of the project management consultants, selection of the panel of consultants, and procurement of goods) and managing the payment for all goods and consultant services procured under the ESP. The PPK at PIUs at the directorates DGWR, DHS, and DGH will be responsible for the selection of consultants from the panels, in consultation with the relevant Satkers.

58. **Direct payment procedure.** The ESP, due to its TA loan nature, will use the direct payment procedure. The payments to the consultants will be made directly by the ADB, based on the payment request of the DGWR, DGH or DGHS, submitted through the MOF. The Government will cover the tax share of the consultant contracts through payment to the consultants or through other allowed means in line with Indonesia's taxation framework.

59. Before the submission of the first withdrawal application request, the borrower will submit to the ADB sufficient evidence of the authority of the persons who will sign the withdrawal applications on behalf of the borrower, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is \$100,000 equivalent. Sample forms for withdrawal applications of loan proceeds can be downloaded from the ADB website.<sup>36</sup>

60. The PMOs will be responsible for preparing the annual contract awards and disbursement projections; requesting budgetary allocations for counterpart funds; preparing of withdrawal applications; and sending the withdrawal applications to the ADB. The PMOs and the PIUs are responsible for collecting and maintaining supporting documents for the project expenditures they have incurred. The PMOs shall submit regular financial reports to the PCO at the Office of the Secretary, per the format and frequency to be agreed between the PCO and each PMO.

61.

62. The MPWH and ADB will provide guidance to its staff to ensure their skills are sufficient for the needs of the ESP. The guidance will be continued as necessary, especially for refreshing financial management and accounting skills and for orientation of new staff.. The effectiveness and efficiency of the disbursement procedures will be assessed at project administration missions, and actions will be taken to simplify or streamline the processes, if deemed appropriate.

## VI. Reporting, Auditing and Public Disclosure

### (i) Auditing Requirements

63. The PMOs at DGWR, DGH and DGHS will maintain, or cause to be maintained, separate books and records by the funding source for all expenditures incurred in the

<sup>34</sup> Online training for project staff on disbursement policies and procedures is available at: [http://wpqr4.adb.org/disbursement\\_elearning](http://wpqr4.adb.org/disbursement_elearning)

<sup>35</sup> PPK = *pejabat pembuat komitmen* - commitment officer.

<sup>36</sup> Available at: [http://www.adb.org/documents/handbooks/loan\\_disbursement/default.asp](http://www.adb.org/documents/handbooks/loan_disbursement/default.asp)



ESP. The PCO at the Office of the Secretary General (OSG) will prepare consolidated project financial statements in accordance with the government's accounting laws and regulations which are consistent with international accounting principles and practices.

64. The PCO will cause the detailed consolidated project financial statements to be audited annually by an independent auditor acceptable to the ADB based on standardized TORs on the external audit of ADB-funded projects agreed upon between the ADB and the Audit Board of Indonesia (BPK) in 2014 (Appendix 8 of the Project Administration Manual).<sup>37</sup> The independent auditor will also review ESP records and financial reports at the PMOs of DGWR, DGH, and DGHS, as part of the annual audit of the ESP. The MPWH will allocate adequate budget to properly audit the ESP. The PCO will submit the audited project financial statements in English to the ADB within six months of the end of the fiscal year.
65. Per the TOR, the auditor will prepare the annual audit report for the project accounts, which will include an audit management letter and audit opinions which cover: (i) whether the project financial statements present a true and fair view, and are presented fairly, in all material respects, in accordance with the applicable financial reporting framework; (ii) whether or not loan proceeds were used only for the purposes of the project; (iii) the level of compliance for each financial covenant contained in the legal agreements for the project; (iv) the use of the imprest fund procedure, if applicable; and (v) the use of the statement of expenditure procedure certifying the eligibility of those expenditures claimed under SOE procedures, and the proper use of the SOE and imprest procedures in accordance with the ADB's *Loan Disbursement Handbook* and the project documents.
66. Compliance with financial reporting and auditing requirements will be monitored by review missions and during normal project supervision, and followed up regularly with all concerned, including the external auditor.
67. The Government and the MPWH's OSG and DGs have been made aware of the ADB's policy on delayed submission, and the requirements for satisfactory and acceptable quality of the audited project financial statements.<sup>38</sup> The ADB reserves the right to require a change in the auditor (in a manner consistent with the constitution of the borrower), or for additional support to be provided to the auditor, if the audits required are not conducted in a manner satisfactory to the ADB, or if the audits are substantially delayed. The ADB reserves the right to verify the

<sup>37</sup> The audit will follow the standardized TORs agreed with the BPK as reflected in BPK's letter to ADB dated 19 June 2014 (No. 294/S/X/06/2014). The MOF's statement of no objection on the standardized TORs was communicated through their letter to ADB dated 18 July 2014 (No. S-561/PU.2/2014).

<sup>38</sup> ADB Policy on delayed submission of audited project financial statements: When audited project financial statements are not received by the due date, ADB will write to the executing agency advising that (i) the audit documents are overdue; and (ii) if they are not received within the next six months, requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters will not be processed.

- A. When audited project financial statements have not been received within 6 months after the due date, ADB will withhold processing of requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters. ADB will (i) inform the executing agency of ADB's actions; and (ii) advise that the loan may be suspended if the audit documents are not received within the next six months.
- B. When audited project financial statements have not been received within 12 months after the due date, ADB may suspend the loan.

project's financial accounts to confirm that the share of ADB's financing is used in accordance with the ADB's policies and procedures.

## **68. Public Disclosure**

69. Public disclosure of the project financial statements, including the audit report on the project financial statements, will be guided by the ADB's *Public Communications Policy* (2011).<sup>39</sup> After review, the ADB will disclose the project financial statements for the project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on the ADB's website. The Audit Management Letter will not be disclosed.

## **(iii) Monitoring and Reporting**

70. The PMOs will develop a monitoring and evaluation framework for the ESP. The PMOs, with the assistance of the project management consultants, will carry out the monitoring of the following aspects:
- (a) Status of selection or update of the panel of the consultants for preparation of infrastructure projects, including status of submissions to relevant MPWH authorities for approval, as well as status of submissions to ADB.
  - (b) Status of selection of technical consultants for project preparation and construction supervision, and status of submissions to relevant MPWH authorities for approval, as well as status of submissions to ADB.
  - (c) Status of output delivery and payments to the project preparation and construction supervision consultants;
  - (d) Contract amendments during implementation of the project preparation assignments;
  - (e) Status of preparation of infrastructure projects supported under the ESP, up to the start of civil works;
  - (f) Status of allocation of capital budget for ESP-supported projects to ensure timely financing of projects that are ready for implementation;
  - (g) Status of selection of the project management consultant firms and performance of these firms during the contract term;
  - (h) Status of planning and delivery of MPWH capacity building under output 2;
  - (i) Status of implementation of action plans and other measures as may be agreed between the ADB and the MPWH.
71. The monitoring will be done at the PMO and PIU levels. Monitoring shall be done through the collection of information from Satkers, PIUs and PMOs based on a simple reporting format to be developed by the project management consultants. Monitoring will also be done through field visits, if needed. A consolidated report on the status of the ESP will be submitted to MPWH leadership every quarter, through the PCO and the ESP steering committee.

<sup>39</sup> Available from <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>

## Appendix 1A: FM Questionnaire - Directorate General of Water Resources

### *Directorate General of Water Resources<sup>40</sup>*

Topic	Response	Potential Risk Event
<b>1. Executing / Implementing Agency</b>		
1.1 What is the entity's legal status / registration?	Central Government Ministry	Low
1.2 How much equity (shareholding) is owned by the Government?	Wholly owned by Government.	Low
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any.	NA	Low
1.4 Has the entity implemented an externally financed project in the past? If yes, please provide details.	Yes, many. Examples are: Participatory Irrigation Sector Project (ADB Loan 2065) Integrated Citarum Water Resources Management Investment Program – Project 1 (ADB Loan 2500) Flood Management in Selected River Basins Project (ADB Loan, \$108 million, waiting for negotiations) Water Resources and Irrigation Sector Management Program, (WB, \$1.3bn USD, 2011-2015) Jakarta Emergency Dredging Initiative, \$1.5bn, 2007-2017, World Bank	Low
1.5 Briefly describe the statutory reporting requirements for the entity.	Quarterly and Monthly report	Medium

<sup>40</sup> The Assessment was undertaken with Arbor Reseda, ST,MT, Chief of Multilateral Cooperation Section, and Ibu Ari, Sub-Directorate of Cooperation, Directorate of Water Resources Development, Directorate General of Water Resources

Topic	Response	Potential Risk Event
1.6 Describe the regulatory or supervisory agency of the entity.	Overall - Minister of MPWH; For construction – relevant Balai, for supervision – relevant directorate of DG	Medium
1.7 What is the governing body for the project? Is the governing body for the project independent?	Steering Committee of MPWH. It reports to Secretary General of MPWH, and thru him to the Minister.	Medium
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	Yes. See organization chart in Appendix 3.	Medium
1.9 Does the entity have a Code of Ethics in place?	Yes	Medium
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	None known	Medium
<b>2. Funds Flow Arrangements</b>		
2.1 Describe the proposed project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, government and other financiers, to the government, EA, IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	See chart 2.	Medium
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?	Yes	Medium
2.3 Are the disbursement methods appropriate?	Yes	Medium
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	Disbursement and Replenishment have been late	Medium
2.5 In which bank will the Imprest Account (if applicable) be established?	Bank Indonesia	Medium
2.6 Is the bank in which the imprest account is established capable of – A. Executing foreign and local currency transactions? B. Issuing and administering letters of credit (LC)? C. Handling a large volume of transaction? D. Issuing detailed monthly bank statements promptly?	Yes	Medium

Topic	Response	Potential Risk Event
2.7 Is the ceiling for disbursements from the imprest account and SOE appropriate/required?	Yes	Medium
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	Yes	Medium
2.9 Does the PIU have adequate administrative and accounting capacity to manage the imprest fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.	Yes	Medium
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	Overall foreign exchange risks sets with the borrower, which is the Ministry of Finance. At the project level, however, the following is expected to mitigate it (i) earmarking 10% of the loan amount to the contingency category, (ii) large number of contracts to be signed in US dollar (given international selection of consultant firms for project preparation contracts), and (iii) significant amount of each contract to be nominated in US dollars (for payments to international consultants) and to be paid directly by ADB upon request of the EA.	Medium
2.11 How are the counterpart funds accessed?	Counterpart funds are accessed using SPM (Payment Order) and SP2D (Fund Disbursement Order) issued by the responsible government agency (KPKN-dedicated bank account)	Medium
2.12 How are payments made from the counterpart funds?	Transferred from project account at Treasury or directly to the account of third parties. These are accordance to Indonesian Regulations	Medium

