

**Indonesia**  
**Strengthening Intergovernmental Transfers and Subnational Finance**  
**for Service Delivery in Indonesia (SINERGIS)**  
**(P176954)**

**Fiduciary Systems Assessment**

**September 2023**

## Table of Contents

<b>Executive Summary</b> .....	1
<b>1. Review of the Fiduciary Systems for the Program</b> .....	5
<b>A. Planning and Budgeting</b> .....	6
i. Planning and budgeting.....	6
<b>B. Budget Execution, Accounting, and Reporting</b> .....	6
i. Accounting and financial reporting .....	7
ii. Treasury management and funds flow.....	8
iii. Procurement processes and contract administration .....	8
<b>C. Internal Controls</b> .....	10
i. Internal controls .....	10
ii. Internal audit .....	11
iii. Program governance and anticorruption arrangements .....	12
<b>D. Auditing</b> .....	16
i. External audit .....	16
ii. Program audit arrangements .....	17
<b>2. Program Systems and Capacity Improvements</b> .....	18
<b>3. Implementation Support</b> .....	20
Annex 1. Draft Anti-Corruption Protocol .....	21
Annex 2. Implementing Agencies' Procurement Profiles .....	23
Annex 3. Program Financial Statement Format.....	29

## Abbreviations and Acronyms

AAIPI	Asosiasi Auditor Intern Pemerintah Indonesia (Indonesia Government Internal Auditors Association)
ACGs	Anti-Corruption Guidelines (Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing)
APIP	Aparat Pengawas Intern Pemerintah (internal auditor)
Bappenas	Badan Perencanaan Pembangunan Nasional (National Development Planning Agency)
BPK	Badan Pemeriksa Keuangan (Supreme Audit Institution)
BPKP	Badan Pengawasan Keuangan dan Pembangunan (Finance and Development Monitoring Agency)
BUN	Bendahara Umum Negara (State Treasurer)
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DAK	Dana Alokasi Khusus (Specific Allocation Fund)
DAK Fisik	Dana Alokasi Khusus Fisik (Capital Specific Allocation Fund)
DAU	Dana Alokasi Umum (General Allocation Fund)
DGFB	Directorate General of Fiscal Balance
DIPA	Daftar Isian Pelaksanaan Anggaran (Budget Implementation Document)
DLI	Disbursement-Linked Indicator
EA	executing agency
F&C	fraud and corruption
FMIS	financial management information system
FSA	Fiduciary Systems Assessment
FY	fiscal year
GICS	Government Internal Control System
GoI	Government of Indonesia
IA	implementing agency
IA-CM	Internal Audit Capability Model
IG	Inspectorate General
Juknis	Petunjuk Teknis (technical guidelines)
Jukop	Petunjuk Operasional (operational guidelines)
KPK	Komisi Pemberantasan Korupsi (Anti-Corruption Commission)
KRISNA	Kolaborasi Perencanaan dan Informasi Kinerja Anggaran (Planning Collaboration and Budget Performance Information)
LAPOR!	Layanan Aspirasi dan Pengaduan Online Rakyat (National Public Services Complaints Management System)
LKPP	Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah (National Public Procurement Agency)
M&E	monitoring and evaluation
MoF	Ministry of Finance
MoH	Ministry of Health
MoHA	Ministry of Home Affairs
MPWH	Ministry of Public Works and Housing
OM-SPAN	Online Monitoring–Sistem Perbendaharaan dan Anggaran Negara (Monitoring Application for Central Government FMIS)

PAP	Program Action Plan
Perpres	Peraturan Presiden (Presidential Regulation)
PEFA	Public Expenditure and Financial Accountability
PFM	public financial management
PFM MDTF	Public Financial Management Multi-Donor Trust Fund
PforR	Program-for-Results
Pokja	Kelompok Kerja (Working Group)
PP	Peraturan Pemerintah (Government Regulation)
PPID	Pejabat Pengelola Informasi dan Dokumentasi (public information officer)
PPK	Pejabat Pembuat Komitmen (commitment making officer)
SIKD	Sistem Informasi Keuangan Daerah (regional financial information system)
SINERGIS	Strengthening Intergovernmental Transfers and Subnational Finance for Service Delivery in Indonesia
SIPD	Sistem Informasi Pemerintahan Daerah (subnational government financial management information system)
SIRUP	Sistem Informasi Rencana Umum Pengadaan (information system for procurement planning)
SNG	subnational government
SPAN	Sistem Perbendaharaan dan Anggaran Negara (central government financial management information system)
SPKN	Standard Pemeriksaan Keuangan Negara (National Financial Audit Standards)
SPSE	Sistem Pengadaan Secara Elektronik (government e-procurement system)
TSA	Treasury Single Account
UKPBJ	Unit Kerja Pengadaan Barang/Jasa (procurement service working units)
UU HKPD	Undang-Undang Hubungan Keuangan antara Pemerintah Pusat dan Daerah (Law No.1 of 2022 on Intergovernmental Fiscal Relations)

## Executive Summary

- 1. The objective of the Indonesia Strengthening Intergovernmental Transfers and Subnational Finance for Service Delivery in Indonesia (SINERGIS) Program** (hereafter, the Program) is to improve the equity, efficiency, and accountability of subnational spending financed by intergovernmental transfers. The Program-for-Results (PforR) will support the implementation of Law No. 1 of 2022 on Intergovernmental Fiscal Relations (Undang-Undang Hubungan Keuangan antara Pemerintah Pusat dan Pemerintah Daerah, UU HKPD) and focus on strengthening key aspects of the intergovernmental transfer and subnational public financial management (PFM) systems by (i) allocating the General Allocation Fund (Dana Alokasi Umum, DAU) more equitably and efficiently, (ii) strengthening the allocative efficiency and performance of the Capital Specific Allocation Fund (Dana Alokasi Khusus, DAK Fisik), and (iii) strengthening subnational monitoring and evaluation (M&E) systems and PFM for better decision-making and accountability.
- 2. This Fiduciary Systems Assessment (FSA) has been carried out in accordance with World Bank policy and specifically the Bank’s Directive on Program-for-Results Financing, and concludes that the Program’s fiduciary systems are adequate and provide overall reasonable assurance that the PforR financing will be used for intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability.**<sup>1</sup> The FSA has also identified potential risks and areas for further strengthening; mitigation measures are listed in the Program Action Plan.
- 3. Data and information gathering for the FSA.** The FSA findings and conclusions are based on information derived from: (i) the budget documents (Daftar Isian Pelaksanaan Anggaran, DIPA) of the implementing agencies (IAs) for FY2023; (ii) the annual audit reports of the IAs and selected subnational governments (SNGs) for FY2019–21<sup>2</sup>; (iii) publicly available procurement data from the IAs’ websites, the Government e-Procurement System (Sistem Pengadaan Secara Elektronik, SPSE), and M&E systems; (iv) a review of the DAK Fisik budget and realization for FY2020–22 in the regional financial information system (Sistem Informasi Keuangan Daerah, SIKD); (v) meetings with relevant directorates of the IAs that will be involved in the Program’s implementation; (vi) field visits to districts focused on DAK Fisik implementation; and (v) a review of procurement data on DAK Fisik implementation in a sample of districts. The Bank also collected publicly available procurement data from the IAs’ e-procurement systems, as well as the website of the National Public Procurement Agency (Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah, LKPP) to assess the procurement profile and performance.
- 4. Program boundaries. The Government of Indonesia’s Program for Intergovernmental Finance and Subnational Public Financial Management Reforms is valued at about US\$497.9 billion. Of this, Bank-supported implementation of the Program over the period 2024–29 is valued at about US\$8.02 billion, of which the Bank’s PforR financing is EUR 367.9 million (equivalent to US\$400 million)** (about 5 percent of the government program) (Table 1). The Program is allocated across five IAs, namely the MoF, MoHA, Ministry of Health (MoH), Ministry of Public Works and Housing (MPWH), and Bappenas. Program expenditures are primarily for the design and implementation of relevant policies and systems’ development. By far the largest portion of the Program expenditures—about US\$7.97 billion (over 99 percent)—is allocated for DAK Fisik in the selected sectors of roads, drinking water, and health. For DAK Fisik, the Program is focused on improving the central government systems

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<sup>1</sup> Section III.8 of the Bank Policy: Program-for-Results Financing.

