

Project Administration Manual

Project Number: 38354-013

Loan Number:

October 2012

Republic of Indonesia: State Accountability
Revitalization Project (STAR)

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Project Administration Manual Purpose and Process

The project administration manual (PAM) describes the essential administrative and management requirements to implement the project on time, within budget, and in accordance with Government and Asian Development Bank (ADB) policies and procedures. The PAM should include references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the PAM.

BPKP is wholly responsible for the implementation of ADB financed projects, as agreed jointly between the borrower and ADB, and in accordance with Government and ADB's policies and procedures. ADB staff is responsible to support implementation including compliance by BPKP of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At Loan Negotiations the borrower and ADB shall agree to the PAM and ensure consistency with the Loan agreement. Such agreement shall be reflected in the minutes of the Loan Negotiations. In the event of any discrepancy or contradiction between the PAM and the Loan Agreement, the provisions of the Loan Agreement shall prevail.

After ADB Board approval of the project's report and recommendations of the President (RRP) changes in implementation arrangements are subject to agreement and approval pursuant to relevant Government and ADB administrative procedures (including the Project Administration Instructions) and upon such approval they will be subsequently incorporated in the PAM.

Abbreviations

| | |
|----------|---|
| ADB | - Asian Development Bank |
| APIP | - Aparat Pengawas Internal Pemerintah (Government Internal Supervisory Official) |
| BAPPENAS | - Badan Perencanaan Pembangunan Nasional (National Development Planning Agency) |
| BPKP | - Badan Pengawasan Keuangan dan Pembangunan (formerly the Financial and Development Audit Board – it is now the Central Government Internal Auditors) |
| CertIFR | - certified international financial reporting |
| CFE | - certified fraud examiner |
| CISA | - certified information system auditor |
| CPA | - certified public accountant |
| CQS | - consultant qualification selection |
| EA | - executing agency |
| GICS | - government internal control system |
| ICS | - individual consultant selection |
| Inpres | - Instruksi Presiden (Presidential Instruction) |
| JFA | - jabatan fungsional auditor (auditor functional position) |
| NCB | - national competitive bidding |
| PAM | - Project Administration Manual |
| PAI | - Project Administration Instructions |
| PFM | - public financial management |
| PMU | - Project Management Unit |
| PP | - Peraturan Pemerintah (Government Regulation) |
| QBS | - quality-based selection |
| QCBS | - quality-and cost based selection |
| RPJMN | - Rencana Pembangunan Jangka Menengah Nasional (Mid Term National Development Plan) |
| RRP | - report and recommendation of the President to the Board |
| SBD | - standard bidding documents |
| SSS | - single source selection |
| STAR | - State Accountability Revitalization Project |
| STAR-SDP | - State Audit Reform Sector Development Program |
| SOE | - statement of expenditure |
| TOR | - terms of reference |

I. Project Description

1. STAR aims to support the government's key reform priorities aimed at improving the government's accountability through stronger capacity of the internal auditors and public finance officers at the central and regional levels. The project focuses on providing incentives to auditors and finance officers to improve their capacity, improving the trainers' capacity, implement the e-learning system, and implement the State Accountability Management Information System (SIMA). These will promote good governance in public financial management and improve public service deliveries for the benefit of Indonesian citizens.

2. **Rationale.** Over the last decade, the government has placed a high priority on strengthening governance in public sector management and public service delivery. The Asian Development Bank (ADB) risk assessment for Indonesia shows the government made considerable progress with the legal and regulatory framework for PFM. In particular, most implementing regulations supporting the main PFM laws, i.e., laws on state finance, treasury, and audit, have been promulgated. Transparency, accountability, and efficiency are key pillars of PFM and procurement-related reforms. This reflects the government's priority to build effective and accountable institutions to use available resources to translate into more effective development. The country's effectiveness in providing goods and services has been improving. Most notably in 2009, for the first time, the Supreme Audit Board (BPK) gave a qualified (clean with exceptions) opinion on the government's financial statement, as opposed to a previous disclaimer. Furthermore, about 40% of the line ministries and agencies received an unqualified opinion.

3. To maintain momentum, the government has set an ambitious target for achieving unqualified audit opinions for all central government agencies by 2014. Progress has been made, particularly in the area of budget execution, with the development of a treasury single account to strengthen the comprehensiveness and control over spending and cash management. Improvements were also made in fiscal accounts, accounting practices, payroll and internal controls, and fiscal risk management. However, some indicators remain behind comparator economies in Southeast Asia. Further improvements are needed to achieve good governance to improve the quality of services to the population, i.e., economical, speedy, transparent, and accountable as defined in Indonesia's long-term development plan. The government has implemented the control framework of the Committee of Sponsoring Organizations and strengthened the government's internal audit function.

4. Despite significant progress, ADB's sector assessment on public sector management in Indonesia identifies lack of adequate capacity in public audit institutions, especially local institutions, which negatively affects the performance of the government's audit institutions. Coordination among regional agencies is weak, and no uniform audit planning framework is in place. Although the government regulation (PP) 60/2008 clarified the delineation of external and internal audit functions, audit institutions, particularly regional internal auditors, have insufficient capacity. The regulation requires all government institutions, including local governments, to implement the Government Internal Control System (GICS). Under the regulation, the Central Government Internal Auditors (BPKP) is mandated to ensure the quality of internal audit reports and to provide guidance and consultancy on the GICS. Thus, the capacity of internal auditors needs to be improved through formal education and a professional certification program. In addition, government officials involved in financial management, budgeting, planning, and financial reporting require capacity development to ensure that auditors and auditees have common knowledge and standards. The quality of audit by inspectors general in line ministries

and local government inspectorates remains substandard with little focus on risk-based audit. A recent mapping process on the capacity of the government internal audit function in Indonesia, based on the internal audit capability model developed by the Institute of Internal Auditors, revealed that 93% of the respondents (25 inspectors general and 237 local government inspectorates) reported that (i) transactional audits were conducted for accuracy and compliance only, (ii) audit plans were not prepared based on stakeholder priorities, and (iii) audit output was based on the capacity of certain individuals.

5. The country's decentralization process (starting in 2000) transferred more than 30 functions and 2 million civil servants from the central to subnational governments. However, the new intergovernment setting inherited a large administrative and institutional burden, a multitude of public agencies, lack of professional civil servants, uncertified accountants, weak public management systems, graft, and corruption. The latest data of the State Ministry for Administrative Reforms (2008) shows that 50% of Indonesia's 4 million civil servants were not sufficiently qualified. Latest data from BPKP shows that Papua and West Papua provinces have no government internal auditors. Lack of capacity limits effective PFM and influences governance by regional governments. In 2010, only 7% of the 516 regional governments received an unqualified (clean without exceptions) audit opinion for their financial statements.

6. Other factors weaken regional PFM. First, decentralization resulted in more civil servants in regional governments, which translated into more of the budget being spent on salaries, thus decreasing available funds for better service delivery and capacity building. Second, regional governments are seeking ways to expand income sources, i.e., taxes and levies, which in some cases (due to low capacity in formulating revenue policies) have become a burden to citizens and business. Third, central government PFM-related laws and regulations are often complex and inconsistent.

7. **Strategic Policy and sector relevance.** The project is in line with the government's plan to promote good national and local governance. The government's National Medium-Term Development Plan (RPJMN), 2010–2014 identifies good governance as a priority. This priority intersects with ADB's country partnership strategy, 2012–2014 for Indonesia, which identifies improved governance as essential for more inclusive growth, especially in the context of PFM and decentralization. The project is in line with ADB's existing support for local government systems and capacity building in PFM under ADB's Second Local Government Finance and Governance Reform Program (LGFR). The project targets capacity development for decentralized public management to improve governance; financial management systems of local governments; and national and local audit systems, and capacity for planning, policymaking, and financial management. This target supports BPKP's 2010–2014 strategic plans to strengthen PFM officer capacity to become professional and competent. They aim to have 2,500 internal auditors at central and regional governments.

8. **Lessons from ADB support for public sector management.** The project's design builds on progress and lessons from three ADB programs: the State Audit Reform Sector Development Program, the LGFR Sector Development Program, and the Sustainable Capacity Building for Decentralization Project. They show capacity building to be the key component to implementing good governance practice in the government. In particular, focus should be given to building the PFM capacity of local government staff. Incorporating information, and communication technology in the business processes of local governments improves efficiency and increases their accountability.

9. **Aid Coordination.** In the design of the project, ADB coordinated with other development partners, such as the Australian Agency for International Development, United States Agency for International Development, and the World Bank. The World Bank, in particular, is managing a multidonor trust fund on PFM, funded by the governments of Switzerland and the Netherlands, and the European Union.

A. Impact and Outcome

10. The impact will be strengthened accountability of central and local government institutions to deliver high-quality public services. The outcome will be strengthened capacity of the government's internal auditors and public finance officers to plan budgets, report, carry out internal audits, and manage assets.

B. Outputs

1. Output 1: Capacity Development for Government Internal Auditors and Public Finance Officers

11. To meet the minimum standard central and regional competency requirements, the project will provide financial resources for degree programs and certification for the current internal auditors and PFM officers.

12. The degree program will support an estimated 2,500 internal auditors and finance officers in obtaining graduate degrees in government accounting and public finance. To ensure transparent and accountable selection, rigorous methodology based on objective and transparent eligibility criteria for the universities and participants will be developed and agreed with ADB, taking into consideration advice and recommendations from the project's steering committee. The program will include: a) master's degree in accounting with specific study, if available, in government accounting, public sector accounting or state finance (supervision or management), and b) extension program in accounting to those who already hold diploma in accounting and, if eligible, wish to continue to earn bachelor in accounting. Extension program normally will take one or up to two years study.

13. The EA assisted by consultants financed under the project will develop rigorous selection methodology for the universities participating in the degree program that will provide objective and transparent eligibility criteria, including, e.g., the following: (i) a university having a master's degree (graduate) study program in accounting registered at the Directorate General of Higher Education of Ministry of Education and Culture; and (ii) such study program having at least a "B" accreditation from the National Accreditation Agency for Higher Education (BAN – PT) for the master's degree program, and at least an "A" accreditation for the extension program. The university eligibility criteria will be agreed with ADB.

14. Further, the EA guided by the Steering Committee and based on equitable and transparent criteria will select relevant government officers as candidates to participate in the study program. The EA, assisted by consultants financed under the project will develop the criteria by using the government's criteria for master's degree scholarship program as a standard. The list of selected participants will be published and periodically updated. For cost efficiency, a participating student will enroll in the eligible university located in the vicinity of the student's residence. If and when there are selected participants in proximity to the university that meets the agreed eligibility criteria, such university will be engaged through single source

selection (SSS) under service delivery assignment (education) contracts to provide specialized degree courses to such selected participants.

15. **Certification.** The project will finance specialized courses, training, and certifications for an estimated 9,800 government internal auditors and finance officers of public institutions in central and regional governments, across provinces, districts, and cities. Certifying government internal auditors and PFM officers ensures GICS competencies. BPKP, through its regulation 211/2010, establishes a competency standard or minimum requirement for auditors as a quality assurance tool for government internal auditors. The standards include minimum competency requirements for risk management, strategic audit, audit reporting, professional attitude in audit, communication, public sector management, and audit management. BPKP's target for 2014 is that all government internal auditors will comply with the competency standard. The training will cover PFM transactions in planning, budgeting, accounting, procurement, public debt, asset management, ethics, and financial reporting. It will also cover training to support implementation of the GICS and state budget accounting and Presidential Instruction (Inpres) No.4/2011, Acceleration in Quality Improvement of State Finance Accountability. Certification programs will include the mandatory auditor functional position (Jabatan Fungsional Auditor [JFA]).