Topic	Response	Potential Risk Event
2.13 If project funds will flow to communities or NGOs, does the PIU have the necessary reporting and monitoring arrangements and features built into its systems to track the use of project proceeds by such entities?	Yes, there is a mechanism of verification at the time of request for payment and post-payment audit.	Medium
2.14 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor or material), are proper guidelines and arrangements formulated to record and value the labor or material contributions at appraisal and during implementation?	N/A	Medium
<b>3. Staffing</b>		
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	Accounting Division is established for each DIPA / Satker / Directorate.  At the PIU and Satker level there are 2 officers - 1 for treasury and 1 for verification functions (their level is at par with the PPK)  Refer to Appendix 4 for organization chart	Medium
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	Yes, existing staff will be assigned, but if the project needs more, they will be recruited	Medium
3.2 Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key existing accounting staff.		Medium
3.4 Is the project finance and accounting function staffed adequately?	Yes,	Medium
3.5 Are the project finance and accounting staff adequately qualified and experienced?	Yes	Medium
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	Yes – some staff have attended trainings due to the involvement in past and ongoing ADB funded projects.	Medium

Topic	Response	Potential Risk Event
	Additional training to be provided, as required.	
3.7 What is the duration of the contract with the project finance and accounting staff?	Finance staff (PNS) pension at the age of 58 years, while financial consultants are usually hired per year (for the Budget) and multi-year (for Loan), according to the project period	Medium
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	None currently, but will be filled, as required.	Medium
3.9 For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions.	None	Medium
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes	Medium
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	No specific time frequency for transfers (according to program needs)	Medium
3.12 What is training policy for the finance and accounting staff?	Training of treasury accounting, budgeting, procurement etc.	Medium
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	Treasury, monitoring and procurement training	Medium
<b>4. Accounting Policies and Procedures</b>		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	Yes, GOI has computerized financial system for the project Use SAI application, SAKPA application, SIMAK BMN application (for government assets)	Low

Topic	Response	Potential Risk Event
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes	Low
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	Yes.	Low
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	Medium
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	Yes	Low
4.6 Describe the EA's policy for retention of accounting records including supporting documents (e.g., ADB's policy requires that all documents should be retained for at least 1 year after ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?	Yes. Documents (hardcopy) stored for 5 years, while softcopy is usually retained for only 1 year.  For tracking the use of national budget proceeds at agency level, the SAIBA system is used. For loans, the SPAN software is used.	Low
4.7 Describe any previous audit findings that have not been addressed.	No such issued have been observed	Low
<b>Segregation of Duties</b>		
4.8 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers?	Yes.	Medium
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes	Medium
<b>Budgeting System</b>		
4.10 Do budgets include physical and financial targets?	Yes. there is TFK (physical and financial targets) and RFK (physical and financial	Medium



Topic	Response	Potential Risk Event
	realization)	
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes, there are detailed budgets for each activities, called RAB (Rincian Anggaran Biaya)	Medium
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Yes	Medium
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	Usually in advance	Medium
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	Variation up to 10% of the contract value is approved by the PPK, while for variations beyond this, approval is not given in the Indonesian law  For loan project, every contract variation is reported to the lender and concurrence sought, where applicable	Medium
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	Ultimate responsibility lies with the MPWH minister. MPWH-wide technical support is provided by the Bureau of Budget and Planning at OSG. At DG-level, the budget and planning directorate is responsible for technical support in preparation and oversight over the budget execution.	Medium
4.16 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Yes, planning and budget preparation activities are led by the planning and budget directorates of each DG (host of the PMO) through appropriate coordination with PIUs and Satkers.	Medium

Topic	Response	Potential Risk Event
<p>4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?</p> <p>Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?</p> <p>Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects?</p> <p>What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?</p>	<p>Yes, there are a number of meetings within small teams for development of the project plan and budget.</p>	<p>Medium</p>
<b>Payments</b>		
<p>4.18 Do invoice-processing procedures require: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations? (v) Checking authenticity of invoices and supporting documents?</p>	<p>(i) Yes; (ii) Yes; (iii) Yes; (iv) Yes</p>	<p>Medium</p>
<p>4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?</p>	<p>Yes Stamped "PAID" with the date listed, but not all the information is "reviewed" and "approved"</p>	<p>Medium</p>
<p>4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?</p>	<p>Yes</p>	<p>Medium</p>
<b>Policies And Procedures</b>		
<p>4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?</p>	<p>Cash Book and Book of Financial Statements (Accrual)</p>	<p>Medium</p>
<p>4.22 What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?</p>	<p>Government Accounting Standard</p>	<p>Medium</p>

Topic	Response	Potential Risk Event
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	Yes, the project follows the Ministry of Finance guidelines	Medium
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	<p>Yes. Operation manual for financial management is stated in the annual regulation of the head of Satker in the organization and appointment of officer for Satker financial management.</p> <p>Task and duty of every Satker staff during the payment process can be seen in the SOP highlighted in Appendix 5. The control during the payment process can be seen in the control sheet in Appendix 6.</p>	Medium
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	Yes	Medium
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes	Medium
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Covered by Indonesian law	Medium
4.28 Are manuals distributed to appropriate personnel?	Yes	Medium
4.29 Describe how compliance with policies and procedures are verified and monitored.	Once a year by internal and external auditor (PPK) or standalone organization	Medium
<b>Cash and Bank</b>		
4.30 Indicate names and positions of authorized signatories for bank accounts. Include those persons who have custody over bank passwords, USB keys, or equivalent for online transactions.	Kuasa Pengguna Anggaran (Project Manager) and Treasury Manager	Medium

Topic	Response	Potential Risk Event
4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	Yes	Medium
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes	Medium
4.33 Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	Yes	Medium
4.34 Are all reconciling items approved and recorded?	Yes	Medium
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes	Medium
4.36 Are there any persistent/non-moving reconciling items?	None, known	Medium
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes	Medium
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No, only for daily requirements	Medium
4.39 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	1 or 2 only. Personnel have to be registered by the Ministry of Finance	Medium
<b>Safeguard over Assets</b>		
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	Yes, use of SIMAK BMN Application , Monitoring of assets and Audit of assets	Medium
4.41 Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	Yes	Medium
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	Yes	Medium
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	Quarterly and Annually	Medium

Topic	Response	Potential Risk Event
4.44 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analyzed and resolved?	Yes	Low
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to locate lost, or repair broken assets?	Ministry of Finance has to approve disposal of assets (for more than 300,000 IDR)	Low
4.46 Are assets sufficiently covered by insurance policies?	Not all	Medium
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	They are separated from active use and there is an independent process for disposal through a separate report	Medium
<b>Other Offices and Implementing Entities</b>		
4.48 Describe any other regional offices or executing entities participating in implementation.	PIUs at directorates	Low
4.49 Describe the staff, their roles and responsibilities in performing accounting and financial management functions of such offices as they relate to the project.		Medium
4.50 Has the project established segregation of duties, controls and procedures for flow of funds and financial information, accountability, and reporting and audits in relation to the other offices or entities?	Yes. Agencies at the local level are audited by the local government and Bupati/Walikota, who will deliver Accountability Report to the Central Government. Control exercised by Central Government and Local Government	Medium
4.51 Does information among the different offices/ implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting system?	Not always	Medium
4.52 Are periodic reconciliations performed among the different offices/implementing agencies? Describe the project reporting and auditing arrangements between these offices and the main executing/implementing agencies.	Yes. I.r.w with the ESP, the PMO will perform the function, with inputs from relevant PIUs.	Medium
4.53 If any sub-accounts (under the imprest account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.	No sub-account in the Ministry	Medium
<b>Contract Management and Accounting</b>		

Topic	Response	Potential Risk Event
4.54 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs/deliverables of the contract?	Yes	Medium
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	Yes	Medium
<b>Other</b>		
4.56 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	<p>Fraud, corruption, waste and misuse of funds follow comprehensive arrangements per the relevant Indonesian laws and regulations. Specifically:</p> <ul style="list-style-type: none"> <li>- Integrity pact is a must for authorized budget users (Echelon 2/Director level staff). The format is provided by State Treasury Office (Kantor Pelayanan Perbendaharaan Negara).</li> <li>- New Law on Civil Service obligates officials to disclose their financial status. The format is called: "Laporan Harta Kekayaan Aparatur Sipil Negara" (LHKASN). It is submitted to Bureau of Finance, Secretary General, MPWH, and then sent to Badan Kepegawaian Negara (State Employment Agency).</li> </ul>	Medium
<b>5. Internal Audit</b>		
5.1 Is there an internal audit (IA) department in the entity?	Yes - Inspectorate General	Medium
5.2 What are the qualifications and experience of the IA staff?	Audit Certification by the Government thru regular training	Medium
5.3 To whom does the head of the internal audit report?	Inspector General to submit a report to the Director General	Medium
5.4 Will the internal audit department include the project in its annual work program?	No. Internal audits are conducted regularly (yearly or half) and dependent on the request from the relevant authority.	Medium

Topic	Response	Potential Risk Event
5.5 Are actions taken on the internal audit findings?	Yes, they are taken, including administrative sanctions.	Medium
5.6 What is the scope of the internal audit program? How was it developed?	Scope is determined for technical, financial and physical aspects. PPK and Satker project manager develop the scope	Medium
5.7 Is the IA department independent?	Yes, under MPWH	Medium
5.8 Do they perform pre-audit of transactions?	No	Medium
5.9 Who approves the internal audit program?	Inspector General of Internal Audit	Medium
5.10 What standards guide the internal audit program?	As per Indonesian law	Medium
5.11 How are audit deficiencies tracked?	Through transaction verifications in detail	Medium
5.12 How long have the internal audit staff members been with the organization?	More than 5 years on an average	Medium
5.13 Does any of the internal audit staff have an IT background?	Yes	Medium
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	Not known	Medium
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	None, known Internal Audit Report is prepared at least once a year. As soon as the Satker receives the Internal Audit Report (from Inspectorate General or BPKP), it prepares clarifications for all queries raised in the audit report. For monitoring and evaluation of overall DGWR auditing matters, it is the task of Finance Division of DGWR to coordinate.	Medium
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Overall yes, but capacity building will be useful.	Medium
<b>6. External Audit – entity level</b>		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. Audits are regularly done by independent auditors, BPK and BPKP.	Medium
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No. Audit reports are usually issued 1 month after audit	Medium

Topic	Response	Potential Risk Event
6.3 Is the audit of the entity conducted in accordance with the International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards?	Yes, Indonesia Standards on Auditing	Medium
6.4 Were there any major accountability issues noted in the audit report for the past three years?	No	Medium
6.5 Does the external auditor meet with the audit committee without the presence of management?	No Specific Audit committee is established, but it is the task and duty of the Finance Division to consult with Secretary DGWR every half year, and to meet with Satkers, before or after auditing of Inspectorate General or Badan Pemeriksa Keuangan Pemerintah – BPKP (Government Audit Agency) or before the BPK audit.	Medium
6.6 Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	No	Medium
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	No	Medium
6.8 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes	Medium
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	None known	Medium
<b>External Audit – project level</b>		
6.10 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	BPK will audit the project accounts.	Medium
6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	Not known	Medium