<sup>2</sup> Ministry-level detailed audit reports for FY2022 will only be available for access by September 30, 2023, after BPK submits its report to the Parliament.

and processes for the M&E of transfers' allocation and performance across beneficiary SNGs. The FSA reviewed fiduciary systems specific to the DAK Fisik, which centers on transfers out of the central government.

**Table 1. Program Boundaries**

No		Amount (US\$, millions)	%
	<b>Line ministry budget</b>	<b>58.1</b>	<b>0.72</b>
1	Ministry of Finance (DG Fiscal Balance)	16.3	0.20
2	Ministry of Home Affairs (DG Regional Finance, DG Regional Development, and Center for Data and Information Systems)	22.0	0.27
3	Ministry of Health (Planning Bureau)	9.4	0.12
4	Ministry of Public Works and Housing (Center for Regional Infrastructure Facilitation)	6.7	0.08
5	Ministry of National Development Planning (Bappenas)	3.7	0.05
	<b>DAK Fisik for sectors under the Program</b>	<b>7,969.4</b>	<b>99.28</b>
6	DAK Fisik, roads	4,710.6	58.68
7	DAK Fisik, drinking water	766.2	9.54
8	DAK Fisik, health	2,492.6	31.05
	<b>Total</b>	<b>8,027.5</b>	<b>100.00</b>

Note: DAK Fisik = Capital Specific Allocation Fund; DG = Directorate General.

5. **Procurement spending under the PforR Program** is expected to mainly comprise: (i) small-scale civil works/construction of roads, drinking water, and health infrastructure at the district level through DAK Fisik<sup>3</sup> (Disbursement-Linked Indicator [DLI] 4); and (ii) goods and consulting services at the central level for information systems' development and integration, the Project Management Office, and implementation support/helpdesk operations (DLI 5 for SIKD Next Generation platform in the Directorate General Fiscal Balance [DGFB], MoF; and DLI 6 for the SNG financial management information system [Sistem Informasi Pemerintahan Daerah, SIPD] in MoHA). Procurement spending by the five IAs at the central level under the Program is estimated to not exceed 6 percent of total Bank Program financing, while for the DAK Fisik component, the procurable expenditure is about 75% of total Program expenditures.
6. **Procurement exclusions. No contract under the Program is expected to fall under the Operations Procurement Review Committee's review threshold.** Additional details on the procurement profile under the Program are provided below in this FSA. Procurement under the Program will be carried out at the central level under the responsibility of MoF, MoHA, and Bappenas, while the other two IAs (MPWH and MoH) confirm that they do not expect any procurable expenditures, as most of the activities will be carried out through *swakelola* (self-management). The MoF, MoHA, Bappenas, and MoH have experience in handling PforR funded by the Bank, while the MPWH has no previous experience in implementing PforR operations. Procurement activities under the Program will also include activities financed by DAK Fisik in SNGs, which mainly center on the procurement of civil works. Procurement under the Program will be governed by government procurement regulations, technical guidelines, and circular letters.
7. **The overall fiduciary risk after mitigation is rated Substantial.** This reflects the Program's scope, largely comprised of capital grants (specifically DAK Fisik, which finances capital investment projects at the district level). Given that the districts involved are dispersed across the nation, the systematic

<sup>3</sup> DAK Fisik-financed projects are small, on average, ranging from a median size of about US\$23,000 for wastewater management systems to about US\$320,000 for roads.

supervision and monitoring of fiduciary aspects will be challenging. At the central level, the fact that there are multiple IAs requires a high level of coordination to achieve the intended results.

8. **Key fiduciary risks.** The key fiduciary risks under the Program and the proposed mitigation measures are presented in table 2.

**Table 2. Program Risks and Mitigation Measures**

Risks	Mitigation Measures
(i) Adequacy of budget allocation (e.g., SIKD Next Generation; and SIPD enhancements, operations, and support)	a) All implementing agencies must obtain an adequate budget from the MoF to implement the Program, especially for achieving Disbursement-Linked Indicators.
(ii) Experience and capacity of the executing agency to coordinate the PforR implementation	b) The DGFB-MoF to hire consultants to support the PforR Secretariat’s coordination and monitoring and evaluation functions.
(iii) Weak internal control of DAK Fisik implementation, especially due to weak capacity in conducting physical verification of DAK Fisik outputs	c) The DGFB-MoF to commission an independent annual verification of DAK Fisik, which will verify physical and other outputs of DAK Fisik implementation (DLI 4).
	d) The DGFB-MoF to coordinate with MPWH and MoH to provide capacity building for local inspectorates to conduct sufficient internal audit of DAK Fisik internal control.
	e) The DGFB-MoF to coordinate the development of an integrated DAK Fisik reporting system, which includes physical progress, and can be accessed by all technical ministries. This reporting system will be supported with regulations and its compliance is a condition for DAK Fisik disbursement.
(iv) Inadequate verification by implementing agencies and districts of the Bank’s list of debarred/temporarily suspended firms before awarding contracts	f) All implementing agencies to require their Procurement Service Working Units (UKPBJs)/procurement officers and commitment making officers (PPK) to check the Bank’s debarment and temporary suspension lists before awarding contracts and to record the verification in the bid evaluation report, to ensure that no contract under the Program is awarded to a firm or individual that is debarred and/or temporarily suspended by the World Bank.
	g) The DGFB-MoF to issue guidance to districts under the Program requiring them to check the Bank’s debarment and temporary suspension lists before awarding contracts financed by DAK Fisik under the Program and to record the verification in the bid evaluation report. BPKP to verify the compliance of DAK Fisik–financed contracts as part of the independent verification of DAK Fisik results for a representative sample of districts.
(v) Risk that information on procurement profiles and contract data under the Program is not collected	h) All implementing agencies, through the executing agency, to regularly provide the Bank information on procurement profiles and contracts during Program implementation.

Risks	Mitigation Measures
	i) The DGFB-MoF to consolidate information on the procurement profiles and contracts for DAK Fisik under the Program.
(vi) Risk that unattended complaints under the Program and indications of fraud and corruption (F&C) in connection with the Program will not be detected and reported in a timely manner	j) All implementing agencies, through the executing agency, to inform the Bank promptly of all credible and material allegations or other indications of F&C in connection with the Program that come to its attention, together with investigative and other actions that it proposes to take. The executing agency will consolidate and provide semiannual reports for all the implementing agencies to the Bank.
	k) The DGFB-MoF to require districts to report on all credible and material complaints, allegations, or other indications of F&C in connection with DAK Fisik implementation under the Program (as part of the regular DAK reporting).



## 1. Review of the Fiduciary Systems for the Program

Overview of the country's public financial management (PFM) cycle:

9. **The PFM systems in Indonesia have shown significant improvements over time.** The 2017 (latest) Public Expenditure and Financial Accountability (PEFA) report concludes that Indonesia has established a strong legal and regulatory framework that aligns with most international standards on PFM. There are three laws which form the basis for the PFM framework, namely: (i) Law No. 17/2003 on State Finance; (ii) Law No. 1/2004 on State Treasury; and (iii) Law No. 15/2004 on State Financial Management and Accountability and Law No. 15/2006 on Supreme Audit Institution (Badan Pemeriksa Keuangan, BPK). There are several implementing regulations through ministerial decrees of the Ministry of Finance (MoF), BPK, and others. Indonesia's fiscal management institutions have enabled prudent fiscal management and control of budget execution. The rollout of SPAN (Sistem Perbendaharaan dan Anggaran Negara) as the national financial management information system (FMIS), together with the implementation of strict cash consolidation management rules, a well-defined treasury management system at the central government level, consistency between the accounting and budgetary classifications, and the convergence of national accounting with international accounting standards for the public sector, have created a solid platform for automation and integration of PFM processes for the improved quality of financial reporting. Following the implementation of SPAN, the Directorate General (DG) of the Treasury of the MoF is currently rolling out SAKTI (Sistem Aplikasi Tingkat Instansi—the Ministry's financial application system, which feeds into SPAN) to connect 24,000 spending units in the country with SPAN. The DG Treasury also plans to integrate SPAN with other digital databases and applications, such as those for public procurement, human resources, tax compliance, as well as the subnational budget, in order to enhance the budget execution efficiency and control. On oversight, the Government of Indonesia (GoI) has implemented the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework for its internal control, and 422 out of 624 of its internal audit units have achieved Level 3 of the Internal Audit Capability Model (IA-CM), which is considered as implementing a world-class internal audit practice. Related efforts are still ongoing, with the target of 85 percent units achieving Level 3 of IA-CM. The 2019 peer review of the BPK indicated overall high-quality financial audits. However, there is more room for improvement in the effectiveness of the expenditure management institutions and the performance orientation and monitoring of the PFM systems. The Bank, through financing from the ongoing Public Financial Management Multi-Donor Trust Fund (PFM-MDTF) Phase III program, has provided allocations and will continuously support improvement of PFM in Indonesia. The PFM-MDTF program is also supporting continuous improvements in the internal and external audit practices in Indonesia.
10. There are five implementing agencies (IAs) in the Strengthening Intergovernmental Transfers and Subnational Finance for Service Delivery in Indonesia (SINERGIS) Program boundaries: the MoF, Ministry of Home Affairs (MoHA), Ministry of Health (MoH), Ministry of Public Works and Housing (MPWH), and Ministry of National Development Planning (Badan Perencanaan Pembangunan Nasional, Bappenas). The MoF's Directorate General Fiscal Balance (DGFB) will serve as the Executing Agency (EA) for the Program to coordinate program implementation and monitoring across the IAs. All IAs will follow the national PFM system and mechanism. The Finance and Development Monitoring Agency (Badan Pengawasan Keuangan dan Pembangunan, BPKP) has been identified as the independent verification agent for the Program.

## A. Planning and Budgeting

### i. Planning and budgeting

11. **The planning and budgeting processes of the Capital Specific Allocation Fund (Dana Alokasi Khusus Fisik, DAK Fisik) are adequate.** The latest PEFA (in 2017) indicated that the GoI has continued to make progress in improving its PFM, with the support of the World Bank and several other development partners. DAK Fisik technical planning starts a year before its implementation through the preparation of DAK financing proposals by subnational governments (SNGs). Proposals are submitted through an online planning collaboration and budget performance information system called KRISNA-DAK (Kolaborasi Perencanaan dan Informasi Kinerja Anggaran), which is managed by Bappenas. The proposals are then reviewed by the technical ministries (MPWH and MoH) to ensure that the proposed activities are in line with the central government’s development priorities. Planning and discussion of DAK Fisik allocation also involves Bappenas, which coordinates all government planning, including DAK Fisik allocation. When a proposal is rejected, the SNG is given a chance to do a one-time modification/revision of its proposal. The DGFB, representing the MoF, looks at past DAK financial performance in deciding DAK Fisik allocation. Proposals are then reviewed by parliamentary representatives, who usually argue on behalf of the SNGs’ needs. Based on the approved allocations, SNGs prepare detailed activities, locations, and budgets in their respective budget documents (Dokumen Pelaksanaan Anggaran, DPA). At the national level, the approved DAK Fisik allocation is included in the MoF’s budget for transfer to the SNGs.
12. **Based on a review of DAK implementation in 2020–22, it is evident the available budget is adequate.** The execution rate is around 88–96 percent on average—except for health, which realized only 77 percent in 2022 due to the MoH’s limited capacity in implementing the significant increase (221 percent) of DAK Fisik allocations to health that year (presented in table 3 below). The main risk of the Program related to planning and budgeting is ensuring that targeted SNGs receive a sufficient budget allocation for DAK Fisik implementation. The SINERGIS Program will address this issue through the Disbursement-Linked Indicator (DLI) 3 under Results Area 2, which is intended to improve the predictability of DAK Fisik during the planning and budgeting process.

**Table 3. DAK Fisik Budget Allocation and Absorption by Sector**

DAK	FY 2020 (in IDR)			FY 2021 (in IDR)			FY 2022 (in IDR)		
	Budget	Realization		Budget	Realization		Budget	Realization	
		amount	%		amount	%		amount	%
Road	2,283,434,388,000	2,182,375,442,537	96%	6,945,833,062,000	6,284,080,492,427	89%	7,298,810,091,000	6,505,413,336,649	89%
Drinking Water	91,063,323,000	84,900,309,542	93%	2,977,364,075,000	2,677,604,758,532	90%	3,000,000,000,000	2,647,099,440,107	88%
Health	13,793,616,023,000	12,282,506,956,575	89%	14,881,133,864,000	12,653,388,097,480	85%	15,774,280,058,000	12,207,613,863,659	77%

13. **While budget for Program implementation is assessed to be generally adequate, the assessment has identified risk of insufficient budget allocation for the development and operations of key information systems.** The Program supports SIKD next generation development (DLI 5) and SIPD enhancements, operation, and support (DLI 6). For example, investments for technology infrastructure provision to operate SIPD appear to be adequate, while there have been less adequate resource allocations for applications development and implementation support, such as change management, training and helpdesk.

## B. Budget Execution, Accounting, and Reporting

14. **The Program’s budget execution, accounting, and reporting procedures are adequate.** The MoF was rated A on the indicator PI-21 on the Predictability of In-Year Resource Allocation in PEFA 2017 for its capacity to forecast cash commitments and requirements. A Treasury Single Account (TSA) is in place. Although cash forecasts are defined and updated monthly, cash balances are consolidated on a daily

basis. Based on the BPK summary audit report for FY2022, it was noted that MoF, MoH, MPWH, MoHA, and Bappenas all received an unqualified opinion from BPK in the past three years (for FY2020–22). The budget execution, accounting, and reporting processes of all the Program’s participating agencies follow the central government process. The main portion of the Program budget is DAK Fisik, which is allocated to the MoF as the State Treasurer (Bendahara Umum Negara, BUN). Before 2023, the MoF issued the umbrella technical guidelines (Petunjuk Teknis, Juknis) for DAK Fisik implementation every year, while the MoH and MPWH separately issued operational guidelines (Petunjuk Operasional, Jukop) for the specific sectors. However, the sectoral Jukop were being issued later in the year, so that in 2023, the GoI started including all the Jukop in the annual Juknis for DAK Fisik (Presidential Regulation No. 15/2023), to ensure timely availability of Jukop. The DAK Fisik budget is allocated in the budget implementation document (Daftar Isian Pelaksanaan Anggaran, DIPA) of the BUN. Based on the existing Presidential Regulation and the relevant guidance, DAK Fisik is then transferred to the respective SNGs in tranches based on implementation progress. SNGs submit periodic reports to the MoF through the Monitoring Application for Central Government FMIS (Online Monitoring–Sistem Perbendaharaan dan Anggaran Negara, OM-SPAN), after the documents are reviewed by the local inspectorates. The main risk in DAK Fisik’s budget execution is related to weak internal control: only documents are reviewed by local inspectorates, who do not verify the physical construction of DAK Fisik projects. To mitigate this risk, the Program introduces independent verification to conduct output verification as part of strengthening the payment verification for DAK Fisik implementation through DLI 4 under Results Area 2.