16. Certification will be given to achieve minimum professional standard or to increase level of competency standard. Certification will include, but not limited to: a) mandatory certification, e.g. JFA certification, b) internal auditing and fraud combat, e.g. Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE), Certified Information Systems Auditor (CISA), Certified Forensic Accounting Professional (CFAP), c) accounting, e.g. Certified Public Accountant (CPA), Professional Finance Accountant (PFA). The project will assist in training to earn certification and examination fee.

17. **Increased cooperation between BPKP and regional governments.** The project will seek to increase cooperation between BPKP and regional governments through the transfer of knowledge from BPKP as the central government internal auditor to regional government internal auditors. This will include active participation of the BPKP training facility and BPKP establishing centers of excellence of internal audit in selected regional universities. The transfer of knowledge will entail BPKP auditors to develop internal audit cooperation with selected regional governments and internal audit curriculum in local universities. The establishment of the center of excellence in selected regional universities will promote (i) internal audit best practices and (ii) cooperation between regional universities in providing PFM courses. In particular, the project will look into promoting a twinning program between more- and less-developed regional universities.

18. **Training of trainers.** The project will enhance the technical and training skills of 200 potential internal audit trainers from BPKP and 14 leading regional universities by examining best practice in the full spectrum of internal audit functions. The training will include (i) internal audit risk assessment process; (ii) setting of audit objectives and development of an audit plan; (iii) selection of a sample of representative contracts for audit; (iv) audit execution; (v) assessment of value for money; (vi) analysis of audit observations and findings, and discussion with BPKP; (vii) audit reporting; and (viii) improvement of the training methodology. Topics such as procurement audit and contract management will be included. The project will instill international best practices for the trainers. BPKP will play an active role by providing resource speakers to ensure that trainers have hands-on experience.

19. The project will develop –or review and update, if already available- modules for the master's degree program, trainings, certifications, and training of trainers, taking into account

existing modules or training manuals on state budget accounting, and internal audit as references. BPKP will coordinate with the Ministry of Home Affairs (MOHA) and the Ministry of Finance (MOF) in conducting capacity development program, training and developing training materials for public finance officers. Close coordination with both Ministries is imperative to encompass training provided by Directorate General (DG) of Fiscal Balance and DG of Treasury at MOF on regional financial management courses and budgeting that have been provided by both DGs; and DG of Regional Finance at MOHA.

Output 2: Development of e-Learning System and Modules.

20. The project will develop an e-learning system and module for training and certifying government internal auditors. Full implementation of the GICS will require 40,000 JFA-certified internal auditors in central and local government inspectorates. The current annual capacity of conventional JFA training in BPKP is about 2,000 participants. The project will use an e-learning system as an innovative means to reach the target of 40,000. The project-funded e-learning system will encompass various forms of e-learning and e-teaching, and may include web and/or computer-based training, virtual classroom opportunities, and digital collaboration. The project will provide funds to design the best system suitable for BPKP's needs to provide GICS training to all government internal supervisory officials. The modules will be consistent and in equal quality as provided in the regular JFA classroom training, thus ensuring quality assurance of the graduates. To ensure smooth implementation of the system, it will be tested, piloted, and rolled out on a trial basis before being fully implemented. Post project use of the e-learning system is crucial to meet the demand for JFA-certified auditors, and therefore, ADB will ensure that BPKP allocates funding to continue use of the system under its national training and education center.

Output 3: Institutional Strengthening through System Improvement.

21. **State accountability management information system.** The project will assist BPKP in developing an integrated SIMA as part of BPKP infrastructure strengthening. Capacity building for government PFM officers is expected to improve governance, particularly the quality of institution's financial statements or reports. With its new mandate, BPKP is in charge of ensuring quality assurance for the government's financial statements, and providing consultations to stakeholders. The government institutions provide their financial reports to BPKP for quality assurance prior to submitting to BPK. The SIMA will enable BPKP to receive high-quality reports, and at the output end, provide accurate analysis and information to its stakeholders. The SIMA is expected to support BPKP's accessibility to the reports, and help it produce quality and timely analysis for its stakeholders.

22. SIMA development will consider existing systems, business process improvement and change management, and communication with stakeholders. The project funding will be used to design, install, and roll out the system on a trial basis, as well as provide necessary training, and software development and licenses. The project will undertake consultations and workshops on change management with the stakeholders to ensure smooth system implementation.

23. **Cross-sector evaluation system.** The project will assist BPKP in piloting an evaluation system for cross-sector programs based on government regulation (PP) 60/2008, which redefined BPKP's role as the President of Indonesia's auditors or the government internal auditors. As such, BPKP is mandated to conduct internal supervision or evaluation of state financial accountability over certain activities, including the government's cross-sector programs. BPKP will conduct the evaluation and make recommendations to the President. As this authority is new to BPKP and in line with the project's objective to improve good

governance in PFM, the project will support BPKP to develop standard audit procedures and execute its authority. The project will select specific cross-sector programs on a pilot basis. The SIMA is expected to support an evaluation system for cross-sector programs. Thus, through this pilot testing, the SIMA will be used to ensure its operationalization and any feedback will be used to improve the system.

II. Implementation plans

A. Project Readiness Activities

2012

| Indicative Activities | Sep | Oct | Nov | Dec | Jan | Responsible Party |
|--|-----|-----|-----|-----|-----|---|
| Securing Government's confirmation for provision of counterpart funds | x | | | | | Executing Agency (BPKP) |
| Establish project implementation arrangements (project management office/unit, steering committee) | x | | | | | BPKP |
| ADB Board consideration | | x | x | | | ADB |
| Loan signing | | | x | | | ADB and the Ministry of Finance (MOF) |
| Government legal opinion provided | | | | x | | EA and the Ministry of Law and Human Rights |
| Government budget inclusion | | | | x | x | MOF, and EA |
| Loan effectiveness | | | | x | x | ADB and EA |

B. Overall Project Implementation Plan

| Activities | 2013 | | | | 2014 | | | | 2015 | | | | 2016 | | | | 2017 | | | | 2018 | | | |
|--|---------|----|----|----|---------|----|----|----|---------|----|----|----|---------|----|----|----|---------|----|----|----|---------|----|----|----|
| | Quarter | | | | Quarter | | | | Quarter | | | | Quarter | | | | Quarter | | | | Quarter | | | |
| | Q1 | Q2 | Q3 | Q4 |
| Component 1: Improve the capacity of government internal auditors and public finance officers through better incentives mechanism | | | | | | | | | | | | | | | | | | | | | | | | |
| 1.1 Degree program for 2,500 government's internal auditors and public finance officers. | | | | | | | | | | | | | | | | | | | | | | | | |
| 1.1.1. Development of selection guidelines/mechanism for students and University | ■ | | | | | | | | | | | | | | | | | | | | | | | |
| 1.1.2. Review and update of curriculum for degree program | ■ | | | | | | | | | | | | | | | | | | | | | | | |
| 1.1.3. Selection of universities | ■ | ■ | ■ | ■ | | | | | | | | | | | | | | | | | | | | |
| 1.1.4. Selection and Enrollment of 1st batch students | | | ■ | | | | | | | | | | | | | | | | | | | | | |
| 1.1.5 Selection and Enrollment of subsequent students | | | | | ■ | | ■ | | ■ | | ■ | | | | | | | | | | | | | |
| 1.1.6. Graduation of Students | | | | | | | | | ■ | | ■ | | ■ | | ■ | | ■ | | | | | | | |
| 1.1.7. Development of Alumni Institutions | | | | | | | | | ■ | | ■ | | ■ | | ■ | | ■ | | | | | | | |
| 1.2. Training and certification of 10,000 government's internal auditors and public finance officers. | | | | | | | | | | | | | | | | | | | | | | | | |
| 1.2.1. Develop, review, and update of modules for non degree program | ■ | | | | ■ | | | | ■ | | | | ■ | | | | ■ | | | | | | | |
| 1.2.2. Development of selection criteria of participants, implementation mechanism and reporting requirements | ■ | | | | ■ | | | | ■ | | | | ■ | | | | ■ | | | | | | | |
| 1.2.3. Development of technical modules as basis for GCIS implementation undertaken through series of workshop | ■ | | | | ■ | | | | ■ | | | | ■ | | | | ■ | | | | | | | |
| 1.2.4. JFA training and certification | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | |
| 1.2.5. Domestic non JFA training & examination and certification | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | |
| 1.2.6. Int. Course/Overseas training (Benchmarking) | | ■ | ■ | | | | | | ■ | ■ | | | ■ | ■ | | | | | | | | | | |
| 1.3. Training of Trainers | | | | | | | | | | | | | | | | | | | | | | | | |
| 1.3.1. Selection of participants | | ■ | | | | ■ | | | | | | | | | | | | | | | | | | |
| 1.3.2. Conduct training of trainers in and out country | | | ■ | ■ | | | ■ | ■ | | | | | | | | | | | | | | | | |
| 1.3.3. Develop and implement modules of adult learning methodology | | | | | ■ | ■ | | | ■ | ■ | | | | | | | | | | | | | | |
| Component 2: Operationalization of e-learning system and modules for government internal auditors training and certification. | | | | | | | | | | | | | | | | | | | | | | | | |
| 2. E-learning system operational | | | | | | | | | | | | | | | | | | | | | | | | |

| Activities | 2013 | | | | 2014 | | | | 2015 | | | | 2016 | | | | 2017 | | | | 2018 | | | |
|---|---------|----|----|----|---------|----|----|----|---------|----|----|----|---------|----|----|----|---------|----|----|----|---------|----|----|----|
| | Quarter | | | | Quarter | | | | Quarter | | | | Quarter | | | | Quarter | | | | Quarter | | | |
| | Q1 | Q2 | Q3 | Q4 |
| 2.1. Conduct needs assessment and feasibility study | | | | | ■ | | | | | | | | | | | | | | | | | | | |
| 2.2. Development of training module, e-learning system and hardware procurement | | | | | | | ■ | ■ | ■ | | | | | | | | | | | | | | | |
| 2.3. E-learning trial and pilot tested | | | | | | | | | | ■ | ■ | | | | | | | | | | | | | |
| 2.4. E-learning roll-out and implementation | | | | | | | | | | | | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | | | |
| Component 3: Institutional strengthening through system improvement. | | | | | | | | | | | | | | | | | | | | | | | | |
| 3.1. Development of SIMA | | | | | | | | | | | | | | | | | | | | | | | | |
| 3.1.1. Assessment of existing systems within BPKP working units and conduct feasibility study | | | | ■ | | | | | | | | | | | | | | | | | | | | |
| 3.1.2. Recruit IT consultant/system developer | | | | | ■ | ■ | | | | | | | | | | | | | | | | | | |
| 3.1.3. Develop the system and hardware procurement | | | | | | | ■ | ■ | ■ | ■ | | | | | | | | | | | | | | |
| 3.1.4. Install, test, pilot and roll out the system | | | | | | | | | | | ■ | ■ | ■ | ■ | ■ | | | | | | | | | |
| 3.2. Cross-Sector Program evaluation Piloting and GICS System Enhancement | | | | | | | | | | | | | | | | | | | | | | | | |
| 3.2.1. Selection of thematic or cross sector program-based policy | | | | | ■ | | | | | | | | | | | | | | | | | | | |
| 3.2.2. Undergo internal audit and evaluation on cross sector program-based policy | | | | | | | | ■ | ■ | ■ | ■ | ■ | | | | | | | | | | | | |
| 3.2.3. Drafting and submission of recommendation to the Government for improvement | | | | | | | | | | | | | | ■ | ■ | ■ | | | | | | | | |
| 3.2.4. GICS system application enhancement | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | | | | | | | | | | | | | | | |
| 4. Project Management and Administrative Support | | | | | | | | | | | | | | | | | | | | | | | | |
| 4.1 Develop criteria for Consultant Selection | ■ | ■ | ■ | ■ | ■ | | | | | | | | | | | | | | | | | | | |
| 4.2 Develop quality control and assurance and other mechanism for project accountability | | | | | ■ | | | | | | | | | | | | | | | | | | | |
| 4.3 Conduct monitoring evaluation and reporting (quarterly, annually, mid term, and final report) | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| 4.4 Review Missions | | ■ | ■ | ■ | ■ | | | | | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | | | | |
| 4.5 Midterm Review | | | | | | | | | | | ■ | | | | | | | | | | | | | |
| 4.6 Government's PCR Preparation | | | | | | | | | | | | | | | | | | ■ | ■ | ■ | | | | |
| 4.7 Project Completion Report | | | | | | | | | | | | | | | | | | | | | | ■ | | |
| 4.8 Equipment for PMU's coordinating and monitoring | | ■ | | | | | | | | | | | | | | | | | | | | | | |
| 4.9 PMU Coordinating and monitoring | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |

III. Project Management Arrangements

A. Project Implementation Organizations – Roles and Responsibilities

| Project implementation organizations | Management Roles and Responsibilities |
|---|---|
| <ul style="list-style-type: none"> BPKP | <p>Executing Agency</p> <p>The EA is responsible for overall project management and implementation, including: (i) setting policy directions for the project, (ii) preparing annual program and budget including ensuring the timely and sufficient provision of Daftar Isian Pelaksanaan Anggaran (DIPA), (iii) providing implementation guidance and supervision, (iv) establishing the Project Management Unit (PMU), and reporting on the project implementation to the project SC and ADB.</p> <p>Project Management Unit (PMU)</p> <p>PMU is responsible for the day-to-day project management and implementation, including project supervision, monitoring, accounting, and consolidated reporting. Its tasks are:</p> <ul style="list-style-type: none"> developing and updating project implementation guidelines; leading the planning, programming (including ensuring the provision of DIPA), coordination, oversight, implementation, monitoring and evaluation of the project; building partnerships with project stakeholders, in particular local governments (provincial, district or city), participating universities and scholarship program; coordinating activities in accordance with project guidelines; providing guidance and managing the PIUs leading and coordinating activities related to financial management and financial audit; selecting, contracting, giving direction and supervising the project management/implementation consultants; preparing withdrawal applications (WA) including retention of supporting documents and submitting the WAs (through MOF) to ADB; and supporting/facilitating BPKP in the preparation and submission of the audited project accounts and financial statements. |
| <ul style="list-style-type: none"> STAR Steering Committee (chaired by the EA) | <ul style="list-style-type: none"> Provide overall policy directions and oversight, particularly guidelines on selection of candidates and participating university for degree program and training; and Assesses the results, benefits, and impact of project implementation |
| <ul style="list-style-type: none"> BPKP Offices | <p>Representative Project Implementation Units</p> <ul style="list-style-type: none"> Implementation of activities in the respective representative offices; Ensuring that the project runs smoothly in their respective areas and act as manager cum intermediary between each implementing region and BPKP; and Monitoring and reporting to EA and PMU |
| <ul style="list-style-type: none"> ADB | <p>Lender</p> <ul style="list-style-type: none"> Main project financier Monitoring project implementation and covenant compliance |

24. **Project management and administration support.** This component will support the smooth and effective implementation of the project. The PMU will be established in BPKP to manage project implementation, supported by the project management consultant. The Project will also develop an effective monitoring and evaluation system. Consultants will be recruited for project accounting and reporting, procurement, project monitoring, and financial management.

B. Key Persons Involved in Implementation

Executing Agency

BPKP
Deputy of Politics, Social and
Security

Officer's Name: Achmad Sanusi
Position: Deputy
Telephone: 62-21-858-4862
Email address: achmad.sanusi@bpkp.go.id
Office Address: Jalan Pramuka 35, Jakarta, Indonesia

Project Management Unit
BPKP
Bureau of Audit Planning

Officer's Name: Justan Riduan Siahaan
Position: Head
Telephone: 62-21- 8591-0031
Email address: justan@bpkp.go.id

ADB

Indonesia Resident Mission
Country Director

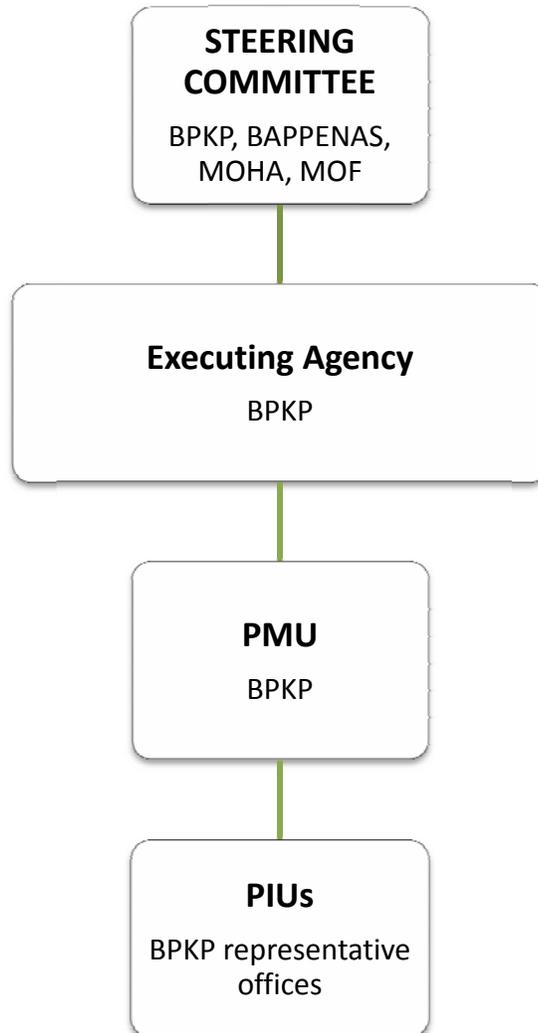
Jon D. Lindborg
Country Director
Telephone No. 021-2512721
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Team Leaders

Renadi Budiman
Sr. Finance Specialist
Telephone No: 62-21-2512721
Email address: renadibudiman@adb.org

Rabin Hattari
Public Sector Economist (Fiscal Management and Social
Security)
Telephone No: 62-21-2512721
Email address: rhattari@adb.org

C. Project Organization Structure



25. The project will set up the project SC chaired by the EA and consist of directors from the EA, BAPPENAS (Director of State Apparatus), MOF's DG of Treasury (Director of Budgeting System), DG of Fiscal Balance (Director of Financing and Regional Capacity), MOF Financial Training and Education Center (BPPK), and MOHA's DG of Regional Finance, Directorate of Implementation and Accountability of Regional Finance. The SC is tasked to oversee project implementation and facilitate interagency coordination. The SC shall be established under a decree letter issued by BPKP head. The SC will meet every quarter in the first two years of the project implementation and semi-annually thereafter, to monitor, guide and oversee implementation of the project, or on an ad hoc basis where deemed necessary by the SC Chairperson, to settle project implementation issues requiring high-level decisions. The PMU director shall act as secretary to the SC.

26. The PMU will (i) be responsible for the day-to-day implementation, coordination, supervision, monitoring, and reports consolidation from all PIUs, (ii) act as secretariat to the SC, and (ii) serve as the point of contact between PMU, the SC and the ADB.

27. At regional level, the EA will set up a PIU in each BPKP representative office, led by the BPKP head representative office. In coordination with the PMU, PIU will implement the activities in the respective regions, and report to the PMU.

IV. Costs and financing

28. The total project is estimated at \$60.53 million. The loan proceeds of \$57.75 million will be made available to MOF, which will channel the funds to the EA. The PMU will utilize the loan proceeds to finance works, goods and services of the proposed activities, as well as cost components related to project management support and M&E. The loan will finance 95% of the total project cost. The loan will have a 18-year term, including a grace period of 6 years, an interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per annum on any undisbursed amount of the loan, and such other terms and conditions as set forth in the draft project loan agreement. The government has provided ADB with (i) the reasons for its decision to borrow under ADB's LIBOR-based lending facility based on these terms and conditions, and (ii) an undertaking that these choices were its own independent decision and not made in reliance on any communication or advice from ADB.

29. The remainder of the project costs (5% or \$2.78 million equivalent) will be financed from the budgetary resources of the EA. The EA will cover financing charges from its own financial resources. All applicable taxes and duties will be financed from government contributions. The EA shall ensure that during each year of the project implementation, adequate budgetary allocation or Daftar Isian Pelaksanaan Anggaran (DIPA) shall be provided in a timely manner. To such end, the EA shall ensure that timely submissions of annual budgetary appropriation requests are made. The request including funding in connection with the establishment of the various audit activities, including staff salaries and related payments, maintenance of equipment and project facilities, communications, transportation, supplies and materials, and other operating expenses during project implementation and for annual operations and maintenance expenditure required after project completion. The EA, working with MOF, shall (i) take all necessary or appropriate measures for prompt disbursement of appropriated ADB funds on a timely and regular basis to the EA during each year of project implementation; and (ii) ensure that, throughout the duration of the project, all personnel contributing to project implementation receive remuneration commensurate with their responsibilities and workload. The EA, working with MOF, shall ensure that the provision of funds from the loan proceeds, and the corresponding contributions, necessary for financing project activities shall continue throughout the period of project implementation by earmarking the funds notwithstanding, any reallocation of authority or responsibility for channeling of external assistance, and for the provision of corresponding contributions between the borrower, and the EA.

A. Detailed Cost Estimates by Expenditure Category

| | Items | Total Cost | Percentage of Total Base Cost |
|----|---|-------------------|-------------------------------|
| A. | Investment Cost | | |
| | 1 Research and Development | 2,250,000 | 3.8% |
| | 2 Institutional Development and Strengthening | 500,000 | 0.8% |
| | 3 Equipment, Vehicles, and Furniture (Purchase and Maintenance) | 4,850,000 | 8.2% |
| | 4 Materials (Teaching and Learning Materials) | 2,130,000 | 3.6% |
| | 5 Consulting Services | 4,180,000 | 7.1% |
| | 6 Training and Fellowships | 41,400,000 | 70.1% |
| | 7 Project Management | 3,640,000 | 6.2% |
| | 8 Taxes and Duties | 150,000 | 0.3% |
| | Total Base Cost | 59,100,000 | 100% |
| B. | Contingencies | 430,000 | |
| C. | Financing Charges During Implementation | 1,000,000 | |
| | Total (A+B+C) | 60,530,000 | |

B. Allocation and Withdrawal of Loan Proceeds

| CATEGORY | | | ADB FINANCING BASIS |
|----------|---|--|---|
| No. | Item | Total Amount Allocated for ADB Financing | Percentage of ADB Financing from the Loan Account |
| 1 | Research and Development | 2,250,000 | 100 percent of total expenditure claimed* |
| 2 | Institutional Development and Strengthening | 500,000 | 100 percent of total expenditure claimed* |
| 3 | Equipment, Vehicles, and Furniture | 4,850,000 | 100 percent of total expenditure claimed* |
| 4 | Teaching and Learning Materials | 2,130,000 | 100 percent of total expenditure claimed* |
| 5 | Consulting Services | 4,180,000 | 100 percent of total expenditure claimed* |
| 6 | Training and Fellowships | 41,400,000 | 100 percent of total expenditure claimed* |
| 7 | Project Management | 2,440,000 | 100 percent of total expenditure claimed* |
| | TOTAL | 57,750,000 | |

* Exclusive of local taxes and duties imposed within the territory of the Borrower. (The interest and commitment charges will be paid directly by the Borrower.)