Topic	Response	Potential Risk Event
6.12 Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	BPK will audit the project accounts.	Medium
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	Yes. The BPK will use the project TORs for reference in conducting the audit of the project accounts.	Medium
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	No	Medium
6.15 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes	Medium
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	None Known	Medium
<b>7. Reporting and Monitoring</b>		
7.1 Are financial statements and reports prepared for the entity?	SAI, SAKPA, SIMAK BMN. Yes, per the established government standards	Medium
7.2 Are financial statements and reports prepared for the implementing unit(s)?	Project report FMR and FISSA	Medium
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	Monthly, quarterly, and annually. Yes, the reports are useful	Medium
7.4 Does the entity reporting system need to be adapted for project reporting?	No	Medium
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	Yes	Medium
7.6 Are financial management reports used by management?	Yes	Medium
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	Medium

Topic	Response	Potential Risk Event
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Partly done by spreadsheets	Medium
7.9 Does the financial system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	Yes, The reporting system is integrated between the physical and financial realization of the project. Physical data is usually higher because of constraints of financial data due to disbursement issues	Medium
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	Yes	Medium
<b>8. Information Systems</b>		
8.1 Is the financial accounting and reporting system computerized?	Yes	Medium
8.2 If computerized, is the software off-the-shelf, or customized?	Customized by the Ministry of Finance	Medium
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	Integrated and used by all Directorates General	Medium
8.4 How are the project financial data integrated with the entity financial data? Is it done through a module in the enterprise financial system with automatic data transfer, or does it entail manual entry?	Automatic	Medium
8.5 Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	Direct generation of reports	Medium
8.6 Can the system automatically produce the necessary project financial reports?	Yes	Medium
8.7 Is the staff adequately trained to maintain the computerized system?	Yes	Medium
8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Yes	Medium
8.9 Are there back-up procedures in place?	Yes	Medium

Topic	Response	Potential Risk Event
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.	Online and offsite.	Medium

## Appendix 1B: FM Questionnaire - Directorate General of Human Settlement

### *Directorate General of Human Settlement<sup>41</sup>*

Topic	Response	Potential Risk Event
<b>1. Executing / Implementing Agency</b>		
1.1 What is the entity's legal status / registration?	Central Government Ministry	Low
1.2 How much equity (shareholding) is owned by the Government?	Wholly owned by Government.	Low
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any. <sup>42</sup>	NA	Low
1.4 Has the entity implemented an externally financed project in the past? If yes, please provide details.	Yes, many. Examples are: Community Water Services and Health Project (ADB Loan 2163) Urban Sanitation and Rural Infrastructure Support to PNPM Mandiri Project (ADB Loan 2768) Neighborhood Upgrading and Shelter Project (ADB Loan, \$74.4 million) Metropolitan Sanitation Management and Health Project II (ADB Loan, \$80.0 million) Jakarta Emergency Dredging Initiative, \$1.5bn, 2007-2017, World Bank	Low
1.5 Briefly describe the statutory reporting requirements for the entity.	Quarterly and Monthly report	Medium
1.6 Describe the regulatory or supervisory agency of the entity.	Minister, MPWH; for construction – relevant Balai, for supervision –	Medium

<sup>41</sup> The assessment was undertaken with Directorate of Planning, Directorate General of Human Settlements.

<sup>42</sup> In such cases, consult OAI on the need for integrity due diligence on non-governmental beneficial owners.

Topic	Response	Potential Risk Event
	relevant Directorate	
1.7 What is the governing body for the project? Is the governing body for the project independent?	Steering Committee of MPWH. It reports to Secretary General of MPWH, and thru him to the Minister.	Medium
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	See chart 1 in the main text and appendix 7	Low
1.9 Does the entity have a Code of Ethics in place?	Yes	Medium
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	None known	Medium
<b>2. Funds Flow Arrangements</b>		
2.1 Describe the (proposed) project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, government and other financiers, to the government, EA, IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	See chart 2 in the main text	Medium
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?	Yes	Medium
2.3 Are the disbursement methods appropriate?	Yes	Medium
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	Disbursement and Replenishment have been late	Medium
2.5 In which bank will the Imprest Account (if applicable) be established?	Bank Indonesia	Medium
2.6 Is the bank in which the imprest account is established capable of – A. Executing foreign and local currency transactions? B. Issuing and administering letters of credit (LC)? C. Handling a large volume of transaction? D. Issuing detailed monthly bank statements promptly?	Yes	Medium
2.7 Is the ceiling for disbursements from the imprest account and SOE appropriate/required?	Yes	Medium

Topic	Response	Potential Risk Event
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	Yes	Medium
2.9 Does the PIU have adequate administrative and accounting capacity to manage the imprest fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.	Yes	Medium
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	Overall foreign exchange risks sets with the borrower, which is the Ministry of Finance., At the project level, however, the following is expected to mitigate it (i) earmarking 10% of the loan amount to the contingency category, (ii) large number of contracts to be signed in US dollar (given international selection of consultant firms for project preparation contracts), and (iii) significant amount of each contract to be nominated in US dollars (for payments to international consultants) and to be paid directly by ADB upon request of the EA.	Medium
2.11 How are the counterpart funds accessed?	Counterpart funds are accessed using SPM (Payment Order) and SP2D (Fund Disbursement Order) issued by the responsible government agency (KPKN-dedicated bank account)	Medium
2.12 How are payments made from the counterpart funds?	Transferred from Project Treasury account or directly to the account of third parties. These are accordance to	Medium

Topic	Response	Potential Risk Event
	Indonesian Regulations	
2.13 If project funds will flow to communities or NGOs, does the PIU have the necessary reporting and monitoring arrangements and features built into its systems to track the use of project proceeds by such entities?	Yes, there is a mechanism of verification at the time of request for payment and post-payment audit.	Medium
2.14 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor or material), are proper guidelines and arrangements formulated to record and value the labor or material contributions at appraisal and during implementation?	N/A	Medium
<b>3. Staffing</b>		
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	At the PIU and Satker level there are 2 officers - 1 for treasury and 1 for verification functions (their level is at par with the PPK)	Medium
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	Yes, existing staff will be assigned, but if the project needs more, they will be recruited	Medium
3.3 Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key existing accounting staff.	At the PMO, PIUs and Satker levels, Treasury will have at least 2 staff and Verification will have at least 2 people for every project	Medium
3.4 Is the project finance and accounting function staffed adequately?	Yes	Medium
3.5 Are the project finance and accounting staff adequately qualified and experienced?	Yes	Medium
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	Yes – some staff have attended trainings due to the involvement in past and ongoing ADB funded projects. Additional training to be provided, as	Medium

Topic	Response	Potential Risk Event
	required.	
3.7 What is the duration of the contract with the project finance and accounting staff?	Finance staff (PNS) pension at the age of 58 years, while financial consultants are usually hired per year (for the Budget) and multi-year (for Loan), according to the project period	Medium
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	None currently, but will be filled, as required.	Medium
3.9 For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions.	None	Medium
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes	Medium
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	No specific time frequency for transfers (according to program needs)	Medium
3.12 What is training policy for the finance and accounting staff?	Training of treasury accounting, budgeting, procurement etc.	Medium
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	Treasury, monitoring and procurement training	Medium
<b>4. Accounting Policies and Procedures</b>		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	Yes, GOI has computerized financial system for the project Use SAI application, SAKPA application, SIMAK BMN application (for the Government asset)	Low



Topic	Response	Potential Risk Event
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes	Low
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	Yes	Low
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	Medium
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	Yes	Low
4.6 Describe the EA's policy for retention of accounting records including supporting documents (e.g., ADB's policy requires that all documents should be retained for at least 1 year after ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?	Yes. Documents (hardcopy) stored for 5 years, while softcopy is usually retained for only 1 year.  For tracking the use of national budget proceeds at agency level, the SAIBA system is used. For loans, the SPAN software is used.	Low
4.7 Describe any previous audit findings that have not been addressed.	No such issued have been observed	Low
<b>Segregation of Duties</b>		
4.8 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers?	Yes.	Medium
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes.	Medium
<b>Budgeting System</b>		

Topic	Response	Potential Risk Event
4.10 Do budgets include physical and financial targets?	Yes. there is TFK (physical and financial targets) and RFK (physical and financial realization)	Medium
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes, there are detailed budgets for each activities, called RAB (Rincian Anggaran Biaya)	Medium
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Yes	Medium
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	Usually in advance	Medium
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	Variation up to 10% of the contract value is approved by the PPK, while for variations beyond this approval is not given in the Indonesian law  For loan project, every contract variation is reported to the lender	Medium
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	Ultimate responsibility lies with the MPWH minister. MPWH-wide technical support is provided by the Bureau of Budget and Planning at OSG. Final review of budget proposal is done by DJA (DG Budget) at MOF. At DG-level, the budget and planning directorate is responsible for technical support in preparation and oversight over the budget execution.	Medium
4.16 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Yes, planning and budget preparation activities are led by the planning and budget directorates of each DG (host of the PMO) through appropriate coordination with PIUs and Satkers.	Medium

Topic	Response	Potential Risk Event
<p>4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?</p> <p>Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?</p> <p>Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects?</p> <p>What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?</p>	<p>Yes, there are a number of meetings within small teams for development of the project plan and budget</p>	<p>Medium</p>
<b>Payments</b>		
<p>4.18 Do invoice-processing procedures require: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations? (v) Checking authenticity of invoices and supporting documents?</p>	<p>(i) Yes; (ii) Yes; (iii) Yes; (iv) Yes</p>	<p>Medium</p>
<p>4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?</p>	<p>Yes Stamped "PAID" with the date listed, but not all the information is "reviewed" and "approved"</p>	<p>Medium</p>
<p>4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?</p>	<p>Yes</p>	<p>Medium</p>
<b>Policies And Procedures</b>		
<p>4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?</p>	<p>Cash Book and Book of Financial Statements (Accrual)</p>	<p>Medium</p>
<p>4.22 What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting</p>	<p>Government Accounting Standard</p>	<p>Medium</p>

Topic	Response	Potential Risk Event
Standards – cash or accrual, or National Accounting Standards (specify) or other?		
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	Yes, the project follows the Ministry of Finance guidelines	Medium
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	Yes	Medium
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	Yes	Medium
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes	Medium
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Covered by Indonesian law	Medium
4.28 Are manuals distributed to appropriate personnel?	Yes	Medium
4.29 Describe how compliance with policies and procedures are verified and monitored.	Once a year by internal and external auditor (PPK) or standalone organization	Medium
<b>Cash and Bank</b>		
4.30 Indicate names and positions of authorized signatories for bank accounts. Include those persons who have custody over bank passwords, USB keys, or equivalent for online transactions.	Kuasa Pengguna Anggaran (Project Manager) and Treasury Manager	Medium
4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	Yes	Medium
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes	Medium
4.33 Are bank accounts reconciled on a monthly basis? Or more often?	Yes	Medium