i. **Accounting and financial reporting**

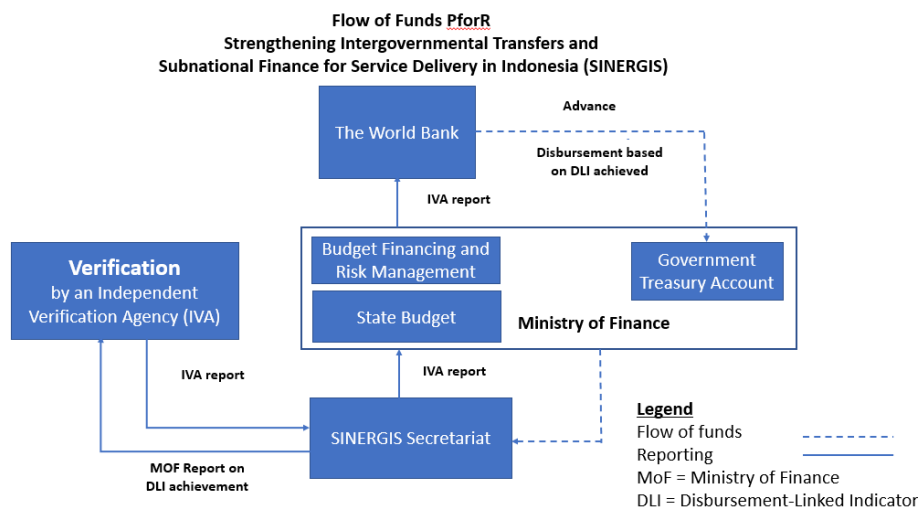
15. Law No. 17 FY2003 on State Finance requires the GoI to implement accrual accounting. In addition, based on State Treasury Law No. 1 FY2004, through the establishment of the TSA, the MoF streamlined budget execution, thereby improving reporting on budget execution. MoF is also improving government financial reporting through the implementation of the government accrual accounting standard. Through the issuance of Government Regulation (Peraturan Pemerintah, PP) No. 71 FY2010, accrual accounting is fully implemented since FY2015. The implementation of an integrated FMIS (SPAN) facilitates accounting and financial reporting in the central government. Indonesia’s accounting standards are consistent with international standards. The Program’s implementation will follow the government accounting and reporting system, which records overall Program expenditures. DAK Fisik expenditures are recorded as part of the BUN’s expenditures and reported as part of the MoF’s financial statements. No separate financial statement is issued for DAK Fisik implementation. However, the DGFB has developed the regional financial information system (Sistem Informasi Keuangan Daerah, SIKD) to document, administer, process, and manage transfers—including DAK Fisik—made by the central government to SNGs. A web-based financial dashboard in SIKD is available to monitor and report on DAK Fisik progress and implementation. However, the dashboard mainly consists of the amounts of DAK Fisik budget contracted and realization, presented by sector, and by province and district. It does not provide any analyses, explanations or reviews of the amounts, or information on physical progress. To improve the current DAK Fisik reporting systems, DGFB, MoF should coordinate the development of an integrated DAK Fisik M&E and reporting system, which includes physical progress, and can be accessed by all technical ministries. This reporting system will be supported with regulations and its compliance is a prerequisite for DAK Fisik disbursement.
16. The government also implemented a review of internal controls for the central government’s financial reporting, starting in FY2017. All ministry financial statements shall be reviewed by its internal auditor before being submitted to BPK for audit. Specifically, for the Program, the Program Secretariat in the MoF’s DGFB will be responsible for ensuring preparation of sufficient disclosure of the Program in line

with their respective agreed boundaries for inclusion in each of the financial statements of implementing agencies (MoF as State Treasurer [Laporan Keuangan BUN, LK BUN], MoHA, MoH, MPWH, and Bappenas) for submission to BPK as part of their annual audit. Format of the disclosure is included in annex 3.

ii. Treasury management and funds flow

17. **The funds flow arrangements for Program implementation are adequate.** The State Treasury Law No. 1 FY2004 provides the legal basis for MoF to maintain centralized cash management and establish a TSA. The TSA was fully implemented in FY2010. In general, Program funds will be disbursed to the government’s account at the Central Bank upon achievement of the DLIs. All payments will be made through the government’s centralized treasury system. The funds flow diagram for the Program is presented in figure 1. The Bank allows the government to request advance payment of up to 25 percent of the PforR financing amount. The advance will allow Program implementation to start immediately and expedite the achievement of DLIs. This arrangement is common practice for PforR implementation in Indonesia and is also expected in the implementation of SINERGIS.

**Figure 1. Funds Flow Diagram for Program-for-Results**



Note: DLI = Disbursement-Linked Indicator; MoF = Ministry of Finance; PforR = Program-for-Results.

iii. Procurement processes and contract administration

18. **Procurement regulation and procedures applicable to the Program.** All procurement processes under the SINERGIS Program are required to follow the Presidential Regulation (Peraturan Presiden, Perpres No. 16/2018) as amended through Perpres No. 12/2021 and its technical guidelines (Peraturan Lembaga/Perlem LKPP [National Public Procurement Agency, Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah]), under which use of competitive methods is mandated for procurement of works, goods, and nonconsulting services exceeding Rp 200 million (approximately US\$13,333 at US\$1 = Rp 15,000) and for consulting services exceeding Rp 100 million. Contracts for works, goods, and other services with an estimated cost more than Rp 5 billion (approximately equivalent to US\$333,333) are required to be procured through an open public bidding method, which requires advertising of the bidding notice of at least seven working days. For smaller-value contracts of noncomplex nature with an estimated cost between Rp 200 million and Rp 5 billion, other simplified competitive methods may be used, for example, Lelang cepat (fast tender). The Government E-

Procurement System (Sistem Pengadaan Secara Elektronik, SPSE) is mandated for competitively procured contracts and has been periodically reviewed by LKPP based on feedback from stakeholders, especially procuring entities, and the latest version is SPSE 4.5. Contract information of those awarded through competitive methods are subsequently published on a national website. The Perpres also includes provisions for handling complaints, resolution of disputes, as well as remedies for breaches in integrity during the procurement process. A wide range of standard bidding documents for national competitive procurement for all procurement categories (goods, works, non-consulting services, and consulting services) have been issued by LKPP and are available for use by the procuring agencies. The use of local content is required by Perpres No. 16/2018, as amended in Perpres No. 12/2021. Article 66(1) of this Perpres requires ministries/agencies/SNGs to provide a margin preference for domestically manufactured goods and domestic contractors (services). Assessment of the level of domestic content uses a calculation combining the national contribution value (Tingkat Komponen Dalam Negeri, TKDN) plus the corporate contribution value (Bobot Manfaat Perusahaan, BMP), with TKDN set out in an inventory list issued by the Minister of Industrial Affairs. Article 66(5) also mentions that it is possible to procure imported goods on the condition that: (i) such goods are not produced domestically; or (ii) the domestic volume cannot meet the demand.

19. **There are several interconnected e-Procurement systems, which are used by all Central Government ministries/agencies and SNGs, including for procurement financed by DAK Fisik.** The Procurement Planning Information System (Sistem Informasi Rencana Umum Pengadaan, SIRUP) is used for procurement planning, while the SPSE is used for procurement processing. The two systems have been interoperable since 2019. The e-catalogue system is also connected to SIRUP, and is used for the purchase of goods and services which have framework contracts.
20. **Procurement plans and bidding opportunities are publicly disclosed on the SIRUP website (<https://sirup.lkpp.go.id/sirup>).** The bidding reference number, package description, procuring agency, owner estimate, and location are published on the SIRUP website. Bidding information, from the advertisement to award information, including the bidding schedule, names of registered bidders, quoted and evaluated prices, and bid evaluations are publicly disclosed in the SPSE. Contract award information is also published on the national website of the public procurement agency, which is freely accessible to the public. In the new SPSE version 4.5, procurement through direct procurement and direct contracting (nontender) are recorded in the SPSE.
21. **The use of the SPSE is mandated through Perpres No. 16/2018 as amended in Perpres No. 12/2021 for competitively procured contracts exceeding Rp 200 million (equivalent to US\$13,333),** and the procurement process is required to be carried out by dedicated procurement service working units (Pokja UKPBJs [Unit Kerja Pengadaan Barang dan Jasa]) established in each implementing agency. The LKPP updated and launched a new SPSE version 4.5 in early 2021. In the latest version of the SPSE, procurements below the open competitive threshold (nontender) or carried out through noncompetitive methods (direct contracting) or through the e-catalogue, are recorded in the SPSE.
22. **The use of the e-catalogue system is mandated through Perpres No. 16/2018, as amended in Perpres No. 12/2021, for procuring goods/services listed in the system.** The e-catalogue may include national, sectoral, and local e-catalogues. The suppliers in the e-catalogue system are selected by LKPP or ministries/agencies/SNGs either competitively or through direct contracting. As per LKPP Regulation No. 16/2018 and its amendment No. 12/2021, the heads of the line ministry, the institution, and the SNG can also propose to LKPP their requirement of goods/services to be included in the e-catalogue by submitting to LKPP the technical specification of goods/services and annual volume requirement. In addition, the suppliers of goods/services can also propose that LKPP includes their products in the e-catalogue system by submitting to LKPP the technical specification, unit cost,

and service coverage. In addition, the LKPP regulation allows line ministries and SNGs to select suppliers for the catalogue for their specific needs. In such cases, after the selection of suppliers by line ministries/SNGs, LKPP includes the items and suppliers in the e-catalogue.