C. Detailed Cost Estimates by Financier

| (\$million) ^a | | | | | |
|--------------------------|--|--|--------------|-------------|--------------|
| | | | ADB | Government | |
| | | Items | Total Cost | Total Cost | TOTAL COST |
| A. | Investment Cost ^b | | | | |
| | 1 | Research and Development | 2.25 | | 2.25 |
| | 2 | Institutional Development and Strengthening | 0.50 | | 0.50 |
| | 3 | Equipment, Vehicles, and Furniture (Purchase and Maintenance) | 4.85 | | 4.85 |
| | 4 | Materials (Teaching and Learning Materials) | 2.13 | | 2.13 |
| | 5 | Consulting Services | 4.18 | | 4.18 |
| | 6 | Training and Fellowships | 41.40 | | 41.40 |
| | 7 | Project Management | | | |
| | | a. Project Management Consultant | 2.44 | | 2.44 |
| | | b. Salaries (Government Staff Involved in Project Management) | | 0.40 | 0.40 |
| | | c. Accomodation and duty travel for supervision and monitoring | | 0.40 | 0.40 |
| | | d. Equipment Operation and Maintenance | | 0.40 | 0.40 |
| | 8 | Taxes and Duties | | 0.15 | 0.15 |
| | | Total Base Cost | 57.75 | 1.35 | 59.10 |
| B. | Contingencies ^c | | | 0.43 | 0.43 |
| C. | Financing Charges During Implementation ^d | | | 1.00 | 1.00 |
| | | TOTAL COST | 57.75 | 2.78 | 60.53 |
| | | % Total Project Cost | 95% | 5% | 100% |

* Items 7b, 7c, and 7d entail costs that are to be provided in-kind by the EA

D. Detailed Cost Estimates by Outputs/Components (\$)

| | Items | Total Cost | Output 1 | | Output 2 | | Output 3 | | Project Management Activity | |
|-----------|---|-------------------|------------|--------------------|-----------|--------------------|-----------|--------------------|-----------------------------|--------------------|
| | | | Amount | % of Cost Category | Amount | % of Cost Category | Amount | % of Cost Category | Amount | % of Cost Category |
| A. | Investment Cost | | | | | | | | | |
| 1 | Research and Development | 2,250,000 | 2,120,000 | 94% | 130,000 | 6% | - | 0% | - | 0% |
| 2 | Institutional Development and Strengthening | 500,000 | - | 0% | - | 0% | 500,000 | 100% | - | 0% |
| 3 | Equipment, Vehicles, and Furniture (Purchase and Maintenance) | 4,850,000 | - | 0% | 2,375,000 | 49% | 1,875,000 | 39% | 600,000 | 12% |
| 4 | Materials (Teaching and Learning Materials) | 2,130,000 | 2,130,000 | 100% | - | 0% | - | 0% | - | 0% |
| 5 | Consulting Services | 4,180,000 | - | 0% | - | 0% | 1,000,000 | 24% | 3,180,000 | 76% |
| 6 | Training and Fellowships | 41,400,000 | 40,210,000 | 97% | - | 0% | 1,190,000 | 3% | - | 0% |
| 7 | Project Management | 2,440,000 | - | 0% | - | 0% | - | 0% | 2,440,000 | 100% |
| | <i>a. Salaries (Government Staff Involved in Project Management)</i> | 400,000 | | 0% | | 0% | | 0% | 400,000 | 100% |
| | <i>b. Accomodation and duty travel for supervision and monitoring</i> | 400,000 | | 0% | | 0% | | 0% | 400,000 | 100% |
| | <i>c. Equipment Operation and Maintenance</i> | 400,000 | | 0% | | 0% | | 0% | 400,000 | 100% |
| 8 | Taxes and Duties | 150,000 | | 0% | | 0% | | 0% | 150,000 | 100% |
| B. | Contingencies | 430,000 | 324,305 | 75% | 18,272 | 4% | 33,299 | 8% | 54,124 | 13% |
| C. | Financing Charges During Implementation | 1,000,000 | 754,198 | 75% | 42,494 | 4% | 77,439 | 8% | 125,869 | 13% |
| | Total (A+B+C) | 60,530,000 | 45,538,504 | 75% | 2,565,766 | 4% | 4,675,737 | 8% | 7,749,993 | 13% |

Summary Project Investment by Components/Outputs

| Item | Amount ^a (\$ million) |
|--|-------------------------------------|
| A. Base Cost^b | |
| 1. Capacity development for government internal auditors and public finance officers | 44.46 |
| 2. Development of e-Learning system and modules | 2.50 |
| 3. Institutional strengthening through system improvement | 4.57 |
| 4. Project Management | 7.57 |
| Subtotal (A) | 59.10 |
| B. Contingencies^c | 0.43 |
| C. Financing Charges During Implementation^d | 1.00 |
| Total (A+B+C) | 60.53 |

E. Detailed Cost Estimates by Year

| | Items | Total Cost | 2013 | 2014 | 2015 | 2016 | 2017 |
|----|---|-------------------|-------------|-------------|--------------|--------------|--------------|
| A. | Investment Cost | | | | | | |
| | 1 Research and Development | 2.25 | 0.11 | 0.34 | 0.68 | 0.68 | 0.45 |
| | 2 Institutional Development and Strengthening | 0.50 | 0.03 | 0.08 | 0.15 | 0.15 | 0.10 |
| | 3 Equipment, Vehicles, and Furniture (Purchase and Maintenance) | 4.85 | 0.24 | 0.73 | 1.46 | 1.46 | 0.97 |
| | 4 Materials (Teaching and Learning Materials) | 2.13 | 0.11 | 0.32 | 0.64 | 0.64 | 0.43 |
| | 5 Consulting Services | 4.18 | 0.21 | 0.63 | 1.25 | 1.25 | 0.84 |
| | 6 Training and Fellowships | 41.40 | 2.07 | 6.21 | 12.42 | 12.42 | 8.28 |
| | 7 Project Management | 3.64 | 0.18 | 0.55 | 1.09 | 1.09 | 0.73 |
| | 8 Taxes and Duties | 0.15 | 0.01 | 0.02 | 0.05 | 0.05 | 0.03 |
| B. | Contingencies | 0.43 | 0.02 | 0.06 | 0.13 | 0.13 | 0.09 |
| C. | Financing Charges During Implementation | 1.00 | 0.05 | 0.15 | 0.30 | 0.30 | 0.20 |
| | Total Project Cost (A+B+C) | 60.53 | 3.03 | 9.08 | 18.16 | 18.16 | 12.11 |
| | % Total Project Cost | 100% | 5% | 15% | 30% | 30% | 20% |