Topic	Response	Potential Risk Event
Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?		
4.34 Are all reconciling items approved and recorded?	Yes	Medium
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes	Medium
4.36 Are there any persistent/non-moving reconciling items?	None, known	Medium
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes	Medium
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No, only for daily requirements	Medium
4.39 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	1 or 2 only. Personnel have to be registered by the Ministry of Finance	Medium
<b>Safeguard over Assets</b>		
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	Yes, use of SIMAK BMN Application , Monitoring of assets and Audit of assets	Medium
4.41 Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	Yes	Medium
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	Yes	Medium
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	Quarterly and Annually	Medium
4.44 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analyzed and resolved?	Yes	Low
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to locate lost, or repair broken assets?	Ministry of Finance has to approve disposal of assets (for more than 300,000 IDR)	Low

Topic	Response	Potential Risk Event
4.46 Are assets sufficiently covered by insurance policies?	Not all	Medium
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	They are separated from active use and there is an independent process for disposal through a separate report	Medium
<b>Other Offices and Implementing Entities</b>		
4.48 Describe any other regional offices or executing entities participating in implementation.	PIUs at directorates	Medium
4.49 Describe the staff, their roles and responsibilities in performing accounting and financial management functions of such offices as they relate to the project.		Medium
4.50 Has the project established segregation of duties, controls and procedures for flow of funds and financial information, accountability, and reporting and audits in relation to the other offices or entities?	Yes. Agencies at the local level are audited by the local government and Bupati/Walikota, who will deliver Accountability Report to the Central Government. Control exercised by Central Government and Local Government	Medium
4.51 Does information among the different offices/ implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting system?	Not always	Medium
4.52 Are periodic reconciliations performed among the different offices/implementing agencies? Describe the project reporting and auditing arrangements between these offices and the main executing/implementing agencies.	Yes. I.r.w with the ESP, the PMO will perform with function, with inputs from relevant PIUs.	Medium
4.53 If any sub-accounts (under the Imprest Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.	No sub-account in the Ministry	Medium
<b>Contract Management and Accounting</b>		
4.54 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the	Yes	Medium

Topic	Response	Potential Risk Event
records consistent with physical outputs/deliverables of the contract?		
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	Yes	Medium
<b>Other</b>		
4.56 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	<p>Fraud, corruption, waste and misuse of funds follows comprehensive arrangements per the relevant Indonesian laws and regulations. Specifically:</p> <ul style="list-style-type: none"> <li>- Integrity pact is a must for authorized budget users (Echelon 2/Director level staff). The format is provided by State Treasury Office (Kantor Pelayanan Perbendaharaan Negara).</li> <li>- New Law on Civil Service requires government officials to disclose their financial status. The format is called: "Laporan Harta Kekayaan Aparatur Sipil Negara" (LHKASN). It is submitted to Bureau of Finance, Secretary General, MPWH, and then sent to Badan Kepegawaian Negara (State Employment Agency).</li> </ul>	Medium
<b>5. Internal Audit</b>		
5.1 Is there an internal audit (IA) department in the entity?	Yes, by General Inspectorate of Public Works	Medium
5.2 What are the qualifications and experience of the IA staff?	Audit Certification by the Government thru regular training	Medium
5.3 To whom does the head of the internal audit report?	Inspector General to submit a report to the Director General	Medium

Topic	Response	Potential Risk Event
5.4 Will the internal audit department include the project in its annual work program?	No. Internal audits are conducted regularly (yearly or half) and dependent on the request from the relevant authority.	Medium
5.5 Are actions taken on the internal audit findings?	Yes, they are taken, including administrative sanctions.	Medium
5.6 What is the scope of the internal audit program? How was it developed?	Scope is determined for technical, financial and physical aspects. PPK and Satker project manager develop the scope	Medium
5.7 Is the IA department independent?	Yes, under MPWH	Medium
5.8 Do they perform pre-audit of transactions?	No	Medium
5.9 Who approves the internal audit program?	Inspector General of Internal Audit	Medium
5.10 What standards guide the internal audit program?	As per Indonesian law	Medium
5.11 How are audit deficiencies tracked?	Through transaction verifications in detail	Medium
5.12 How long have the internal audit staff members been with the organization?	More than 5 years on an average	Medium
5.13 Does any of the internal audit staff have an IT background?	Yes	Medium
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	Not known	Medium
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	Not known	Medium
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes in general, but capacity building will be useful	Medium
<b>6. External Audit – entity level</b>		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. Regularly by BPK and BPKP.	Medium
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No. Audit reports are usually issued 1 month after audit	Medium



Topic	Response	Potential Risk Event
6.3 Is the audit of the entity conducted in accordance with the International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards?	Yes, Indonesia Standards on Auditing	Medium
6.4 Were there any major accountability issues noted in the audit report for the past three years?	No	Medium
6.5 Does the external auditor meet with the audit committee without the presence of management?	N/A	Medium
6.6 Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	No	Medium
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	No	Medium
6.8 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes	Medium
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	Not known	Medium
<b>External Audit – project level</b>		
6.10 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	BPK will audit the project accounts.	Medium
6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	Not known	Medium
6.12 Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	BPK will audit the project accounts.	Medium
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	Yes. The BPK will use the project TORs for reference in conducting the audit of the project accounts.	Medium

Topic	Response	Potential Risk Event
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	No	Medium
6.15 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Overall yes, but further capacity building may be useful	Medium
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Not Known	Medium
<b>7. Reporting and Monitoring</b>		
7.1 Are financial statements and reports prepared for the entity?	SAI, SAKPA, SIMAK BMN. In accordance with established government standards	Medium
7.2 Are financial statements and reports prepared for the implementing unit(s)?	Project report FMR and FISSA	Medium
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	Monthly, quarterly, and annually. Yes, financial reports are reported useful to management for decision making.	Medium
7.4 Does the entity reporting system need to be adapted for project reporting?	No	Medium
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	Yes	Medium
7.6 Are financial management reports used by management?	Yes	Medium
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	Medium

Topic	Response	Potential Risk Event
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Partly done by spreadsheets	Medium
7.9 Does the financial system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	Yes. The reporting system is integrated between the physical and financial realization of the project. Physical data is usually higher because of constraints of financial data due to disbursement issues	Medium
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	Yes	Medium
<b>8. Information Systems</b>		
8.1 Is the financial accounting and reporting system computerized?	Yes	Medium
8.2 If computerized, is the software off-the-shelf, or customized?	Customized by the Ministry of Finance	Medium
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	Integrated and used by all Directorates General	Medium
8.4 How are the project financial data integrated with the entity financial data? Is it done through a module in the enterprise financial system with automatic data transfer, or does it entail manual entry?	Automatic	Medium
8.5 Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	Direct generation of reports	Medium
8.6 Can the system automatically produce the necessary project financial reports?	Yes	Medium
8.7 Is the staff adequately trained to maintain the computerized system?	Yes	Medium
8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Yes	Medium

Topic	Response	Potential Risk Event
8.9 Are there back-up procedures in place?	Yes	Medium
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.	Online and offsite.	Medium

## Appendix 1C: FM Questionnaire - Directorate General of Highways

### *Directorate General of Highways<sup>43</sup>*

Topic	Response	Potential Risk Event
<b>1. Executing / Implementing Agency</b>		
1.1 What is the entity's legal status / registration?	Central Government Ministry	Low
1.2 How much equity (shareholding) is owned by the Government?	Wholly owned by Government.	Low
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any.	NA	Low
1.4 Has the entity implemented an externally financed project in the past? If yes, please provide details.	Yes: Rural Roads Development Project (ADB Loan 2817, on-going)	Low
1.5 Briefly describe the statutory reporting requirements for the entity.	Quarterly and monthly reports	Medium
1.6 Describe the regulatory or supervisory agency of the entity.	Minister, MPWH, for Construction - Balai, for Supervision - Directorate	Medium
1.7 What is the governing body for the project? Is the governing body for the project independent?	Steering Committee of MPWH. It reports to Secretary General of MPWH, and thru him to the Minister.	Medium
1.7 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	See chart 2 in the main text and appendix 7.	
1.9 Does the entity have a Code of Ethics in place?	Yes	Medium
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	None known	Medium

<sup>43</sup> The assessment was undertaken with Ni Komang, Directorate of Planning, Directorate General of Highways

Topic	Response	Potential Risk Event
<b>2. Funds Flow Arrangements</b>		
2.1 Describe the (proposed) project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, government and other financiers, to the government, EA, IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	See chart 3 in the main text	Medium
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?	Yes	Medium
2.3 Are the disbursement methods appropriate?	Yes	Medium
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	Disbursement and Replenishment have been late	Medium
2.5 In which bank will the Imprest Account (if applicable) be established?	Bank Indonesia	Medium
2.6 Is the bank in which the imprest account is established capable of – <b>A.</b> Executing foreign and local currency transactions? <b>B.</b> Issuing and administering letters of credit (LC)? <b>C.</b> Handling a large volume of transaction? <b>D.</b> Issuing detailed monthly bank statements promptly?	Yes	Medium
2.7 Is the ceiling for disbursements from the imprest account and SOE appropriate/required?	Yes	Medium
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	Yes	Medium
2.9 Does the PIU have adequate administrative and accounting capacity to manage the imprest fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.	Yes	Medium

Topic	Response	Potential Risk Event
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	Overall foreign exchange risks sets with the borrower, which is the Ministry of Finance., At the project level, however, the following is expected to mitigate it (i) earmarking 10% of the loan amount to the contingency category, (ii) large number of contracts to be signed in US dollar (given international selection of consultant firms for project preparation contracts), and (iii) significant amount of each contract to be nominated in US dollars (for payments to international consultants) and to be paid directly by ADB upon request of the EA.	Medium
2.11 How are the counterpart funds accessed?	Counterpart funds are accessed using SPM (Payment Order) and SP2D (Fund Disbursement Order) issued by the responsible government agency (KPKN-dedicated bank account)	Medium
2.12 How are payments made from the counterpart funds?	Transferred from Project Treasury account or directly to the account of third parties. These are accordance to Indonesian Regulations	Medium
2.13 If project funds will flow to communities or NGOs, does the PIU have the necessary reporting and monitoring arrangements and features built into its systems to track the use of project proceeds by such entities?	Yes, there is a mechanism of verification at the time of request for payment and post-payment audit.	Medium
2.14 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor or material), are proper guidelines and arrangements formulated to record and value the labor or material contributions at appraisal and during implementation?	N/A	Medium