23. **Implementing agencies' procurement profile and market readiness.** Procurement profile for IAs and selected SNGs are shown in annex 2. The FSA assessed the Program procurement data provided by the IAs, as well as for selected SNGs obtained from the SPSE, and concluded that the market capacity to cope with the Program is adequate. Competition has been achieved, with the bidders' participation ranging from 5-11 bidders per package for tender method, executing the Program with a suitable level of economy and efficiency in procurement (annex 2).
24. **Procurement organization and capacity.** The procurement process is required to be carried out by UKPBJs, which are established in each DG in each IA. UKPBJs are required to include procurement-accredited staff, whose certification is valid for three years and can be extended by LKPP, if they are still working as procurement staff.
25. **Contract administration.** After the issuance of notification of award by Pokja UKPBJ, the Commitment Making Officer (Pejabat Pembuat Komitmen, PPK) will be responsible to sign the contract and monitor and supervise contract implementation.
26. In sum, the assessment of Program procurement systems indicates that Program planning, bidding, evaluation, contract award, and contract administration arrangements and practices provide reasonable assurance that the PforR will achieve the intended results through its procurement processes and procedures.
27. **Scope and implementation of procurement under the PforR.** Procurement spending by the five IAs at the central level under the PforR is estimated to not exceed 6 percent of the total Bank Program financing, while for the DAK Fisik component, the procurable expenditure is about 75% of total Program expenditures. No contract is expected to fall under the Operations Procurement Review Committee's review threshold. The IAs for this program are MoF, MoHA, Bappenas, MoH, and MPWH. MoF, MoHA, Bappenas, and MoH have experience in handling PforR under Bank-financed projects, while MPWH has no previous experience in implementing PforR operations. The procurement is expected to be mainly procurement of consulting services and goods at the central level such as information systems development and integration, the Project Management Office, and implementation support/helpdesk operations. The major portion of procurable expenditure based on the information provided is related to DAK Fisik implementation at SNGs, which is mainly procurement of works. Based on the data available in SPSE, it is likely those civil works will be procured in multiple contracts through national open competitive procurement.
28. Procurement under the Program will be governed by Perpres 16/2018 as amended in Perpres 12/2021, and its technical guidelines. Perpres 16/2018 sets out the main principles of a sound public procurement system and provides for use of competitive procurement methods as the default requirement.
29. Based on the assessment, the program procurement system provides reasonable assurance that the overall Program will achieve the intended results.

## C. Internal Controls

### i. Internal controls

30. **Internal control systems of the Program in MoF, MoHA, MoH, MPWH, and Bappenas are adequate.** The Government Internal Control System (GICS) in the public sector in Indonesia is following the COSO

framework (control environment, risks assessment, control activities, communication, and information and monitoring). The GICS strictly defines (i) clear segregation of duties; (ii) formal authorization levels; (iii) effective control over commitment and payments; and (iv) overall access and adjustment to the budget records, accounting, and payment information are restricted. The PEFA assessment in 2017 rated PI-25 internal control for nonsalary expenditures as A. Segregation of duties is in place, and the roles and responsibilities of all parties involved in budget realization, payment verification and accounting are detailed in the implementation guidelines. State assets are managed by the Secretary General in each ministry as the asset custodian, in accordance with the categories and codification defined by the MoF. Based on PP No. 60/2008, BPKP as national internal audit institutions received a mandate to assist all government institutions to implement GICS for effective, efficient, and accountable management of government funds. BPKP has developed a tool to measure the maturity of GICS implementation with Level 3 as good practice implementation of internal control. Good practice internal control includes a requirement for heads of the institutions/ministers to create and maintain an environment that promotes positive and conducive behavior, which includes: (i) upholding integrity and ethical behavior; (ii) committing to competency; (iii) providing positive leadership; (iv) establishing an appropriate organization structure; (v) providing appropriate delegation of authority and responsibility; (vi) formulating and implementing dynamic human resource development program; (vii) facilitating an effective role of the internal auditor; and (viii) creating a positive working relationship with other government institutions.<sup>4</sup> Based on updated information received from BPKP, all participating ministries have achieved Level 3 of GICS implementation. Financial statements for all participating ministries, as well as SNG audit reports for eight selected districts (for FY2019–21) were reviewed to obtain any findings related to DAK Fisik implementation. The districts were selected based on recommendation from DGFB as representing those with good and poor performance in DAK implementation. No significant issues related to DAK Fisik implementation were found in the review of participating ministries' financial statements. Furthermore, the review confirmed weaknesses in payment verification of DAK Fisik implementation at the district level. Local Inspectorates need to be strengthened to conduct internal audit of DAK Fisik internal control, to improve payment verification of DAK Fisik implementation.

## ii. Internal audit

31. **The program internal audit system in MoF, MoHA, MoH, MPWH, and Bappenas is adequate.** The PI-26 Internal Audit has been rated C+ in PEFA 2017. Internal audit units were established in all agencies, including MoF, MoHA, MoH, MPWH, and Bappenas. Indonesia has national internal audit standards and peer review standards. The C rating was because, in general, internal audit activities were primarily focused on financial compliance and partial response to audit recommendations for the majority of the entities audited. To improve this, Indonesia adopted the Internal Audit Capability Model (IA-CM) in late 2015. IA-CM is a framework that identifies the fundamentals needed for effective internal auditing in the public sector. It ensures that internal auditing becomes an integral component of effective governance in the public sector and helps organizations achieve their objectives and account for their results. IA-CM consists of five levels, which are tied to leading practices and Level 3 (integrated) is where internal audit management and professional practices are uniformly applied. In January 2023, 449 (72 percent) out of a total of 624 government internal audit units were already at Level 3 of IA-CM. The government is continuing in its efforts to ensure 85 percent of internal audit units reach Level 3 of IA-CM, as targeted by the President. The Bank will continuously support this effort as well as the effort to improve the PEFA rating through financing from the PFM-MDTF. Based on an update received from the BPKP in January 2023, internal audit units of the MoF,

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<sup>4</sup> 4.2 Effectiveness of the internal control framework, PEFA 2017.

MoHA, MoH, and Bappenas have achieved Level 3 of IA-CM, while MPWH is still at Level 2. This means that the internal auditors in the MoF, MoHA, MoH, and Bappenas are evaluating the adequacy and effectiveness of internal control. All internal auditors have completed training to conduct internal audit within its respective ministry, internal audit unit is independent and report directly to the minister. In conducting their audits, internal auditors are applying risk-based audit and following the Government Internal Audit Standards issued by the Government Internal Auditors Association (Asosiasi Auditor Internal Pemerintah Indonesia, AAIP). The Government Internal Audit Standards were prepared based on the updated International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors. These are a few of the basic requirements for Level 3 of IA-CM. Based on discussion with the Inspectorate General (IG) of MoF, it was noted that internal audit is being conducted of DAK Fisik implementation, but report on the internal audit conducted is mainly focused on improvement of the DAK budgeting process, which will be addressed in this Program. Based on information received from the review of DAK by IG-MoF for FY 2021–23, all findings have been completely followed up, or action plan agreed with IG-MoF. In addition, based on visits to SNGs made as part of Program preparation and on current regulations, it was noted that local inspectorate reviews serve as inputs to OM-SPAN on the progress of DAK Fisik implementation. Although not required under regulations, the local inspectorate is conducting physical checks of DAK Fisik implementation. However, it was noted that the local inspectorate does not have the requisite training and knowledge for physical checks. Furthermore, the local inspectorate also has limited auditor capacity. It is proposed that capacity building be provided to local inspectorates to strengthen their technical knowledge on how to supervise and conduct internal control reviews of DAK Fisik implementation.