F. Contract and Disbursement S-curve

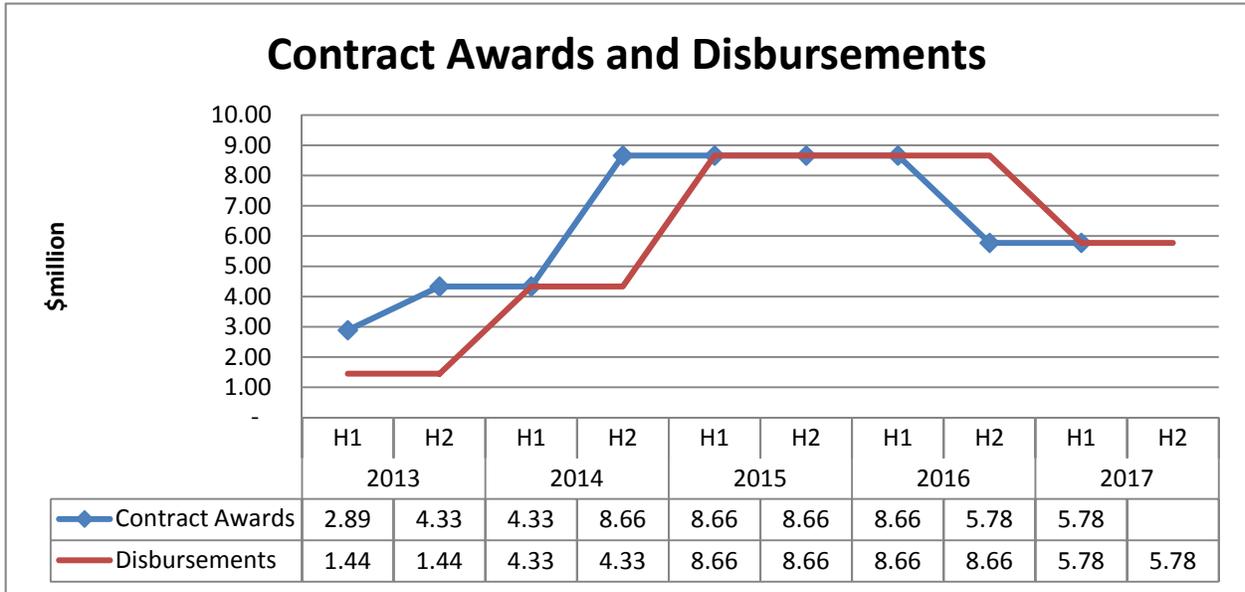
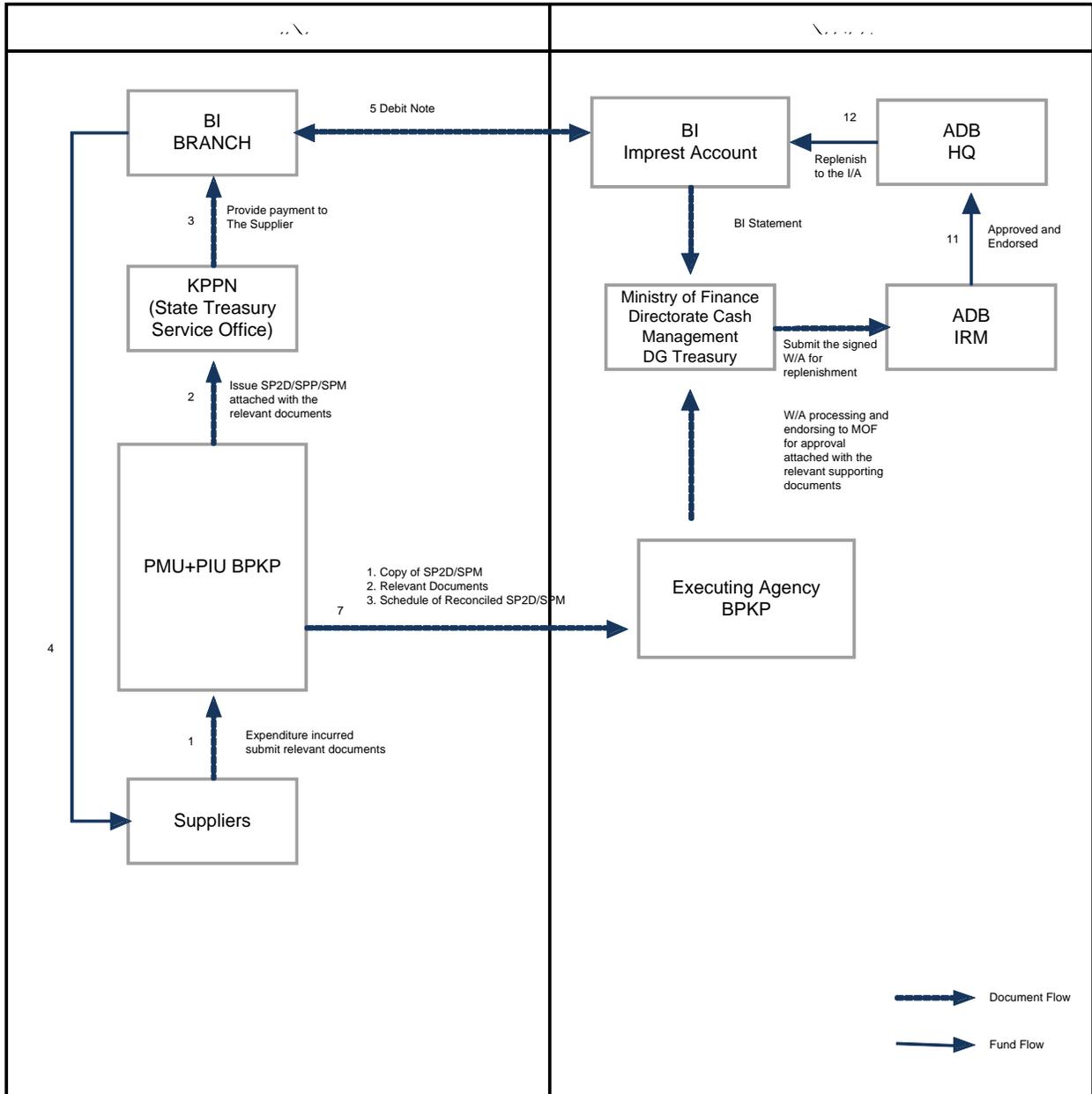
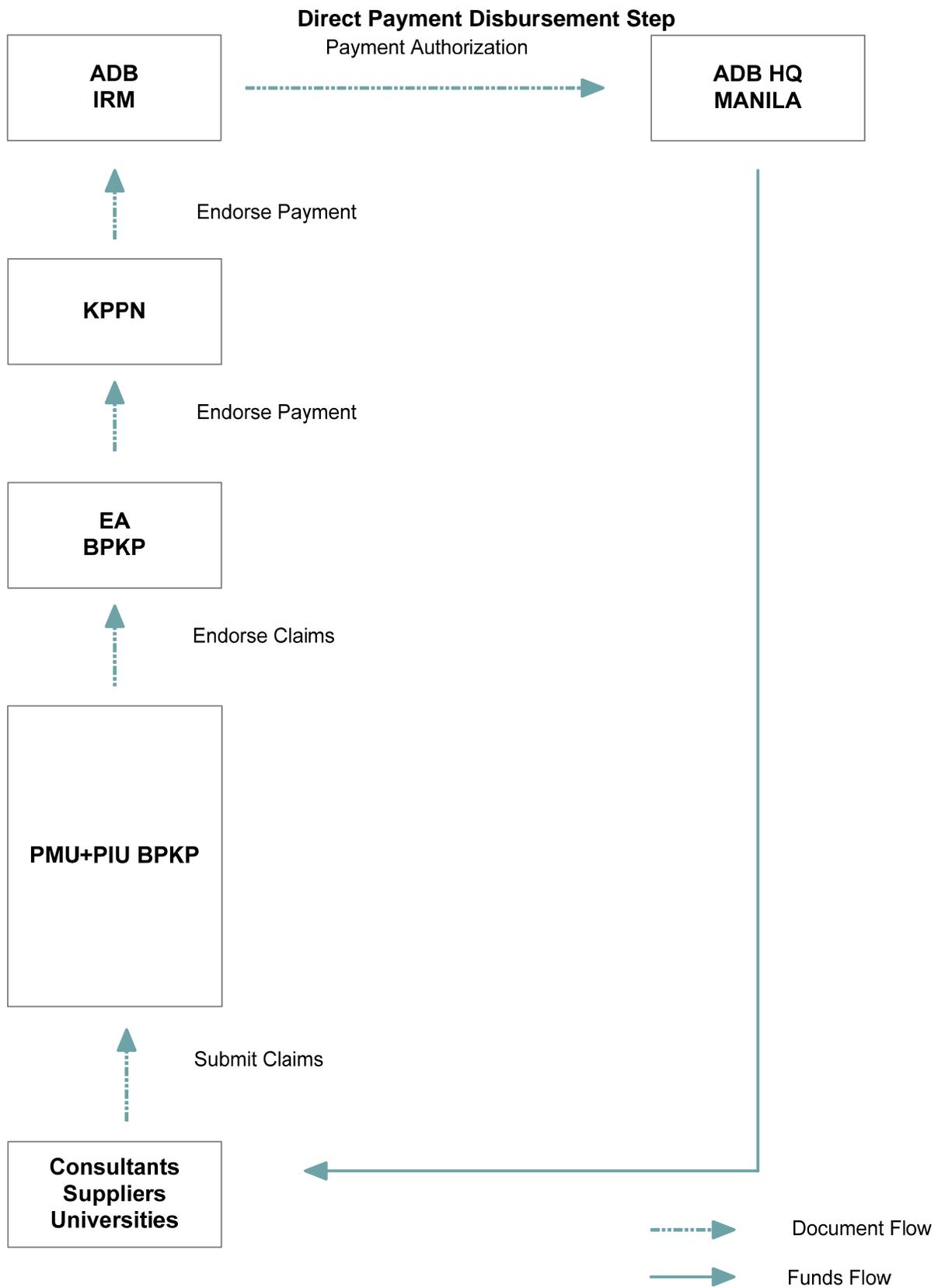


Table 1. Contract Awards and Disbursement in \$ million

G. Fund Flow Diagram





V. Financial Management

A. Financial Management Assessment

30. **Financial management and procurement capacity assessment.** The EA has the capacity to implement the project, since it has the experience in implementing an ADB-funded project as a PIU under STAR-SDP. The EA also has sufficient capacity, staffing and system of the financial, accounting and procurement working units within the EA. As the internal auditors of the government, the EA has extensive capacity of financial management, and is responsible for setting benchmark of good financial management to other government bodies. All EA's staff hold at the minimum of diploma in accounting from the State Accounting Institute (STAN). The EA is expected to have capacity in managing project implementation, financial management and procurement in accordance with ADB guidelines and requirements. Thus, management control of the project can be relied upon. However, some new entry staff may not be familiar with managing ADB-funded assistance. Therefore, training on ADB project management, administration, procurement, and disbursement will be conducted.

31. The EA will also ensure compliance with the ADB anticorruption policy. Due diligence to ensure sound selection of candidates for scholarship and participating universities covered under the project is required to achieve the project objectives. In coordination with the Ministry of Education and Culture, the project's SC will issue and implement transparent guidelines on criteria for selecting the candidates and universities to participate in the master's degree programs to ensure the quality of the program. The guidelines will also include procedures of selection and mechanism to implement the program.

32. The Deputy of Politics, Social and Security of BPKP is the EA of the project. The Bureau of Audit Planning of BPKP is the PMU of the project. BPKP has acted as one of the PIUs for STARSDP since 2003 and implemented activities in BPKP head quarter and representative offices. The project manager of the PMU has acted as the Secretary of the BPKP PIU for STARSDP. Staff engaged in the previous STAR-SDP BPKP PIU will continue to be engaged in the PMU. Risks from involvement of new staff in PMU with no experience in managing ADB fund will be mitigated by: (a) providing financial management training to project financial management staff; (b) providing technical assistance to the PMU on financial management; and (c) putting in place additional financial control procedures and providing financial management consultancy as needed.

B. Disbursement

33. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2012, as amended from time to time),¹ and detailed arrangements agreed upon between the Government and ADB. Pursuant to ADB's *Safeguard Policy Statement* (2009) (SPS),² ADB funds may not be applied to the activities described in the ADB Prohibited Investment Activities List set forth in Appendix 5 of the SPS.

¹ Available at: <http://www.adb.org/documents/loan-disbursement-handbook>

² Available at: <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>

34. The government will establish a separate imprest account at the central bank (Bank Indonesia) to facilitate the timely release of loan funds³. The currency of the imprest account will be US Dollar. The imprest account will be administered by the MOF. The imprest account will be established, managed, replenished, and liquidated in accordance with ADB's *Loan Disbursement Handbook* (2012, as amended from time to time). The maximum amount to be deposited into the imprest account will not exceed 10% of the total loan amount. The statement of expenditure (SOE) procedure may be used for reimbursement and liquidation of the imprest account. The SOE ceiling is \$100,000 per individual payment. SOE records should be maintained and made readily available for review by ADB's disbursement and review mission or upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.⁴

35. The request for initial advance to the imprest account should be accompanied by an Estimate of Expenditure Sheet⁵ setting out the estimated expenditures for the first six (6) months of project implementation, and submission of evidence satisfactory to ADB that the imprest account has been duly opened. For every liquidation and replenishment request of the imprest account, the borrower will furnish to ADB (a) statement of Account (bank Statement) where the imprest account is maintained, and (b) the Imprest Account Reconciliation Statement (IARS) reconciling the above mentioned bank statement against the EA's records.⁶

36. Before the submission of the first withdrawal application, the borrower should submit to ADB sufficient evidence of the authority of the person(s) 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 US\$100,000, unless otherwise approved by ADB. The borrower is to consolidate claims to meet this limit for reimbursement and imprest account claims. Withdrawal applications and supporting documents will demonstrate, among other things that the goods, and/or services were produced in or from ADB members, and are eligible for ADB financing.

37. Sufficient supporting documentation, as defined in ADB's *Loan Disbursement Handbook* (2012, as amended from time to time) will be kept at each level of project implementation to substantiate all expenditures incurred from the loan proceeds. Relevant PMU staff will be trained in ADB's disbursement procedures. Financial due diligence undertaken during project preparation determined that the EA has significant financial management experience and capacity, and will be able to ensure effective and appropriate project financial management.

C. Accounting

38. The EA will maintain separate project accounts and records by funding source for all expenditures incurred on the project. Project accounts will follow international accounting principles and practices.

D. Auditing

39. The EA will cause the detailed consolidated project accounts to be audited in accordance with International Standards on Auditing and/or in accordance with the government's audit regulations by an independent auditor acceptable to ADB. The audited

³ Bank charges, in relation to the imprest account, may be financed from the ADB loan.

⁴ Appendix 9B of the *Loan Disbursement Handbook*

⁵ Appendix 10B of the *Loan Disbursement Handbook*

⁶ Appendix 10C of the *Loan Disbursement Handbook*

accounts will be submitted in the English language to ADB within 6 months of the end of the fiscal year by the EA. The annual audit report will include a separate audit opinion on the use of the imprest fund and the SOE procedures. The government and the EA have been made aware of ADB's policy on delayed submission, and the requirements for satisfactory and acceptable quality of the audited accounts. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures.