Topic	Response	Potential Risk Event
<b>3. Staffing</b>		
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	At the PMO, PIUs and Satker levels there are 2 officers - 1 for treasury and 1 for verification functions (their level is at par with the PPK)	Medium
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	Yes, existing staff will be assigned, but if the project needs more, they will be recruited	Medium
3.3 Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key existing accounting staff.	At the PCMO, PIUs and Satkers level, Treasury will have at least 2 staff, and Verification will have at least 2 people for every project	Medium
3.4 Is the project finance and accounting function staffed adequately?	Yes	Medium
3.5 Are the project finance and accounting staff adequately qualified and experienced?	Yes	Medium
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	Yes – some staff have attended trainings due to the involvement in past and ongoing ADB funded projects. Additional training to be provided, as required.	Medium
3.7 What is the duration of the contract with the project finance and accounting staff?	Finance staff (PNS) pension at the age of 58 years, while financial consultants are usually hired per year (for the Budget) and multi-year (for Loan), according to the project period	Medium
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	None currently, but will be filled, as required.	Medium
3.9 For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions.	None	Medium



Topic	Response	Potential Risk Event
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes	Medium
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	No specific time frequency for transfers (according to program needs)	Medium
3.12 What is training policy for the finance and accounting staff?	Training in treasury accounting, budgeting, procurement, etc.	Medium
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	Treasury, monitoring and procurement training	Medium
<b>4. Accounting Policies and Procedures</b>		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	Yes, GOI has computerized financial system for the project Use SAI application, SAKPA application, SIMAK BMN application (for the Government asset)	Low
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes	Low
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	Yes	Low
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	Medium
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	Yes	Low

Topic	Response	Potential Risk Event
4.6 Describe the EA's policy for retention of accounting records including supporting documents (e.g., ADB's policy requires that all documents should be retained for at least 1 year after ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?	Yes. Documents (hardcopy) stored for 5 years, while softcopy is usually retained for only 1 year.  For tracking the use of national budget proceeds at agency level, the SAIBA system is used. For loans, the SPAN software is used.	Low
4.7 Describe any previous audit findings that have not been addressed.	No such issued have been observed	Low
<b>Segregation of Duties</b>		
4.8 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers?	Yes.	Medium
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes	Medium
<b>Budgeting System</b>		
4.10 Do budgets include physical and financial targets?	Yes. there is TFK (physical and financial targets) and RFK (physical and financial realization)	Medium
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes, there are detailed budgets for each activities, called RAB (Rincian Anggaran Biaya)	Medium
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Yes	Medium
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	Usually in advance	Medium

Topic	Response	Potential Risk Event
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	<p>Variation of up to 10% of the contract value is approved by the PPK, while for variations beyond this approval is not given in the Indonesian law</p> <p>For loan project, every contract variation is reported to the lender</p>	Medium
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	<p>Ultimate responsibility lies with the MPWH minister. MPWH-wide technical support is provided by the Bureau of Budget and Planning at OSG. Final review of budget proposal is done by DJA (DG Budget) at MOF. At DG-level, the budget and planning directorate is responsible for technical support in preparation and oversight over the budget execution.</p>	Medium
4.16 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	<p>Yes, planning and budget preparation activities are led by the planning and budget directorates of each DG (host of the PMO) through appropriate coordination with PIUs and Satkers.</p>	Medium
<p>4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?</p> <p>Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?</p> <p>Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects?</p> <p>What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?</p>	<p>Yes, there are a number of meetings within small teams for development of the project plan and budget</p>	Medium

Topic	Response	Potential Risk Event
<b>Payments</b>		
4.18 Do invoice-processing procedures require: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations? (v) Checking authenticity of invoices and supporting documents?	(i) Yes; (ii) Yes; (iii) Yes; (iv) Yes	Medium
4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?	Yes Stamped "PAID" with the date listed, but not all the information is "reviewed" and "approved"	Medium
4.20 Do controls exist for the preparation of the payroll? Are changes (additions, deductions, modifications) to the payroll properly authorized?	Yes	Medium
<b>Policies And Procedures</b>		
4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?	Cash Book and Book of Financial Statements (Accrual)	Medium
4.22 What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?	Government Accounting Standard	Medium
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	Yes, the project follows the Ministry of Finance guidelines	Medium
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	Yes	Medium
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	Yes	Medium

Topic	Response	Potential Risk Event
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes	Medium
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Conflict of interest and mitigation are comprehensively covered by the Indonesian law and regulations.	Medium
4.28 Are manuals distributed to appropriate personnel?	Yes	Medium
4.29 Describe how compliance with policies and procedures are verified and monitored.	Once a year by internal and external auditor (PPK) or standalone organization	Medium
<b>Cash and Bank</b>		
4.30 Indicate names and positions of authorized signatories for bank accounts. Include those persons who have custody over bank passwords, USB keys, or equivalent for online transactions.	Kuasa Pengguna Anggaran (Project Manager) and Treasury Manager	Medium
4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	Yes	Medium
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes	Medium
4.33 Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	Yes	Medium
4.34 Are all reconciling items approved and recorded?	Yes	Medium
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes	Medium
4.36 Are there any persistent/non-moving reconciling items?	None, known	Medium
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes	Medium
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No, only for daily requirements	Medium
4.39 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on	1 or 2 only. Personnel have to be registered by the Ministry of Finance	Medium

Topic	Response	Potential Risk Event
password and access controls.		
<b>Safeguard over Assets</b>		
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	Yes, use of SIMAK BMN Application , Monitoring of assets and Audit of assets	Medium
4.41 Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	Yes	Medium
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	Yes	Medium
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	Quarterly and Annually	Medium
4.44 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analyzed and resolved?	Yes	Low
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to locate lost, or repair broken assets?	Ministry of Finance has to approve disposal of assets (for more than IDR 300,000)	Low
4.46 Are assets sufficiently covered by insurance policies?	Not all	Medium
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	They are separated from active use and there is an independent process for disposal through a separate report	Medium
<b>Other Offices and Implementing Entities</b>		
4.48 Describe any other regional offices or executing entities participating in implementation.	PIUs at DGH and Satkers at central and regional levels	Medium
4.49 Describe the staff, their roles and responsibilities in performing accounting and financial management functions of such offices as they relate to the project.	The PIUs and Satkers have staff who look into the finance function	Medium

Topic	Response	Potential Risk Event
4.50 Has the project established segregation of duties, controls and procedures for flow of funds and financial information, accountability, and reporting and audits in relation to the other offices or entities?	Yes. Agencies at the local level are audited by the local government and Bupati/Walikota, who will deliver Accountability Report to the Central Government. Control exercised by Central Government and Local Government	Medium
4.51 Does information among the different offices/ implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting system?	Not always	Medium
4.52 Are periodic reconciliations performed among the different offices/implementing agencies? Describe the project reporting and auditing arrangements between these offices and the main executing/implementing agencies.	Yes. I.r.w with the ESP, the PMO will perform with function, with inputs from relevant PIUs.	Medium
4.53 If any sub-accounts (under the Imprest Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.	No sub-account in the Ministry	Medium
<b>Contract Management and Accounting</b>		
4.54 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs/deliverables of the contract?	Yes	Medium
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	Yes	Medium
<b>Other</b>		
4.56 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	Fraud, corruption, waste and misuse of funds follows comprehensive arrangements per the relevant Indonesian laws and regulations. Specifically: - Integrity pact is a must for authorized budget users (Echelon 2/Director level staff). The format is provided by State	Medium

Topic	Response	Potential Risk Event
	Treasury Office (Kantor Pelayanan Perbendaharaan Negara). - New Law on Civil Service requires officials to disclose their financial status. The format is called: "Laporan Harta Kekayaan Aparatur Sipil Negara" (LHKASN). It is submitted to Bureau of Finance, Secretary General, MPWH, and then sent to Badan Kepegawaian Negara (State Employment Agency).	
<b>5. Internal Audit</b>		
5.1 Is there an internal audit (IA) department in the entity?	Yes, by General Inspectorate of Public Works	Medium
5.2 What are the qualifications and experience of the IA staff?	Audit Certification by the Government thru regular training	Medium
5.3 To whom does the head of the internal audit report?	Inspector General to submit a report to the Director General	Medium
5.4 Will the internal audit department include the project in its annual work program?	No. Internal audits are conducted regularly (yearly or half) and dependent on the request from the relevant authority.	Medium
5.5 Are actions taken on the internal audit findings?	Yes, they are taken, including administrative sanctions.	Medium
5.6 What is the scope of the internal audit program? How was it developed?	Scope is determined for technical, financial and physical aspects. PPK and Satker project manager develop the scope	Medium
5.7 Is the IA department independent?	Yes, under MPWH	Medium
5.8 Do they perform pre-audit of transactions?	No	Medium
5.9 Who approves the internal audit program?	Inspector General of Internal Audit	Medium
5.10 What standards guide the internal audit program?	As per Indonesian law	Medium



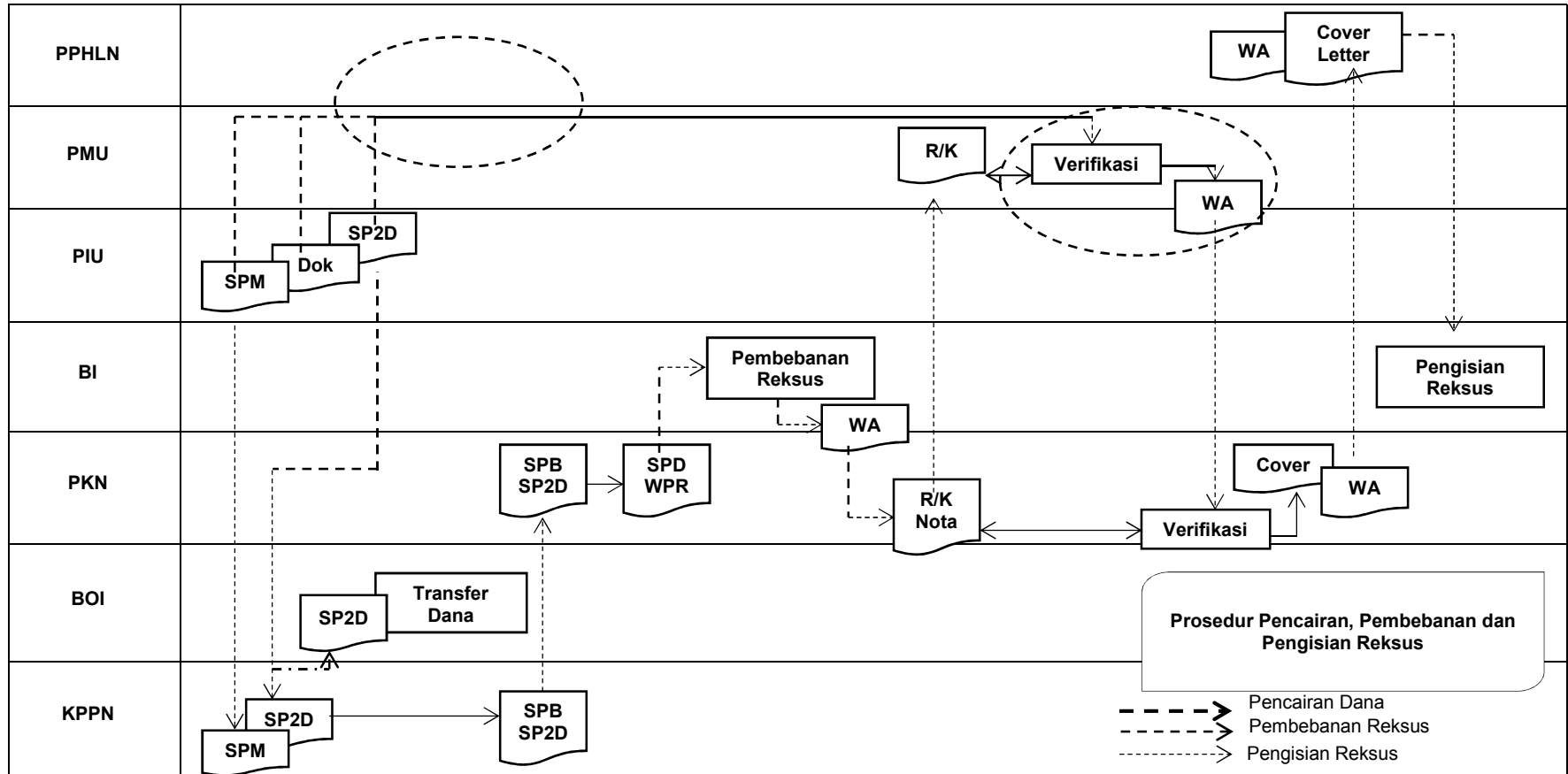
Topic	Response	Potential Risk Event
5.11 How are audit deficiencies tracked?	Through transaction verifications in detail	Medium
5.12 How long have the internal audit staff members been with the organization?	More than 5 years on an average	Medium
5.13 Does any of the internal audit staff have an IT background?	Yes	Medium
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	Not known	Medium
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	Not known	Medium
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes in general, but capacity building will be useful	Medium
<b>6. External Audit – entity level</b>		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes - regularly by BPK and BPKP	Medium
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No. Audit reports are usually issued 1 month after audit	Medium
6.3 Is the audit of the entity conducted in accordance with the International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards?	Yes, Indonesia Standards on Auditing	Medium
6.4 Were there any major accountability issues noted in the audit report for the past three years?	No	Medium
6.5 Does the external auditor meet with the audit committee without the presence of management?	Not known	Medium
6.6 Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	No	Medium
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	No	Medium