iii. [Program governance and anticorruption arrangements](#)

32. **Transparency: Based on Law No. 14/2008 regarding Transparency of Public Information, public information should be open and accessible.** An exception to public information is information that is restrictive and limited, such as protection of privacy or national security. An applicant is supposed to be able to obtain public information promptly, and at low cost. When it is classified as confidential information pursuant to the law, ethics, and the public interest, a decision regarding which information to share is based on an examination of the possible consequences of its sharing with the public. The IAs (MoF, MoHA, MoH, MPWH, and Bappenas) have established public information disclosure management mechanisms, such as setting up a public information officer (Pejabat Pengelola Informasi dan Dokumentasi, PPID), in accordance with Law No. 14/2008, who manages public information disclosures and public requests for information. Information such as the IAs' finance and performance accountability reports are routinely disclosed to the public on their websites, though the documents published are not all up to date. Audit reports for IAs are accessible to the public from BPK, upon request. Data on subnational transfer allocations and disbursements, including DAK Fisik, are regularly published on the DGFB website ([\(\)](#)), and audited annual financial statements are published by DG Treasury ([\(\)](#)). The legal framework for public information disclosure also applies to SNGs, and each SNG sets up a PPID mechanism to manage public information requests. By design, the Program also seeks to enhance fiscal transparency by improving the public availability and accessibility of information for citizens on SNG plans, budgets, and performance through strengthening the central data consolidation platform (SIKD Next Generation) and the subnational FMIS (Sistem Informasi Pemerintahan Daerah, SIPD) (DLIs 5 and 6).
33. **Complaints handling: All public services in Indonesia—at both central and subnational levels, and including the MoF, MoHA, MoH, MPWH, and Bappenas—are required to establish a complaint handling system as per Presidential Regulation No. 76/2013 regarding Public Services Complaints**



**Management.** To implement this regulation, the Executive Office of the President (Kantor Staf Presiden, KSP), Ombudsman, and Ministry for State Apparatus and Bureaucracy Reform (Kementerian Pendayagunaan Aparatur Negara dan Reformasi Birokrasi, KemenPAN-RB) have developed an online public complaint system called LAPOR! (Laporan Aspirasi dan Pengaduan Online Rakyat/National Public Services Complaints Management System). It is web based and is also available on mobile applications or via text message (SMS), as well as on social media platforms such as Twitter and Facebook. Actionable complaints are directed to the related government agency or SNG to be followed up on and resolved. The application requires individuals to register before submitting complaints. Information on public complaints and inquiries submitted through the governmentwide complaint handling system—SP4N-LAPOR!—is publicly accessible through the LAPOR! website, including progress and resolution status (<https://lapor.go.id/instansi>). Several IAs have other public communication and complaints channels, such as the SIAP (Saluran Informasi, Aspirasi dan Pengaduan/Public Information and Complaints Channel) and the *Halo Kemenkes* hotline of the MoH, and the Call Center 158 of the MPWH.

34. **The DGFB has established several mechanisms, in addition to LAPOR!, through which complaints can be submitted.** The main resource is the DGFB Contact Center. This offers multiple channels (in person, live-chat, telephone, WhatsApp, email, website) for general purposes, and one specifically used by DGFB personnel (Saluran Pengaduan DJPK, PEKA DJPK). All inquiries, requests for consultation, and complaints received, and their processing/resolution status are recorded through a customer relationship management application. This service is managed by the Secretariat of the DGFB (the Communications Strategy and Public Information Services subsection under the Policy Harmonization and Public Relations section). Over the 2021–22 period, the DGFB received a total of 145 complaints/reports through the Contact Center, with SNGs as the primary users.

**Table 4. Complaints Related to Transfer funds Received through the DGFB Contact Center, 2021–22**

	Topics	2021	2022	Sample Reports
1	Transfer allocation	22	11	Brokers offering additional transfers and grants allocations, false information about allocation amounts, fake letters from the MoF
2	Transfer use	6	12	Misuse of transfer funds, delays in issuance of MoF regulation on transfers
3	Transfer disbursement	11	15	Delays /lengthy processes for disbursement
4	Information systems	1	4	Out-of-date data on transfers on the DGFB website/database (Sistem Informasi Transfer ke Daerah Dan Dana Desa, SIMTRAD4)
5	Revenues	1	2	Request to accelerate issuance of subsidiary regulations on subnational revenues under UU HKPD
6	Non-DGFB	4	3	
7	Functional positions (Jabatan Fungsional Analis Keuangan Pusat dan Daerah, JF AKPD)		52	Fake invitations to capacity-building activities
8	Other		1	Information not received through WA Blast Contact Center
		45	100	

Note: DGFB = Directorate General Fiscal Balance; MoF = Ministry of Finance; UU HKPD = 2022 Intergovernmental Fiscal Relations Law.

35. **The national procurement regulation includes provisions for submission and handling of procurement complaints.** It allows submission of procurement-related complaints within a specified period after announcement of the bidding result and requires the complaint to be reviewed in the

first instance by the UKPBJ of the IA, which must be responded to within a specified number of days. In case the UKPBJ's response is not satisfactory to the bidder, the complainant can submit an appeal to higher levels within the same IA. The complaints should be submitted by the bidder to the UKPBJ with a copy to the inspectorates (Aparat Pengawas Intern Pemerintah, APIPs). For contracts above the threshold procured through SPSE, complaints can be submitted by bidders through SPSE and responses by the UKPBJ can also be sent through SPSE, which are recorded in the system. Only the bidders that are registered in the SPSE can submit complaints through this system. Any other complaints can also be sent by stakeholders (other than the bidders) to APIPs, outside the SPSE. In addition, complaints (not only related to procurement) can be submitted through the LAPOR! system for the general public as referenced above, or through the IAs' complaint-handling or whistleblowing systems managed by the IGs as described below.

**36. Supervision, monitoring, and evaluation mechanisms for DAK Fisik implementation have been established, but need to be strengthened, both at the central and subnational levels.**

- a. **The DGFB, MoH, and MPWH technical units** have mechanisms for DAK Fisik monitoring and evaluation. SNGs are required to report on implementation progress to the technical ministries (MoH and MPWH) on a quarterly basis, and three times a year to the MoF when submitting disbursement requests. However, the timeliness and completeness of reporting to the technical ministries are not as good (as there are no implications for fund disbursement). This could be improved through integrating the MoF and technical ministries' reporting requirements and conditioning disbursement on compliance.
- b. **Inspectorate generals of central ministries** also have a role in supervising intergovernmental transfers. The MoF IG has established a Regional Transfers Supervision Framework (Kerangka Pengawasan Transfer Keuangan ke Daerah dan Dana Desa, TKDD), and conducts a "continuous audit" of transfers, including DAK Fisik. The MoH IG has also conducted sporadic reviews of DAK implementation as part of its internal audit program. These reviews focus more on the planning and allocation processes, as project execution is considered to be under the SNGs' responsibility.
- c. **Local inspectorates (APIPs)** are tasked to review fund disbursement and progress reports before they are submitted to the MoF. However, the reviews are still mainly limited to document checks, as APIPs often lack staff capacity and funding to conduct physical/technical verifications of outputs.<sup>5</sup>

**37. Fraud and corruption (F&C).** A major component of the Program is the transfer to regions, with a focus on performance of DAK Fisik project execution. According to a recent study on corruption risks in regional transfers, conducted by the Anti-Corruption Commission (Komisi Pemberantasan Korupsi, KPK),<sup>6</sup> 178 major corruption cases of regional heads (provincial governors and district heads) were handled by the KPK between 2004 and 2022; of these, 63 percent occurred in 2017–22. In March 2023, the KPK publicized the results and recommendations of its analysis to identify corruption risks in regional transfer policies and implementation. The corruption cases involved several modalities, such as bribes to members of the national parliament (Dewan Perwakilan Rakyat, DPR) to influence the allocation of DAK and the sale of information on DAK allocation. The key findings and recommendations focused on three areas: (i) *uncertainty and transparency* in the process and criteria for DAK Fisik priority location selection and proposal evaluation—the complexity of the allocation

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<sup>5</sup> World Bank, *DAK Fisik Implementation Review Report* (Washington, DC: World Bank, 2022).