VI. Procurement and Consulting Services

A. Procurement of Goods, Works and Consulting Services

40. All procurement of goods and works will be in accordance with ADB's Procurement Guidelines (April 2010, as amended from time to time). Goods will be procured through NCB procedures acceptable to ADB for packages up to and including \$1,000,000 equivalent. For packages of \$100,000 equivalent or less, shopping or direct contracting (if required equipment is proprietary) may be used.

41. Supply contract for equipment, materials, or service contract shall be awarded in accordance to the mechanisms outlined in the borrower procurement procedures acceptable to ADB. Prequalification, selection and engagement of contractors shall be subject to the approval of ADB.

42. Before the start of any procurement ADB and the Government will review the public procurement laws of the governments to ensure consistency with ADB's *Procurement Guidelines*. Should there be any discrepancy between the Government laws and decrees and the ADB's Guidelines, then ADB's Guidelines shall prevail.

43. An 18-month procurement plan indicating threshold and review procedures, goods, works, and consulting service contract packages and national competitive bidding guidelines is in Section C.

44. The project will require an estimated of 984 person-months of national consulting services at national level. Management consultant team will be fielded in the PMU to provide support in project management, coordination, reporting, monitoring, evaluation and financial management. The management consultants will be recruited through national firms. In addition to the above, recruitment of individual consultants for development of e-learning and SIMA will be required.

B. Procurement Plan

| | |
|---|---|
| Project Name: State Accountability Revitalization Project (STAR) Country: Indonesia Loan Amount: \$57.75 million Date of First Procurement Plan: 18 September 2012 | Loan Number: Executing Agency: BPKP Date of this Procurement Plan: 18 September 2012 |
|---|---|

A. Process Thresholds, Review, and 18-Month Procurement Plan

1. Project Procurement Thresholds

45. Except as the Asian Development Bank (ADB) may otherwise agree, the following process threshold shall apply to procurement of good and works

| Procurement of Goods and Works | |
|--|-------------------|
| Method | Threshold |
| National Competitive Bidding for Goods | Below \$1,000,000 |
| Shopping for Goods | Below \$100,000 |

2. ADB Prior or Post Review

46. Except as ADB otherwise agree, the following prior or post review requirements apply to the various procurement and consultant recruitment methods used for the project.

| Procurement Method | Prior or Post | Comments |
|---|---------------|---|
| Procurement of Goods | | |
| National Competitive Bidding (NCB) | Prior | Contracts in English language version for NCB/Shopping for goods will be reviewed using prior review procedure. |
| Goods Shopping for Goods | | |
| Recruitment of Consulting Firms | | |
| Quality and Cost Based Selection (QCBS) | Prior | Prior review for all contracts |
| Recruitment of Individual Consultants | | |
| Individual Consultants Selection (ADB Guidelines) | Prior | PMU selects, negotiates and manages the contract. |

3. Goods Contracts Estimated to Cost More Than \$1,000,000

47. The following table lists goods contracts for which procurement activity will be established within 18 months.

| General Description | Contract Value | Procurement Method | Prequalification of Bidders (Y/N) | Advertisement Date | Comments |
|---|----------------|--------------------|-----------------------------------|--------------------|-------------------|
| Specialized equipment | | | | | |
| Equipment computers and software for BPKP e-Learning System | 2,374,500 | NCB | Y | Q2 2014 | Up to 3 Contracts |

NCB=National Competitive Bidding

4. Consulting Services Contracts Estimated to Cost More Than \$100,000

48. The following table lists consulting services contracts for which procurement activity is expected to commence within 18 months.

| General Description | Contract Value (\$) ¹ | Procurement/ Recruitment Method | Advertisement Date | No. of Contracts | Comments |
|---|----------------------------------|---------------------------------|--------------------|------------------|---|
| Consulting Services Individual | | | | | |
| Procurement Advisor | 290,000 | ICS | Q1 2013 | 1 | National 60 pm (cumulative); Responsible to assist PMU and PIUs |
| Project Financial Management System Advisor | 290,000 | ICS | Q1 2013 | 1 | National 60 pm (cumulative), Responsible to assist PMU and PIUs |
| Consulting Services Firms | | | | | |
| Project management | 2,440,000 | QCBS | Q1 2013 | 1 | 840 pm (cumulative) to assist PMU. |

ICS=Individual Consultants Selection; QCBS=Quality and Cost Based Selection

5. Goods Contracts Estimated to Cost Less Than \$1,000,000

| General Description | Contract Value (\$) ¹ | Procurement/ Recruitment Method | Advertisement Date | No. of Contracts | Comments |
|--|----------------------------------|---------------------------------|--------------------|------------------|---------------------|
| Goods | | | | | |
| Equipment, computers and software for SIMA | 907,500 | NCB | Q2 2014 | 1 | National |
| SIMA software provision and development | 967,500 | NCB | Q2 2014 | 1 | National |
| Vehicles | 100,000 | NCB / Shopping | Q1 2013 | Up to 3 | Total of 3 vehicles |
| Office equipments, supplies and software for PMU | 500,000 | NCB / Shopping | Q1 2013 | Up to 5 | National |

NCB=National Competitive Bidding

B. Project Procurement Plan

1. Indicative List of Packages Required Under the Project

49. The following table provides an indicative list of all procurement (goods, works, and consulting services) over the life of the project. Contracts financed by the Borrower and others should also be indicated, with an appropriate notation in the Comments section.

| General Description | Contract Value (\$) ¹ | Procurement/ Recruitment Method | Advertisement Date | No. of Contracts | Comments |
|---|----------------------------------|---------------------------------|--------------------|------------------|---|
| Consulting Services Individual | | | | | |
| Procurement Advisor | 290,000 | ICS | Q1 2013 | 1 | National 60 pm (cumulative); Responsible to assist PMU and PIUs |
| Higher Education - State Accountant Advisor | 92,000 | ICS | Q1 2013 | 1 | National 24 pm (cumulative), Responsible to assist the EA on curriculum refinement and quality assurance in degree scholarship program. |

| | | | | | | |
|---|------------|----------------|---------|----------|--|----------|
| Project Financial Management System Advisor | 290,000 | ICS | Q1 2013 | 1 | National 60 pm (cumulative), Responsible to assist PMU and PIUs | National |
| Consulting Services Firms | | | | | | |
| Project management | 2,440,000 | QCBS | Q1 2013 | 1 | 840 pm (cumulative) to assist PMU. | National |
| Goods | | | | | | |
| Equipments, computers and software for e-learning in BPKP | 2,374,500 | NCB | Q2 2014 | Up to 3 | | National |
| Equipments, computers and software for SIMA | 907,500 | NCB | Q2 2014 | 1 | | National |
| SIMA software provision and development | 967.500 | NCB | Q2 2014 | 1 | | National |
| Vehicles | 100,000 | NCB / Shopping | Q1 2013 | Up to 3 | Total of 3 vehicles | National |
| Office equipment, supplies and software for PMU | 500,000 | NCB / Shopping | Q1 2013 | Up to 5 | | National |
| Training and Education Services | | | | | | |
| Extension Program Contract with Universities | 4,791,250 | Modified SSS | Q2 2013 | Multiple | The selection of universities as well as the students will be based on transparent criteria agreed with ADB. | National |
| Master's degree Program Contract with Universities | 13,415,500 | Modified SSS | Q2 2013 | Multiple | The selection of universities as well as the students will be based on transparent criteria agreed with ADB. | National |

50.

This information was deemed confidential according to paragraph 97 no. v of ADB's Public Communications Policy (2011)

51. In cases there are limited eligible universities in a particular region while the demand for capacity development is higher, the project with mutual agreement between ADB and the Government may add other universities in the region to open degree program to be financed under the project. These universities will be subject to the project's selection criteria. Where a university meets the selection criteria and there is no other university in the region that meets the selection criteria, the project will select the university using the modified SSS selection method.

Student candidates will be selected in a fair and transparent manner. The consultants engaged in the project will support BPKP to detail the requirements. The Steering Committee will provide necessary guidance to ensure adequate participation as well as quality student candidates. As a basis of the criteria for student candidates selection, the government's standard of testings will be used, i.e., Potential Academic Test (TPA) and Test of English as a Foreign Language (TOEFL). BPKP and ADB will agree on the minimum test results. In addition to these tests, there will be administrative requirements to include, minimum grade point average (GPA) of the student candidates' bachelor's degree, length of service, nomination letter from their respective institutions, as well as maximum age – all these criteria will be agreed between BPKP and ADB.

C. National Competitive Bidding

1. General

52. The procedures to be followed for national competitive bidding shall be those set forth in Perpres No. 54 / 2010, with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the Procurement Guidelines.

2. Registration

- (i) Bidding shall not be restricted to preregistered firms and such registration shall not be a condition for participation in the bidding process.
- (ii) Where registration is required prior to award of contract, bidders: (i) shall be allowed a reasonable time to complete the registration process; and (ii) shall not be denied registration for reasons unrelated to their capacity and resources to successfully perform the contract, which shall be verified through post qualification.

3. Prequalification

53. Post qualification shall be used unless prequalification is explicitly provided for in the loan agreement and/or procurement plan. Irrespective of whether post qualification or prequalification is used, eligible bidders (both national and foreign) shall be allowed to participate.

4. Joint Ventures

54. A bidder declared the lowest evaluated responsive bidder shall not be required to form a joint venture or to sub-contract part of the supply of goods as a condition of award of the contract.

5. Preferences

- (i) No preference of any kind shall be given to domestic bidders or for domestically manufactured goods.
- (ii) Regulations issued by a sector ministry, provincial regulations and local regulations which restrict national competitive bidding procedures to a class of contractors or a class of suppliers shall not be applicable

6. Advertising

- (i) Invitations to bid (or prequalify, where prequalification is used) shall be advertised in at least one widely circulated national daily newspaper or freely accessible, nationally-known website allowing a minimum of twenty-eight (28) days for the preparation and submission of bids and allowing potential bidders to purchase bidding documents up to at least twenty-four (24) hours prior to the deadline for the submission of bids. Bidding of NCB contracts estimated at 500,000 or more for goods and related services or 1,000,000 or more for civil works shall be advertised on ADB's website via the posting of the Procurement Plan.
- (ii) Bidding documents shall be made available by mail, electronically, or in person, to all who are willing to pay the required fee, if any.
- (iii) Bidders domiciled outside the area, district, or province of the unit responsible for procurement shall be allowed to participate regardless of the estimated value of the contract.
- (iv) Foreign bidders from ADB member countries shall not be precluded from bidding.

7. Bid Security

55. Where required, bid security shall be in the form of a bank guarantee from a reputable bank.

8. Bid Opening and Bid Evaluation

- (i) Bids shall be opened in public, immediately after the deadline for submission of bids.
- (ii) Evaluation of bids shall be made in strict adherence to the criteria declared in the bidding documents.
- (iii) Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations.
- (iv) No bid shall be rejected on the basis of a comparison with the owner's estimate or budget ceiling without the ADB's prior concurrence.
- (v) The contract shall be awarded to the technically responsive bid that offers the lowest evaluated price.