Topic	Response	Potential Risk Event
6.8 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes, but additional capacity building may be beneficial, especially to those who will audit the project accounts.	Medium
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	Not known	Medium
<b>External Audit – project level</b>		
6.10 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	BPK will audit the project accounts.	Medium
6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	Not known	Medium
6.12 Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	BPK will audit the project accounts.	Medium
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	Yes. The BPK will use the project TORs for reference in conducting the audit of the project accounts.	Medium
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	No	Medium
6.15 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes	Medium
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Not Known	Medium
<b>7. Reporting and Monitoring</b>		
7.1 Are financial statements and reports prepared for the entity?	SAI, SAKPA, SIMAK BMN. Yes according to standards	Medium
7.2 Are financial statements and reports prepared for the implementing unit(s)?	Project reports: FMR and FISSA	Medium

Topic	Response	Potential Risk Event
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	Monthly, quarterly, and annually.  Yes, useful	Medium
7.4 Does the entity reporting system need to be adapted for project reporting?	No	Medium
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	Yes	Medium
7.6 Are financial management reports used by management?	Yes	Medium
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	Medium
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Partly done by spreadsheets	Medium
7.9 Does the financial system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	Yes, The reporting system is integrated between the physical and financial realization of the project. Physical data is usually higher because of constraints of financial data due to disbursement issues	Medium
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	Yes	Medium
<b>8. Information Systems</b>		
8.1 Is the financial accounting and reporting system computerized?	Yes	Medium
8.2 If computerized, is the software off-the-shelf, or customized?	Customized by the Ministry of Finance	Medium

Topic	Response	Potential Risk Event
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	Integrated and used by all Directorates General	Medium
8.4 How are the project financial data integrated with the entity financial data? Is it done through a module in the enterprise financial system with automatic data transfer, or does it entail manual entry?	Automatically done	Medium
8.5 Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	Direct generation of reports	Medium
8.6 Can the system automatically produce the necessary project financial reports?	Yes	Medium
8.7 Is the staff adequately trained to maintain the computerized system?	Yes	Medium
8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Yes	Medium
8.9 Are there back-up procedures in place?	Yes	Medium
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.	Online and offsite.	Medium

Appendix 2: Flow chart for Financial Management used nationally



## **Appendix 3: Terms of Reference of External Auditor**

### **TERMS OF REFERENCE OF EXTERNAL AUDITOR**

**The Audit Board of the Republic of Indonesia<sup>44</sup>**  
**(Badan Pemeriksa Keuangan Republik Indonesia, BPK)**

**Draft Terms of Reference (TOR)**  
**for Auditing Non-Revenue Earning Executing Agency**  
**(Annual Project Financial Statements of ADB Funded Projects)**

#### **A. The Project**

- 
1. The Project that will be audited, the executing agency (EA), the Project Coordination Offices (PCOs), Project Implementing Units (PIUs) and some audit information are summarized in Annex 1.<sup>45</sup>

#### **B. Objective of the Audit**

2. The audit of the annual project financial statement (APFS) is primarily designed to ensure that the financial statements (FS) have been prepared in accordance with the relevant legal requirements and accounting standards adopted by the project and give a true and fair view of the financial performance and position of the project.
3. Further, the auditor will provide specific additional audit opinions on:
  - i. Use of loan and/or grant proceeds; the Government funds and other financiers.
  - ii. Compliance with financial covenants of the loan and/or grant agreements
  - iii. Compliance with project account procedures (where applicable)—to confirm or otherwise, whether the imprest account (and sub-accounts) gives a true and fair view of the receipts collected and payments made and supports imprest and sub-account- liquidations and replenishments during the year.
  - iv. Compliance with Statement of Expenditure (SOE) procedures (where applicable)—to confirm or otherwise, whether adequate supporting documentation has been maintained to support claims to ADB for reimbursement of expenditures incurred and that the expenditures are eligible for financing under the loan or grant agreement.
  - v. In addition, the auditors will provide a report highlighting weaknesses in the internal control system, as stipulated in para. 15.

#### **C. The Conduct of the Audit**

4. The audit will be conducted in accordance with Standard Pemeriksaan Keuangan Negara (SPKN)<sup>46</sup> and Standard Professional Akuntan Publik (SPAP, professional

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<sup>44</sup> The TOR is subject to amendment for any policy changes in ADB or the Government of Indonesia.

<sup>45</sup> Annex 1 will be completed before Loan Negotiation of the Project.

standard of public accountant). The standard requires that the auditor plans and performs the audit to obtain reasonable assurance about whether the FS are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the APFS. An audit also includes assessing the accounting principles used, significant estimates made by the management, as well as evaluating the overall FS presentation.

#### **D. Audit Procedures**

5. The auditors shall perform audit procedures which include:
  - i. Review the Report and Recommendation of the President (RRP)<sup>47</sup>, its linked and supporting documents;
  - ii. Plan and conduct the audit in accordance with a risk based framework. The detailed audit work program should be sufficiently extensive in its coverage to support the opinion given;
  - iii. Gather sufficient audit evidence to substantiate in all materials respects, the accuracy of information contained in supporting schedules attached to FSs including any and all supporting schedules. This should include verifying samples of transactions and account balances, reviewing any areas where significant estimates and judgments are made by management, as well as performing analysis to verify reported data and confirm year-end balances.
  - iv. Review SOEs submitted to ADB in support of requests for periodic replenishments of the project imprest and sub-account.<sup>48</sup> Expenditures should be examined for eligibility based on criteria defined in the terms of financing agreement. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed, they should be reported;
  - v. Review and evaluate the system of internal control and assess the internal control environment to determine the degree of reliance that may be placed upon them and to determine the extent of testing of actual transactions needed to assure the auditor of the completeness and accuracy of the accounting records;
  - vi. Include procedures that are designed to provide reasonable assurance that material misstatements (if any) are detected in accordance with international standards on auditing. The audit coverage will consider the risk of material misstatements as a result of fraud or error; and
  - vii. Determine whether accounting policies are appropriate and consistently applied, and determine whether all FS disclosures are adequate.

#### **E. Audit Scope in Compliance with Financing Arrangement**

6. To comply with agreed project financing arrangements the auditor shall carry out tests to evaluate the following documents:
  - i. The project's imprest account(s) and sub-account(s), if any;

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<sup>46</sup> SPKN (Indonesian State Finance Auditing Standards) are auditing standards used by BPK as an independent state finance auditor who is responsible to audit all state finance in Indonesia.

<sup>47</sup> RRP is an approval report of ADB's Board of Directors related to the loan proposal that had been negotiated between ADB and the Government.

<sup>48</sup> ADB's term for the project designated accounts.

- ii. Statement of Expenditures (SOEs);
- iii. Compliance with covenants contained in the Loan and Grant agreements;
- iv. Any material weaknesses in internal control which are identified during the audit;
- v. Compliance with Standard Operating Procedures, Financial Management Manual and Procurement Manual;
- vi. Fixed assets procured, review the allocation of project vehicles and equipment and whether these are being utilized in accordance with the ADB's Guidelines and/or Loan and/or Grant Agreements; and
- vii. Any other materials which the auditor considers should be brought to the attention of the borrowers/ the Government.

7. Based on the assessment, the auditor shall justify whether:

- i. All funds funded by ADB, the Government and other financiers have been used in accordance with the conditions of the relevant loan and/or grant agreements with due attention to economy and efficiency, and only for the purposes for which the Loan and/or the grant was intended;
- ii. Counterpart funds and funds from other financiers have been provided and used in accordance with relevant financing agreements, which due attention to economy and efficiency, and only for the purposes for which the loan and/or grant was intended;
- iii. Goods, works and services financed, as the procurement plan given in the Project Administration Manual (PAM), have been procured in accordance with relevant financing agreements, including specific provisions of the ADB Guidelines and/or Loan and/or Grant Agreements;
- iv. Expenditures submitted to ADB are eligible for financing and all necessary supporting documents, records, and accounts in support of withdrawals have been adequately maintained;
- v. All necessary supporting documents, records, and accounts have been kept in respect of all project expenditures (including expenditures reported using SOEs of Imprest Fund Procedures);
- vi. The Imprest Accounts and sub-accounts have been maintained and operated in accordance with the provisions of the relevant financing agreements.

**F. Annual Project Financial Statements (APFSs):**

- 8. The auditor should verify whether the APFSs have been prepared in accordance with the Standar Akuntansi Pemerintah (SAP)<sup>49</sup> and discuss the impact on FSs, if any deviation from SAP.
- 9. The FSs for the project may include<sup>50</sup>:
  - i. A statement of cash receipts and payments for the period;
  - ii. Imprest account(s) and sub-account(s);
  - iii. Statement of expenditures (SOEs);

<sup>49</sup> SAP (Indonesian Government Accounting Standards) are standards used by the Indonesian EA to prepare its APFSs, which adopted the *International Public Sector Accounting Standards (IPSAS)*.