<sup>6</sup> KPK, "Cegah Potensi Korupsi Daerah, KPK Kaji Dana Transfer Daerah," <https://www.kpk.go.id/id/berita/berita-kpk/3006-cegah-potensi-korupsi-daerah-kpk-kaji-dana-transfer-daerah>.

process leaves room for corrupt practices, such as bribery to obtain information or influence allocation, as well as inefficiencies due to rushed proposal preparation timelines; (ii) *issues with the design of regional incentive funds* (Dana Insentif Daerah, DID), which are small in size and are disbursed late, and so do not effectively improve performance; and (iii) *weak oversight and supervision* including the function and capacity of the AIPs, which are still oriented to administrative compliance checks. The KPK's recommendations include improving the transparency and efficiency of the DAK Fisik allocation process through early and consistent notification to the regional heads of indicative allocation (*pagu indikatif*) by region and by sector (*bidang*) for DAK Fisik; simplifying the business process and disbursing information on priority locations, technical/operational guidelines, and criteria earlier in the fiscal year; and making the calculation of allocations/disbursements and evaluation of performance more transparent. The government reforms being implemented under the 2022 Intergovernmental Fiscal Relations Law (Undang-Undang Hubungan Keuangan antara Pemerintah Pusat dan Pemerintah Daerah, UU HKPD), supported by the SINERGIS Program, will directly address some of these issues such as improving the predictability and transparency of transfer allocations, as well as tracking and verifying results for DAK Fisik projects.

38. **The national procurement regulation, Perpres 16/2018 as amended by Perpres 12/2021, includes provisions against fraud and corruption.** Also, the PPK, procurement officer, and work acceptance officer are required to sign an integrity pact to declare that they will not be involved in fraudulent and corrupt practices and that they will report to the authorities if there are any fraudulent and corrupt practices in the procurement process. Contractors are also required to sign an integrity pact to declare that they (i) will not be involved in fraudulent and corrupt practices; (ii) will provide correct and accountable information and be transparent; and (iii) will agree to be blacklisted if they violate the regulations and the provisions in the integrity pact.
39. **For management of complaints and allegations of fraud and/or corruption, the IAs' IG units maintain whistleblowing systems, wherein reports may be submitted online or offline.** The IG forwards complaints pertaining to public services to the relevant units within each IA, while it reviews the reports that have potential state loss implications and follows up on credible and material allegations, including investigations. As project implementation (after DAK Fisik funds are transferred) is the responsibility of SNGs, complaints related to DAK Fisik projects are generally directed to SNGs. When the central ministry, for example, the MoH or MPWH, receives complaints related to DAK Fisik projects, the IG will review the case and, if determined credible and material, refer it to the relevant SNG for further action. However, over the past two to three years, only a few public complaints have been submitted to the MoH and MPWH regarding DAK implementation in districts. SNGs maintain their respective complaints management systems and whistleblowing systems, under the responsibility of the AIPs.
40. **Applicability of the World Bank's Anticorruption Guidelines (ACGs) for the PforR.** Through the PforR's legal documents, the recipient of the loan is formally committed to the obligations under the ACGs for PforR operations. In particular, in the context of this PforR, IAs will be required to agree to the application of the ACGs, and promptly inform the World Bank of any credible and material allegations of F&C regarding the PforR as part of the overall PforR reporting requirements. The World Bank will, among others, promptly inform the recipient of all credible and material allegations or other indications of F&C in connection with the Program that come to its attention, consistent with Bank policies and procedures.
41. The draft Anti-Corruption Protocol (annex 1) to operationalize the ACGs under the Program will be discussed and agreed with the DGFB-MoF as the EA. It is proposed that the EA will be responsible for coordinating with the IAs for regular monitoring and reporting on F&C and submitting the

consolidated report to the Bank. It is also proposed that the DGFB will require districts to report on any complaints and allegations of F&C related to DAK Fisik, since districts already must report to the MoF on DAK implementation progress, as a disbursement condition (DAK Fisik funds are released in three tranches annually depending on implementation progress). The DGFB will include the reports from SNGs in a consolidated report on F&C to be submitted to the Bank as above. This arrangement will be discussed and agreed with the EA.

42. **Ineligibility of firms sanctioned by the Bank to participate in the Program.** The assessment revealed that IAs generally comply with the requirement of ineligibility of firms blacklisted by the government and published on the LKPP's website. It is proposed that each IA issues a circular letter to request each working unit, including the Pokja UKPBJ/PPK/procurement officer involved under the Program, to comply with the fiduciary action plan. The requirement for developing and putting in place a mechanism within IAs for enforcing that firms and individuals debarred/temporarily suspended by the Bank are ineligible to be awarded contracts under the Program has been discussed with IAs. The IAs, through the DGFB-MoF as the EA, shall submit to the World Bank a regular report on the verification checks and the results. The establishment of such a mechanism is also specified in the Program Action Plan (PAP) and will be monitored by the Bank for compliance.
43. **IAs will also be required to issue specific guidelines instructing compliance with the requirements of the ACGs under the PforR,** which will include any person or entity debarred or suspended by the World Bank not being awarded a contract under or otherwise being allowed to participate in the Program during the period of such debarment or suspension. These will cover: (i) issuing a notification or circular letter to its procurement units to ensure that no contract under the Program is awarded to a firm or individual that is debarred and/or temporarily suspended by the World Bank; and (ii) checking the Bank's debarment ([www.worldbank.org/debarr](http://www.worldbank.org/debarr)) and temporary suspension lists before awarding a contract and recording the verification in the bid evaluation report, to ensure that no contract under the Program is awarded to a listed firm or individual. A regular biannual report on the verification checks and the results shall be submitted to the Bank along with DLI reimbursement claim submissions.
44. For DAK Fisik under the Program, the DGFB will issue guidance to districts requiring them to check the Bank's debarment and temporary suspension lists before awarding contracts financed by DAK Fisik under the Program and record the verification in the bid evaluation report. It may also conduct socialization on this Program Action. Annually, the DGFB-MoF will consolidate and provide the Bank with information on procurement profiles and contracts financed by DAK Fisik under the Program. Given the large number of subnational entities involved and the large volume of contracts, compliance with the Bank's suspension and debarment lists shall be verified by BPKP as part of the independent verification of DAK Fisik results for a representative sample of districts, and the DGFB will submit a report on the results of the verification checks to the Bank on an annual basis.

## **D. Auditing**

### **i. External audit**

45. **The external audit arrangements are adequate.** Based on Law No. 15/2004 on State Financial Management and Accountability, the BPK is mandated to audit all the government agencies. The BPK also audits all line ministries' financial statements annually. There are three types of audits assigned by the BPK: (i) financial audit; (ii) performance audit; and (iii) audit for special purposes, including investigative audits. BPK has achieved many good results in public sector auditing, as recognized by peer review reports from the Supreme Audit Institution (SAI) of the Netherlands in July 2009 and the

SAI of Poland in April 2014 and August 2019.<sup>7</sup> The BPK has been following national financial audit standards (Standard Pemeriksaan Keuangan Negara, or SPKN) since 2007. Over time, the BPK has revised and improved the SPKN, which are generally aligned with the International Standards of Supreme Audit Institutions. The BPK approved the latest standards through BPK Decree No. 1/2017 issued on January 6, 2017. The BPK operates independently from making the plan to executing audit engagements. However, it is not independent of the parliament in terms of the selection and appointment of its board members, as parliament members may intervene. Based on Law No. 15/2006, the BPK has its own budget line in the state budget. The BPK submits its budget proposals to the Parliament in the annual budget preparation process, and the same procedures as other government agencies apply. The final budget proposal considers the government's financial capacity, so there is no guarantee that the BPK will receive its proposed budget. Based on BPK's FY2022 performance report, it has 4,416 auditors which have sufficient competence in doing their tasks. In 2017 PEFA, the indicator PI-30.2 on Submission of audit reports to Parliament is rated A. Based on Law No. 15/2004, the BPK is required to submit financial audit reports to parliament within two months of receiving the government's financial reports. In the past three years, the BPK has consistently complied with the regulation. The BPK submitted its FY2020, 2021 and 2022 summary audit reports to the parliament on May 31, 2021, May 31, 2022 and May 24, 2023 respectively (based on the Central Government Financial Reports). In general, the BPK targeted 75% of follow-up actions on audit findings are completed. Based on the FY2022 BPK performance report, the realization is 78.42% in the past three years. This is mainly due to the use of the Monitoring System for Follow-Up (Sistem Informasi Pemantauan Tindak Lanjut, SIPTL).