9. Rejection of All Bids and Rebidding

- (i) Bids shall not be rejected and new bids solicited without the ADB's prior concurrence.
- (ii) When the number of responsive bids is less than three (3), re-bidding shall not be carried out without the ADB's prior concurrence.

10. ADB Member Country Restrictions

56. Bidders must be nationals of member countries of ADB, and offered goods and services must be produced in and supplied from member countries of ADB.

D. Consultant's Terms of Reference

A. Description of Consulting Requirements

1. Individual Consultant

57. National procurement advisor (60 person months) will be recruited individually to advise PMU in (i) preparing format of yearly procurement plan to be used by PMU, (ii) reviewing the PMU's Procurement Plans, (iii) preparing all necessary procurement processed documents, i.e., draft bidding document, specifications, etc., (iv) monitoring procurement process carried out by the PMU, (v) reviewing the compliance of procurement procedures and the adequacy of procurement documents prior to submission to ADB, (vi) preparing report on a regular basis of the procurement result in the PMU, challenges, and action plans. The consultant will also lead activities to introduce and train PMU staff in project management and procurement skills and develop project monitoring system to ensure effective and efficient achievement of project goals and objectives.

58. Financial management system advisor (60 person months) will be recruited to advise PMU to ensure all financial procedures are met. The consultant will train project accountants in PMU to work with computerized accounting system, prepare project financial statements/reports. He/she will develop a project accounting system including the monthly financial reporting system on project activities and imprest fund disbursement and replenishment procedures. At minimum the advisor will (i) provide technical assistance and set up a cost control and accounting system to record and monitor the project expenditure and provide the information that is accurate and up-to-date; (ii) set up a system for authorizing and approving expenditures, for maintaining books of the accounts and for classifying, recording and reporting transactions; (iii) formulate the budget to ensure the timely infusion of funds and the disbursements in accordance with established procedures and practices; (iv) assist project manager and PMU staff to prepare and analyze budget projection and project cash flow; (v) monitor the utilization of budget allocation by loan category; (vi) assist PMU in analyzing, reconciliation and consolidation of financial reports from BPKP representative offices, for submission to ADB; (vii) prepare financial reports to support project manager and government internal auditor to complete an Audited Financial Statement.

59. A higher education expert (24 person months) with background in government accounting will assist the EA and PMU to review and make refinement as necessary of universities undergraduate and graduate degree curricula intended to participate in the project, to maintain quality assurance of the scholarship program. In addition to the above the consultant will (as needed and requested by EA) (i) assist participating universities to maintain the standards of teaching and learning to comply with the project criteria and national accreditation system; and (ii) assist participating universities to improve teaching practices.

2. Consulting Firms

60. **Management Consultant in the PMU** (total cumulative of 732 person months, 5 years period). The firm will assist the PMU in managing and implementing the degree and non-

degree scholarship program. The consultants will work closely with the PMU to provide support in overall project planning, management, implementation, monitoring and reporting. Their services will include (i) assisting in project planning and programming; (ii) assisting in project management and quality assurance; (iii) developing media and communication materials for outreach of the scholarship program; (iv) developing guidelines and selection criteria of the program; and (v) providing student services.

61. At minimum the firm will consist of a team leader, monitoring and evaluation specialist, training specialist, higher education scholarship management expert, project accountant and administrative assistants.

62. **e-learning Design and Management in BPKP** (total cumulative of 108 person months for over 3 years period). The firm will provide BPKP with ICT consultants that have extensive experience in designing e-learning system for government internal auditors training and certification. Prior to design development, the consultants will assess and identify needs in developing the e-learning system. Based on the assessment the consultant will develop the design and procurement plan for equipment and software that will be purchased under a different contract. The consultant will assist BPKP in management and operation of the e-learning, and train BPKP's staff for future maintenance to ensure sustainability of the e-learning after project completion.

63. A team led by a project leader with expertise in information technology (IT) and experience working with an e-learning system is going to be deployed in BPKP under this consulting contract. The project leader will be assisted by IT specialist and administrative assistant.

64. **Degree Program Contract with Universities – Output 1.** Participating universities will be selected based on the criteria set out in para 13 and further by the EA and agreed by ADB. The university will provide education services for degree program and sign a contract with the EA including selection of candidates, and monitoring and evaluation during the education program.

65. The project will use a standardized cost structures that the university offers to self-financed regular students taking the program which is publicly announced with an issuance of a decree by the university. Depending on each university, the costs may comprise of, but not limited to: a) education operational cost (*biaya operasional pendidikan*) or tuition fee; b) student facility cost (*dana kesejahteraan dan fasilitas mahasiswa*); c) entrance fee (*uang pangkal*); d) admission fee; e) development fee (*dana pengembangan*); f) supplementary education fee (*dana pelengkap pendidikan*). Additional costs to cover the student's cost of living will be added in the cost structures which will be paid monthly to the student through the university. Housing allowance may be eligible if the student has to move from his/her home base due to unavailability of qualified university nearby his/her residency. ADB's approval for the cost structures and proposed amount is required prior to award a contract to the university.

66. To achieve the total target of 2,500 graduates over the project lifetime, the selected university must undertake at least two batches in one academic year consisting of at least 25 students per batch.

67. **Non-degree Training.** The non-degree training programs consisting of (i) JFA certification for government internal auditors; (ii) technical training for government internal

auditors and public finance officers; (iii) non-JFA domestic certification for internal auditors will be conducted by the education, training and supervision office at BPKP.

VII. Safeguards

68. The project is classified as having no involuntary resettlement impacts (Category C), likely to have minimal or no adverse environmental impacts (category C) and not expected to have any impact on Indigenous People (Category C), and therefore development safeguard plan is not necessary.

VIII. Gender and social dimensions

69. The project is categorized as SGB (Some Gender Benefits) due to unavailability of sex-aggregated baseline data at the regional level. Therefore a Gender Action Plan and specific gender indicators are not necessary. The project, however, will ensure that at least 30% of participants under outputs 1 and 2 will be represented by women. The project will include sex-disaggregated data in the monitoring and evaluation system to ensure the women representation target is achieved at the project completion.

70. The project is expected to reduce poverty in a sustainable way by improving the public sector audit and public procurement functions, which is economic, efficient, effective, and in accordance with good institutional practice and standards. The EA will measure the project's social and economic benefits. Initial activities shall include a benchmark survey to be undertaken during the first year of the project. The PPMS shall encompass the monitoring of social and economic benefits which can be continued beyond project implementation.

IX. Performance Monitoring, Evaluation, Reporting and Communication

A. Project Design and Monitoring Framework

DESIGN AND MONITORING FRAMEWORK

| Design Summary | Performance Targets and Indicators | Data Sources and Reporting Mechanisms | Assumptions and Risks |
|--|--|---|--|
| <p>Impact</p> <p>Strengthened accountability of public institutions able to deliver high-quality public services</p> | <p>Five years after project completion:</p> <p>Integrity index of central and regional public institutions increased from 6 in 2009, to 8</p> <p>Government internal supervisory official governance improved from 20% nationwide in 2010 to 60%^a</p> | <p>KPK</p> <p>BPKP</p> | <p>Assumptions</p> <p>Full commitment of national and regional governments to implement relevant policies and actions related to implementation of the GICS</p> <p>Risks</p> <p>Delay in enactments of relevant implementing regulations for PP No. 60/2008 related to internal audit (implementation of the GICS)</p> |
| <p>Outcome</p> <p>Improved capacity of government internal auditors and public finance officers in budget planning, reporting, internal audit, and asset management</p> | <p>By 2017:</p> <p>Percentage of BPK's "unqualified" audit opinion increased by 100% at the central level from 42.17% in 2009, and by 60% in the regions from 2.73% in 2009</p> <p>100% timely submission of financial reports to BPK</p> <p>Internal audits are undertaken in accordance with professional standards and using a modern risk-based audit methodology</p> | <p>BPK audit reports</p> <p>BPK audit reports</p> <p>BPK audit reports</p> | <p>Assumptions</p> <p>Strong commitment from K/L/Pemda</p> <p>Risks</p> <p>Trained officers assigned in nonrelevant position</p> |
| <p>Outputs</p> <p>1. Capacity development of government internal auditors and public finance officers</p> | <p>By 2017:</p> <p>2,500 government internal auditors and finance officers graduated from the degree program in government accounting and state finance (baseline 2011: 478 from local governments, and 364 from central government)</p> <p>9,800 government internal auditors and public finance officers received certification and training with 80% of the central government officials certified and 70% of local government officials certified on JFA; training and certification include JFA, non-JFA, CIA, CFE, CPA</p> <p>14 leading regional universities signed memorandums of understanding with BPKP and regional governments to establish centers of excellence</p> | <p>BPKP project progress report</p> <p>BPKP project progress report</p> <p>BPKP project progress report</p> | <p>Assumptions</p> <p>Appropriate degree courses designed and adopted effectively</p> <p>BPKP training facilities are available to be utilized for the training program</p> <p>Prospective trainers for training of trainers with PFM and government accounting skills and knowledge are available</p> <p>Risks</p> <p>Low interest from candidates due to low stipend and work pressure</p> <p>Candidates who fulfilled the selection requirements are inadequate</p> |

| Design Summary | Performance Targets and Indicators | Data Sources and Reporting Mechanisms | Assumptions and Risks |
|---|--|---|--|
| 2. Development of e-learning system and modules | <p>By 2015:</p> <p>New adult learning methodology for training of trainers developed and implemented</p> <p>200 trainers able to deliver using adult learning methodology</p> <p>Gender-disaggregated target: 30% women.</p> <p>e-learning system encompassing training to support JFA certification and other relevant areas installed, and operating under BPKP supervision by 2016</p> | <p>BPKP project progress report</p> <p>BPKP project progress report</p> <p>BPKP project progress report</p> <p>BPKP project reports</p> | <p>Trainers with adult learning methodology for training of trainers are not available</p> <p>Assumptions</p> <p>Basic infrastructure is available to install (in BPKP) and to access (in the regions) the e-learning system</p> <p>Risks</p> <p>Low utilization rate of e-learning system could jeopardize the investment</p> |
| 3. Institutional strengthening through system improvement | <p>The SIMA entailing four perspectives of accountability developed, installed, and operating in BPKP accessible by relevant working units by 2016</p> <p>By 2017:</p> <p>Two program-based policies in specific cross-sector or thematic programs evaluated</p> <p>Recommendation made to the government to improve cross-sector program policy</p> | <p>BPKP project reports</p> | <p>Assumptions</p> <p>BPKP staff receptive to SIMA implementation and able to adjust to SOP to accommodate the SIMA</p> <p>Access to other government agency data and/or documents will be granted by the respective line ministries or local government</p> <p>Risks</p> <p>Low utilization rate of the SIMA</p> <p>Methodology to evaluate yet to be developed</p> |