<sup>50</sup> This list will be used as a guideline. If there are items that project is not prepared to provide or cannot provide, BPK will accept information in whatever forms that are auditable.



- iv. Other supplementary schedules of value;
- v. Accounting policies and explanatory notes; The explanatory notes should include reconciliation between the amounts shown as "received by the project from ADB " and that disbursed by ADB and a summary of movements on the project's Designated Account; and a comparison of the project budget to accumulated receipts and expenditure (by disbursement categories) since the commencement of the project;
- vi. When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments.

## **G. Audit Methodology**

10. Based on this TOR, BPK will prepare a methodology to ensure that the audit required is comprehensive and it is expected that a high degree of assurance, compliance with the law and accountability be reflected in the methodology. The methodology should, at minimum, shall address the following:

- - i. SPKN Compliance: The auditor should indicate the extent (if any) that the audit would not conform to SPKN and indicate any alternative standards to which the auditors would conform;
  - ii. Understanding of the environment and key areas of audit risk for the project;
  - iii. Audit planning and the role that the EA/PIUs is expected to play in this process;
  - iv. The resources to be allocated to the audit to address the risks identified;
  - v. The approach to field work (i.e. gathering of evidence to support assertions to be made in the audit opinions); and
  - vi. Quality assurance arrangements.

## **H. Audit Report**

11. At minimum, the audit report will:

- i. state the purpose of the report and its intended use;
- ii. state whether SAP have been adopted in the preparation of the APFSs and indicate the effect of any deviations from those standards;
- iii. state that the audit was conducted in accordance with SPKN;
- iv. the audit opinion will cover both the current period and the cumulative period since the commencement of the Project;
- v. the audit opinion will state whether or not the FSs present fairly statement of Expenditures (SOEs), Imprest accounts and sub-accounts of the project;
- vi. The auditor is also expected to express opinions as the compliance with the terms and conditions of the relevant loan or grant agreement as well as the budget execution regulations;
- vii. The auditor should also indicate, where present, the extent of any non-compliance by reference to the financial covenants;
- viii. The auditor should also indicate whether any attached supplementary FSs and Notes to the FS have been subjected to the same auditing procedures as in the case of the basic FSs.

12. Irregularities and instances of noncompliance with government or institutional rules and regulations that do not give rise to a qualified opinion or disclaimer of opinion should not be subjects of the report of the auditor. When the auditor has comments that are not material to the opinion, these should be set out in the audit report on project's internal control system or statutory regulations.
13. Where the Loan and/or Grant Agreements of a project requires the separate audit of the SOEs and Imprest accounts and sub-accounts, respectively, additional paragraphs should be included in audit opinion as follows:
  - i. Referring to the SOE financial statement, certifying to the eligibility of those expenditures against which SOE disbursement were made; and
  - ii. Referring to the imprest account financial statements
- 14. At least the following two specific opinions on FS required from the auditor:
  - i. Opinion on the statement of expenditures; and
  - ii. Opinion of imprest accounts and sub-accounts.

#### **I. Audit Report on The Internal Control System and on Compliance with Statutory Regulations**

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15. Together with (i) the audit report including the opinion on financial statements, the auditor will submit (ii) audit report addressing weaknesses in the internal control system and on compliance with statutory regulations that should address as a minimum the following:
  - i. a general overview of the internal control systems of the project and the executing agency, or an opinion on the management systems;
  - ii. an identification of material deficiencies or weaknesses in the project or executing/implementing agencies' internal controls over financial reporting or on the overall system of internal control;
  - iii. the auditor's recommendations for improvement or for rectification of identifies weaknesses; and
  - iv. Follow-up actions/s or status to previously identified issues and findings, if any.

#### **J. Exit Meeting**

16. Upon the completion of the field work, the auditor will hold an exit meeting with the EA/PIUs. The exit briefing will give the auditor an opportunity to obtain management's comments on the accuracy and completeness of the auditor's findings, conclusions, and recommendations, including whether or not management concurs with the audit findings. It will also include a discussion of common findings across projects being audited and recommendations for addressing bottlenecks in preparation for the next audit. The auditor will document the exit briefing for inclusion in the audit working papers. The EA/PIUs could invite the other parties to attend the exit briefing as observers.

#### **K. Access to Information and Records**

17. The auditor will be provided with unrestricted access to all payments records and supporting documents, invoices, and all types of contracts, except claims of consultants engaged directly with ADB including statements of accounts, legal agreements and minutes of meetings, etc. Project staff shall fully cooperate with the auditor. The auditor shall have the rights to access to banks and depositories, consultants, contractors, or other persons or firms engaged by the project. In case access has been restricted, the auditor must note this in the auditor's opinion.
18. The auditor is encouraged to meet and discuss audit related matters including inputs to the audit plan with ADB project officers.
19. It is highly desirable that the auditor reviews the Loan and Grant Agreements and their supporting documents, which summarize the ADB's financial reporting and auditing requirements. The auditor should also familiar with the ADB's disbursement and Procurement Handbook.

#### **L. Deliverables and Timing**

20. The EA/PIU shall prepare the APFS in 2 sets of currency (US\$ dollar and Rupiah). The SOEs in Rupiah and Project Accounts (Pas or Project financial statements in US\$).
21. Two sets of the audited APFSs (in US\$ and in English) and the corresponding audit report (in English) shall be delivered to each EA in accordance with submission dates states in the Loan Agreement(s).

#### **M. Annexes**

22. All annexes of this TOR will be completed by the EA/PIUs and endorsed by ADB prior to the assignment of BPK to conduct the audit of the project.

## Project Background, Executing and Implementing Agencies

### A. The Project to be Audited:

1. Project No: 49141-001
2. Loan No: **TBD**
3. Project Name: Accelerating Infrastructure Delivery Through Better Engineering Services Project
4. Executing Agency: Ministry of Public Works and Housing (MPWH)
5. Implementing Agencies: N/A
6. Total Project Costs: \$167.6 million (\$148.2 million TA loan from ADB, and \$19.4 million government counterpart funding)

### B. Project Description

1. **Impact, Outcome and Outputs:** The impact will be to help the MPWH attain the infrastructure development objectives of the SDP. The outcome will be strengthened MPWH's capacity to efficiently design and implement its public investment program. The ESP's outputs are as follows:

- (i) **Output 1: Improved quality and timely start-up of infrastructure projects.** This output will support the preparation—based on new technology and improved design standards<sup>51</sup>—of 15 irrigation, flood management, bulk water, and dam projects of the MPWH's Directorate General of Water Resources (DGWR); 13 water supply and sanitation projects of the MPWH's Directorate General of Human Settlements (DGHS); and 9 national road projects of the MPWH's Directorate General of Highways (DGH) for an estimated total investment of \$6,000 million. These projects are mainly to be financed from the government budget.<sup>52</sup> All infrastructure projects are from the MPWH's Strategic Plan, 2015–2019 and are to be mainly financed from the government budget.<sup>53</sup> This output will support preparation of (i) master plans and feasibility studies; (ii) detailed engineering designs, including geotechnical, topographical, and other surveys; (iii) environmental impact assessments and land acquisition documents as per government requirements; and (iv) advance contracting for civil works.
- (ii) **Output 2: Strengthened capacity in public investment management.** This output will support the DGWR, DGHS, and DGH of the MPWH in: (i) improving master planning and public investment management systems; (ii) on-the-job

<sup>51</sup> In the road sector, these are improved design standards on pavement, drainage, geometric, grade-separated junction, and at-grade junction aspects. In the irrigation sector, the new technologies are related to the web-based integrated asset management information system with geospatial interface, high-resolution aerial surveys for survey of irrigation assets, and satellite-based water accounting. The detailed engineering design guidelines of the irrigation sector will be also updated to incorporate climate change and water efficiency, among other issues. In the wastewater sector, in 2016 the MPWH is expected to adopt new technical guidance on feasibility studies and new design standards for wastewater treatment systems.

<sup>52</sup> The list of projects to be prepared under the ESP is in Appendix 1 of the PAM. Based on the request of the Government and in accordance with the provisions of the 2016–2019 Country Partnership Strategy, the ADB may consider financing selected projects prepared under this operation either through a results-based lending or a project loan modality.

<sup>53</sup> The total amount of public investment associated with these projects is estimated at \$6 billion. ADB may consider financing selected ESP-prepared projects either through a results-based lending or a project loan modality. ADB's safeguards and fiduciary requirements will be considered for these projects, as appropriate.

capacity development of project staff, especially at local level, in such areas as design-and-build contracts, design standards, construction supervision, enforcement of civil works contractor performance via technical and financial assessment consultants, multiyear contracting, asset management, etc.; (iii) strengthening of the MPWH's safeguards<sup>54</sup> and procurement systems;<sup>55</sup> (iv) strengthening value engineering during preparation of infrastructure projects, (v) implementing the ESP, including monitoring of project preparation activities.

**1. Project Areas: N/A**

**C. The Executing and the Implementing Agencies (EA/IAs)**

- The Project's organizational structure is given in Annex XX. The Ministry of Public Works and Housing will serve as the executing agency.

**D. Phasing of the Audit:**

- BPK will submit the final audited APFS and supporting documents, as scheduled in the following table:

**Month of Fiscal Year (FY) and Report Submission**

<b>Period</b>	<b>FY start</b>	<b>FY End</b>	<b>Report Submission</b>	<b>Remarks</b>
1	1 January 2016	31 December 2016	30 June 2017	
2	1 January 2017	31 December 2017	30 June 2018	
3	1 January 2018	31 December 2018	30 June 2019	
4	1 January 2019	31 December 2019	30 June 2020	

Source: MPWH.