| Activities with Milestones | Inputs | | | | | | | | | | |
|--|--|---------------------|---------------------|--------------------------|------|---|------|---|------|---|------|
| <p>Output 1: Improve the capacity of government internal auditors and public finance officers through better incentives mechanism</p> <p>1.1 Degree program for 2,500 government's internal auditors and public finance officers</p> <p>1.1.1 Review and update curricula and/or modules on government accounting (Q3 2012)</p> <p>1.1.2 Develop selection criteria and mechanism for students and universities (Q3 2012)</p> <p>1.1.3 Develop cost estimates standard for the university under the government program (Q3 2012)</p> <p>1.1.4 Consult on and draft memorandums of understanding with universities (Q4 2012)</p> <p>1.1.5 Enroll first group of students (Q1 2013)</p> <p>1.1.6 Meet degree enrollment milestones (2013: 500; 2014: 1,000; 2015: 1,000)</p> <p>1.2 Training and certification of 9,800 government internal</p> | <p>Loan</p> <p>ADB: \$57.75 million</p> | | | | | | | | | | |
| | <table border="1"> <thead> <tr> <th>Item</th> <th>Amount (\$ million)</th> </tr> </thead> <tbody> <tr> <td>Research and development</td> <td>2.25</td> </tr> <tr> <td>Institutional development and strengthening</td> <td>0.50</td> </tr> <tr> <td>Equipment, vehicles, and furniture (purchase and maintenance)</td> <td>4.85</td> </tr> <tr> <td>Materials (teaching and learning materials)</td> <td>2.13</td> </tr> </tbody> </table> | Item | Amount (\$ million) | Research and development | 2.25 | Institutional development and strengthening | 0.50 | Equipment, vehicles, and furniture (purchase and maintenance) | 4.85 | Materials (teaching and learning materials) | 2.13 |
| | Item | Amount (\$ million) | | | | | | | | | |
| Research and development | 2.25 | | | | | | | | | | |
| Institutional development and strengthening | 0.50 | | | | | | | | | | |
| Equipment, vehicles, and furniture (purchase and maintenance) | 4.85 | | | | | | | | | | |
| Materials (teaching and learning materials) | 2.13 | | | | | | | | | | |
| | | | | | | | | | | | |

| Activities with Milestones | Inputs |
|--|---|
| auditors and public finance officers | Consulting services 4.18 |
| 1.2.1 Review and update training and certification modules in coordination with MOF and MOHA (Q3 2012) | Training and fellowship 41.40 |
| 1.2.2 Develop selection criteria for participants, implementation mechanisms, and reporting requirements (Q3 2012) | Project Management Consultant 2.44 |
| 1.2.3 Attain training and certification program enrollment milestones (2013: 1,000; 2014: 2,500; 2015: 2,500; 2016: 2000; 2017: 1,800) | Government: \$2.78 million |
| 1.2.4 Develop technical guidance as basis for GCIS implementation through a series of workshops (Q2 2013) | Item Amount (\$ million) |
| 1.2.5 Review and update modules and guidelines on Local Government Financial Report Development (2014) | Salaries (government staff involved in project management) 0.40 |
| 1.3 Training of trainers | Accommodation and duty travel for supervision and monitoring 0.40 |
| 1.3.1 Select prospective trainers to be participants (2013) | Equipment operation and maintenance 0.40 |
| 1.3.2 Conduct training of trainers in and out of the country (2013) | Taxes and duties 0.15 |
| 1.3.3 Develop and implement modules of adult learning methodology (2013) | Contingencies 0.43 |
| Output 2: Operationalize the e-learning system and modules for government internal auditors training and certification | Financing Charges During Implementation 1.00 |
| 2. E-learning operating | |
| 2.1 Conduct needs assessment and feasibility study of e-learning system (Q1 2013) | |
| 2.2 Develop the system and modules for internal auditor and finance officer to be uploaded onto the system (Q3 2013) | |
| 2.3 Install, test, pilot, and roll out the system (Q4 2014) | |
| Output 3: Provide institutional strengthening through system improvement | |
| 3.1 Development of the SIMA | |
| 3.1.1 Assess existing systems within BPKP working units and conduct a feasibility study (Q1 2013) | |
| 3.1.2 Recruit information technology consultant and/or system developer (Q2 2013) | |
| 3.1.3 Develop the system (Q4 2013) | |
| 3.1.4 Install, test, pilot, and roll out the system (Q1 2015) | |
| 3.2 Development of a cross-sector evaluation system | |
| 3.2.1 Select thematic or cross-sector program-based policy (2013) | |
| 3.2.2 Undergo internal audit and evaluation on cross-sector program-based policy (2014–2016) | |
| 3.2.3 Draft and submit a recommendation to the President for improvement (2016) | |

ADB = Asian Development Bank, BPKP = Central Government Internal Auditor, CFE = Certified Fraud Examiner, CIA = Certified Internal Auditor, CPA = Certified Public Accountant, GICS = Government Internal Control System, K/L = Line Ministry, KPK = Komisi Pemberantasan Korupsi, JFA Jabatan Fungsional Auditor, MOF = Ministry of Finance, MOHA = Ministry of Home Affairs, Pemda = Pemerintah Daerah (local government), PFM = Public Financial Management, SIMA = Sistem Informasi Manajemen Akuntabilitas (Management information system on accountability), SOP = standard operating procedures

^a 2010. RPJMN. Action Plan Matrix for each Ministry/Agency. The target is intended for 2014. The 2017 target will be determined by BPKP later.

B. Monitoring

71. **Project performance monitoring.** To assess the project impact and its effectiveness, PMU will develop a PPMS (project performance monitoring system). PMU will hire a monitoring and evaluation officer who will be responsible for developing a monitoring and evaluation mechanism, conducting baseline survey, maintaining the system and collecting and analyzing data in cooperation with the project implementing agencies. Key system indicators will be used in the PMU's quarterly progress reports. The monitoring and evaluation system will endeavor to include participation by scholarship programs beneficiaries. An indication of the types the outcomes for each component can be seen in the DMF.

72. The PMU, with assistance from the consultant, will monitor and evaluate the benefits of the project under the PPMS. The PMU shall: (a) examine and assess the project technical and disbursement performance; (b) evaluate the delivery of the planned capacity building, facilities, activities, and programs; (c) assess the achievement of the project objectives; and (d) measure the project's social and economic benefits. Initial activities shall include a benchmark survey to be undertaken during the first year of the project. The PPMS shall be integrated into the management information system of the qualified regional governments, so that the monitoring of social and economic benefits can continue beyond project implementation.

73. **Compliance monitoring:** The loan agreement specifies the following covenants: legal, financial, safeguards, and other covenants. These covenants are listed below:

- (i) Loan proceeds and sufficient corresponding counterpart contributions, including all government allocations for implementation, staffing and O&M of project facilities are to be allocated and readily available, with the submission of budgetary allocation requests to be made in a timely manner throughout the project implementation period by earmarking the funds.
- (ii) No withdrawals will be made from the loan account until the government will have established the EA and PMU. The government will ensure adequate budgetary allocations and timely release of the required counterpart funds. The smooth flow of funds will occur in accordance with the flow of funds mechanism agreed upon by the government and ADB.
- (iii) The selection of students and universities will follow the policy guidelines that will be established by the project SC.
- (iv) Within 6 months following the loan effective date, PMU will create a project website to disclose information about relevant matters on the project, including information on the scholarship programs.
- (v) Keep ADB informed of policy discussions with other stakeholders about measures that may impact the effective implementation of the project.
- (vi) The borrower shall enable ADB's representatives to inspect the project, the goods financed out of the proceeds of the loan, and any relevant records and documents, to comply with the loan covenants.

C. Safeguards monitoring:

74. **Environment.** The project will not finance any civil works and is classified as category C. There should be no adverse environment impacts coming out from the project. This is a capacity building project composing activities relevant to a professional development program for Indonesian civil servants in the area of state audit and PFM.

75. **Resettlement and Indigenous People.** No social safeguards are triggered by the project as it does not involve land acquisition, involuntary resettlement, or target communities of indigenous people. The project is classified as category C for having no impacts on involuntary resettlement and indigenous people.

76. **Gender and social dimensions monitoring:** Project is categorized under SGB (Some Gender Benefits) as it is unlikely to have direct impact on women. Although GAP is not required, the project will ensure that a target of 30% of women will be participated in the outputs 1, 2 and 3. The project will collect sex-disaggregated data and include in the monitoring and evaluation system to ensure the target is achieved at the project completion. Monitoring of gender target is assigned to an M&E Specialist.

D. Evaluation

77. Following loan signing, a project inception mission will be fielded, to confirm the working relationship between ADB, the EA and PMU staff involved in the implementation of the project. Progress under the project will be subject to a formal review every 6 months by ADB, following loan effectiveness to enable adjustment of project design and implementation arrangements, where required. The review will address policy, institutional, administrative, organizational, technical, environmental, social, economic, financial, and other relevant factors that may have an impact on project performance and its continuing viability. A comprehensive midterm review is tentatively scheduled for 2015. Within 6 months of physical completion of the project, the EA will submit a project completion report to ADB.⁷

E. Reporting

78. BPKP as the project EA will provide ADB with (i) quarterly progress reports in a format consistent with ADB's project performance reporting system; (ii) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions; (c) updated procurement plan and (d) updated implementation plan for next 12 months; and (iii) a project completion report within 6 months of physical completion of the project. To ensure projects continue to be both viable and sustainable, project accounts and the EA AFSs, together with the associated auditor's report, should be adequately reviewed.

F. Stakeholder Communication Strategy

79. The project will be implemented over 5 years with BPKP as the EA and provide support for a PMU in BPKP. The PMU will coordinate with respective BPKP Representative Offices, local governments Head of Secretary (Sekretaris Daerah), and Regional Human Resource Agency (BKD) to implement the activities.

80. The EA will establish an interagency SC made up of senior staff from the EA, and relevant directors within DGs in MOF and MOHA to oversee component implementation and to facilitate interagency coordination. The SC shall meet at least quarterly in the first two years of project implementation and semi-annually thereafter, to monitor, guide and oversee implementation of the project, or on an ad hoc basis where deemed necessary by BPKP or the

⁷ Project completion report format is available at: <http://www.adb.org/Consulting/consultants-toolkits/PCR-Public-Sector-Landscape.rar>

SC Chairperson, to settle project implementation issues requiring high-level decisions. The PMU project director shall act as secretary to the SC.

X. Anticorruption Policy

81. The government will cause the project EA to (a) undertake necessary measures to create and sustain a corruption-free environment for activities under the project; (b) institute, maintain and ensure compliance with internal procedures and controls for activities under the project, following international best practice standards for the purpose of preventing corruption, money laundering activities, and the financing of terrorists, and shall require all relevant ministries and agencies to refrain from engaging in any such activities; (c) where appropriate for the project, comply with requirements of ADB's Anticorruption Policy (1998, as amended to date); and (d) where appropriate, ensure that relevant provisions of ADB's Anticorruption Policy are included in all bidding documents for the project.

82. The government acknowledges that in accordance with ADB's *Anticorruption Policy and Integrity Principles and Guidelines*, ADB will assess allegations of any alleged corrupt, fraudulent, collusive and coercive practices relating to the project, and where appropriate, recommend administrative action for ADB to take to address such allegations. The government will facilitate ADB's request to conduct any such investigation and will undertake the investigation with ADB, in accordance with procedures to be agreed between the government and ADB.

XI. Accountability Mechanism

83. People who are, or may in the future be, adversely affected by the project may address complaints to ADB, or request the review of ADB's compliance under the Accountability Mechanism.⁸

XII. Record of PAM changes

84. The PAM is a living document subject to change after ADB Board approval of the project. It is concise yet informative, providing information related to project implementation along with the necessary procedures for the EA and PMU to effectively implement and monitor the project.

85. All revisions and updates of the PAM during course of implementation should be retained in this Section to provide a chronological history of changes to implemented arrangements recorded in the PAM.

⁸ For further information see: <http://compliance.adb.org/>.