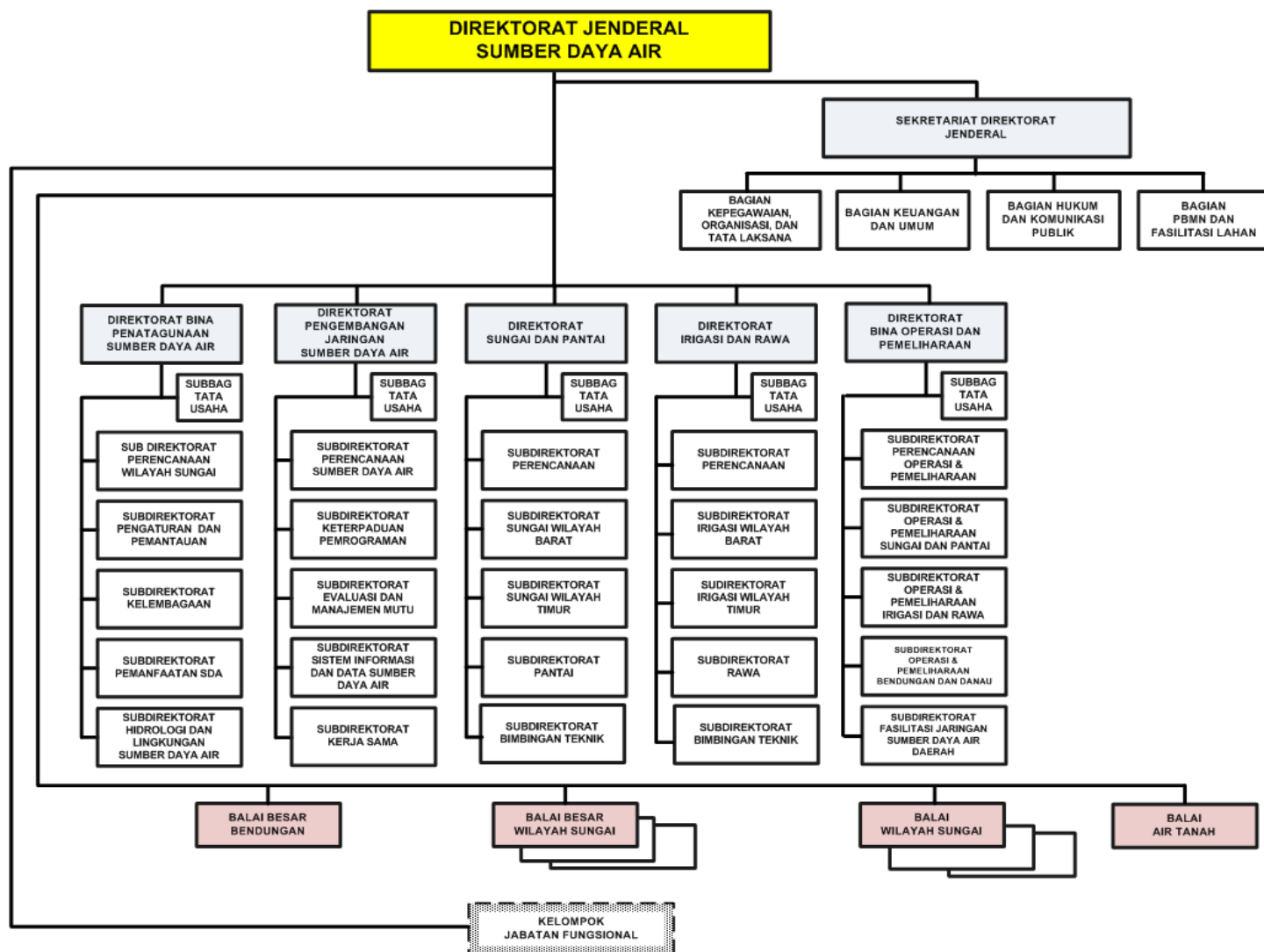
- BPK will automatically be responsible for auditing the Project that will cover for all duration of the project (from the effectiveness date to the closing date of the loan and/or grant). The audit related expenditures would be fully funded by the Government. However, since the Project will cover a wide numbers of project areas, the Project may allocate adequate funds to cover the incremental costs of the auditors to conduct their tasks.

<sup>54</sup> Assessment of DGH, DGHS, and DGWR's safeguards systems and the areas for institutional and capacity building are in Appendix 7 of the PAM.

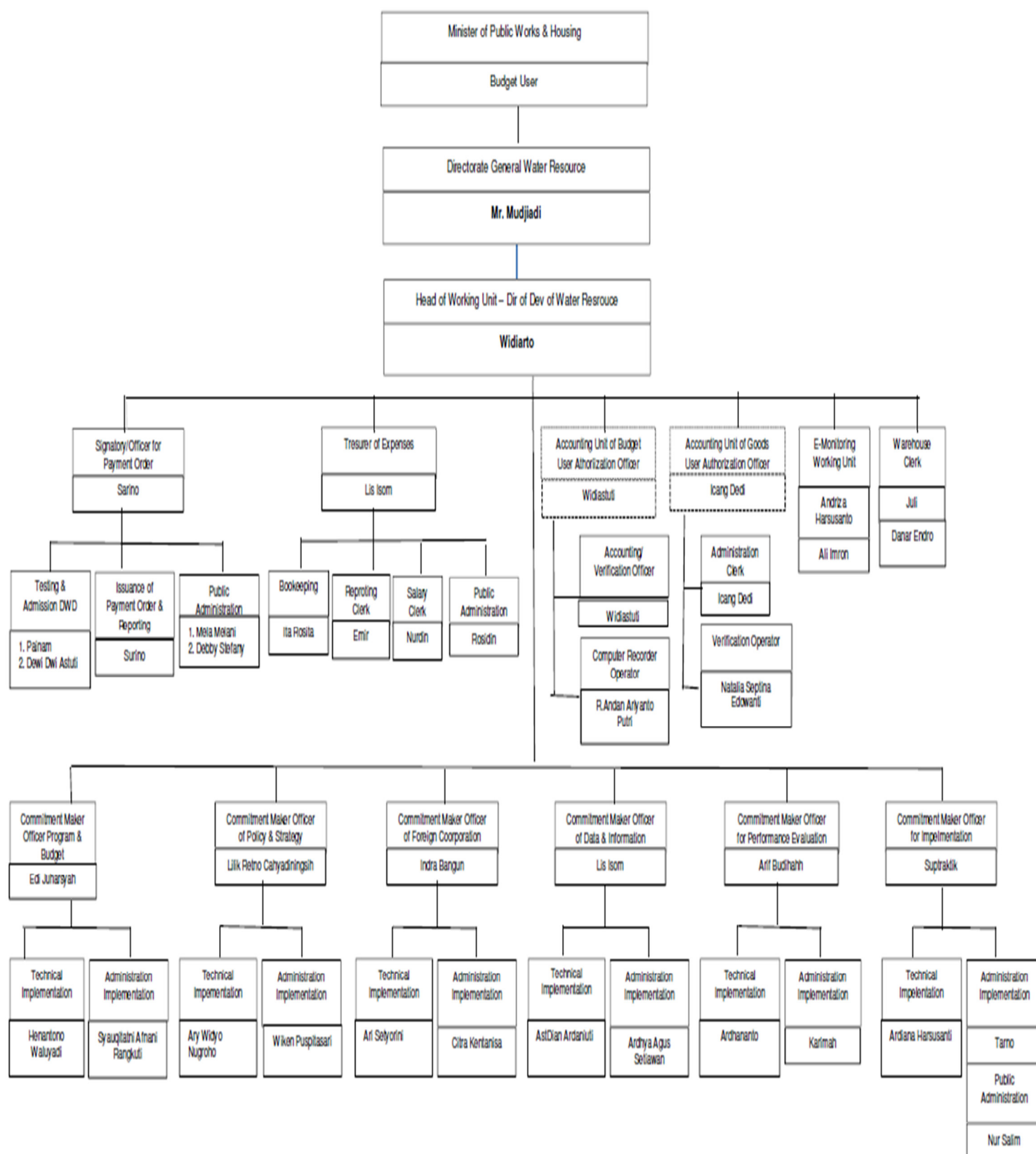
<sup>55</sup> Such as in implementation of the MPWH's regulation on design-and-build contracts adopted in May 2015.

## Appendix 4: Organization Chart of Directorate General of Water Resources

### A. Overall structure of DGWR



**B. Financial Management Arrangements at the Planning Directorate of DGWR**



## Appendix 5: Standard Operating Procedure for Processing Payments at the Directorate General of Water Resources

Activity Implementation													Admin Book Keeping Quality			
No	Job Description	Working Unit/ Consultant/Other Services	Project Accountant	Administrative & Technical Implementation	Verificator	UAKPA (Account Unit of Authorized Budget User)	Treasurer	PPK (Commitment Maker Officer)	Admin Officer for Payment Order (UAKPA)	KPPN (State Treasury Management)	KPPN	BANK	Supporting Documents	Time	Output	Remark
1	2	3	4	5	6	7	8	9	10	11		12	13	14	15	16
		START														
1	Request for Payment of Working Unit/Consultant/ Others Services	↓											Advance Request, Tax ID, Tax invoice, Bank Guarantee for Advanced Payment, Contract Summary, Bank Statement		Application Request Received	
2	Posting of Incoming Invoices		↓										All Documents Required			
3	Verification by the Technical Administration on the supporting documents				NO								Advance Request, Tax ID, Tax invoice, Bank Guarantee for Advanced Payment, Contract Summary, Bank Statement	1 day	Required Complete documents & approved	
4	Validity Checking by Verificator				YES								Validity of Documents/Invoices	1 Day	Payment Receipt, Invoice, SPTJM, Approved Minutes of	
5	Authorized Budget User issue Payment Order (SPM)				YES								The complete Required Document Verified by Verificator	1 day	Draft of Payment Order	
6	Tresurer verify the Request of payment												Invoices & Payment Order to be verified by Treasurer	1 day	Approved Payment Order	
7	Commitment Maker register the invoices & payment orde verified by the treasurer												Signed/Verified Invoice/Payment Order	1 day	Approved Documents	
8	Payment Order Administrator prepares the supporting doc												Invoice & Payment Order signed by BPK (Commitment Maker)	1 day	Draft of Payment Order	
9	Testing & Issuing Payment order officer signed the payment order												Payment order to be signed	1 day	Approved of Payment Order	If pass the verification at KPPN
10	Signed Payment Order & Invoice send to Treasurer Office (KPPN)												Payment voucher (SP2D)	2-3 5 days	Fund Disbused	To Treasurer To Third Parties
11	The Fund transferred to Treasurer/Third Parties Account of Contractors/ Suppliers												Print out Payment Order		Print out Vocher Disbursed Fund	
12	Payment Process Completed												Finish			



# Appendix 6: Control Sheet for Directorate General of Water Resources

## LEMBAR - KENDALI

SATUAN KERJA	DIREKTORAT BINA PROGRAM DIREKTORAT JENDERAL SUMBER DAYA AIR
KEGIATAN	
SUB KEGIATAN	Workshop e-procurement
JENIS KEGIATAN	
MAK	52411
NAMA PERUSAHAAN	
PEKERJAAN/SPK/KONTRAK	SPPD Rampung
PEMBAYARAN UP/LS	
JUMLAH	Rp. 53.295.000

NO.	BAGIAN	MASUK TANGGAL	SELESAI TANGGAL	KETERANGAN/ PARAF PETUGAS
1	PELAKSANA ADMINISTRASI/ PELAKSANA TEKNIS	23/6	23/6	f
2	VERIFIKASI	24/6	24/6	21
3	BENDAHARA PENGELUARAN			
4	PEJABAT PEMBUAT KOMITMEN	29/6	29/6	A
5	PENGKANDAAAN BERKAS/ SPJ			
6	SPM/ADMINISTRASI SPM			
7	PENGUJI SPM			
8	PENGAJUAN KE KPN			
9	PENERBITAN SP2D			

\*)Kelengkapan data maksimal 2 x 24 jam. Untuk dilengkapi oleh PUMK

Himpunan dan y lain? belum 20  
Kenapa Tekit itu Dikan tgl 13. 6

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