46. The BPK expressed an unqualified (clean) opinion for FY2020, FY2021 and FY 2022 to all IAs that will implement the SINERGIS Program. A review of FY2020 and FY2021 reports has been conducted of all IAs and selected SNGs to look at findings specifically related to DAK Fisik implementation and the implications of DAK policy regulated by central government agencies. Detailed audit reports of all IAs for FY2022 are awaiting submission to the parliament on September 30, 2023 as scheduled by the BPK. Based on Law No. 15/2004, the auditee (officer) needs to respond to the follow-up actions stated in BPK audit findings within 60 days. Otherwise, the officer may be subject to administrative sanctions in accordance with the provisions of the law and regulations on personnel. Most agencies submit their formal responses within 60 days. Reviews of IAs and selected SNGs indicated no significant issues related to DAK Fisik implementation were found in the review of participating ministries' financial statements. Furthermore, the review confirmed weaknesses in payment verification of DAK Fisik implementation at the district level. The independent annual verification of DAK Fisik, which will verify physical and other outputs of DAK Fisik implementation (DLI 4), is expected to address the issue.

## ii. Program audit arrangements

47. Specifically for the Program, the Program Secretariat in the DGFB-MoF will be responsible for ensuring submission of audited financial statements of the MoF as the State Treasurer (Laporan Keuangan BUN, LK BUN), MoHA, MoH, MPWH, and Bappenas with sufficient disclosure of the Program in each, in line with the agreed boundaries. This proposed audit arrangement has been discussed and agreed with the Program Secretariat in DGFB-MoF as the EA and coordinator of the Program. BPK will conduct audit of all IAs. The audit reports should be submitted to the Bank at the latest within nine months after the end of the fiscal year.

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<sup>7</sup> Poland SAI, *Peer Review Report on the Audit Board of the Republic of Indonesia Badan Pemeriksa Keuangan (BPK)*, August 2019, [https://www.bpk.go.id/assets/files/storage/2022/07/file\\_storage\\_1658299940.pdf](https://www.bpk.go.id/assets/files/storage/2022/07/file_storage_1658299940.pdf).

## 2. Program Systems and Capacity Improvements

48. **Risk assessment:** Based on the information available at the time of assessment, the overall fiduciary risk is rated as Substantial after mitigation. Risks and mitigation actions, including those to be included in the Program Action Plan (PAP), are described in table 5.

**Table 5. Program Risks and Mitigation Actions**

<b>Risk</b>	<b>Mitigation Action</b>	<b>Responsible Entity</b>	<b>Timing</b>	<b>Type of Action</b>
Adequacy of budget allocation (e.g., SIKD Next Generation; and SIPD enhancements, operations, and support)	All implementing agencies must obtain an adequate budget from the MoF to implement the Program, especially for achieving Disbursement-Linked Indicators.	All IAs with MoF	Each budget year	
Experience and capacity of the executing agency to coordinate the PforR implementation	The DGFB-MoF to hire consultants to support the PforR Secretariat's coordination and monitoring and evaluation functions.	DGFB-MoF	By January 2024 (and maintain Secretariat support throughout the Program)	
Weak internal control of DAK Fisik implementation, especially due to weak capacity in conducting physical verification of DAK Fisik outputs	The DGFB-MoF to commission an independent annual verification of DAK Fisik, which will verify physical and other outputs of DAK Fisik implementation (DLI 4).	DGFB-MoF	Progress will be monitored on a semiannual basis.	
	The DGFB-MoF to coordinate with MPWH and MoH to provide capacity building for local inspectorates to conduct sufficient internal audit of DAK Fisik internal control.	DGFB-MoF with MPWH and MoH		PAP
	The DGFB-MoF to coordinate the development of an integrated DAK Fisik reporting system, which includes physical progress, and can be accessed by all technical ministries. This reporting system will be supported with regulations and its compliance is a condition for DAK Fisik disbursement.	DGFB-MoF with MPWH and MoH		PAP
Inadequate verification by implementing agencies and districts of the Bank's list of	All implementing agencies to issue specific guidelines instructing compliance with the requirements of the ACGs under the PforR, including to require their	All IAs	Annual (notification issued to procurement units);	PAP

Risk	Mitigation Action	Responsible Entity	Timing	Type of Action
debarred/temporary suspended firms before awarding contracts	Procurement Service Working Units (UKPBJs)/procurement officers and commitment making officers (PPK) to check the Bank's debarment ( <a href="http://www.worldbank.org/debarr">www.worldbank.org/debarr</a> ) and temporary suspension lists before awarding contracts and to record the verification in the bid evaluation report, to ensure that no contract under the Program is awarded to a firm or individual that is debarred and/or temporarily suspended by the World Bank.		continuous (during implementation)	
	The DGFB-MoF to issue specific guidelines to districts instructing compliance with the requirements of the ACGs under the PforR, including to require them to check the Bank's debarment and temporary suspension lists before awarding contracts financed by DAK Fisik under the Program and to record the verification in the bid evaluation report. BPKP to verify the compliance of DAK Fisik-financed contracts as part of the independent verification of DAK Fisik results for a representative sample of districts.	DGFB-MoF	Annual	PAP
Risk that information on procurement profiles and contract data under the Program is not collected	All implementing agencies, through the executing agency, to regularly provide the Bank information on procurement profiles and contracts during Program implementation.	All IAs	Semiannual	PAP
	The DGFB-MoF to consolidate information on the procurement profiles and contracts for DAK Fisik under the Program.	DGFB-MoF	Semiannual	PAP
Risk that unattended complaints under the Program and indications of fraud and corruption (F&C) in connection with the Program will not	All implementing agencies, through the executing agency, to inform the Bank promptly of all credible and material allegations or other indications of F&C in connection with the Program that come to its attention, together with	All IAs	Semiannual	PAP

Risk	Mitigation Action	Responsible Entity	Timing	Type of Action
be detected and reported in a timely manner	investigative and other actions that it proposes to take. The executing agency will consolidate and provide semiannual reports for all the implementing agencies to the Bank.			
	The DGFB-MoF to require districts to report on all credible and material complaints, allegations, or other indications of F&C in connection with DAK Fisik implementation under the Program (as part of the regular DAK reporting).	DGFB-MoF	Semiannual	PAP

Note: AAIFI = Indonesia Government Internal Auditors Association; BPKP = Finance and Development Monitoring Agency; DAK Fisik = Capital Specific Allocation Fund; DGFB = Directorate General Fiscal Balance; MoF = Ministry of Finance; PAP = Program Action Plan; PforR = Program-for-Results; SIKD = regional financial information system; SIPD = subnational government financial management information system.

### 3. Implementation Support

49. Fiduciary support would include:

- Monitoring implementation progress and working with the Bank’s task team to ensure the achievement of Program results and Disbursement-Linked Indicators that are of a fiduciary nature;
- Monitoring the performance of fiduciary systems and audit report submission, including implementation of the Program Action Plan;
- Monitoring changes in fiduciary risks to the Program and compliance with the fiduciary provisions in the legal documents;
- Providing support to implementing agencies to resolve implementation issues and conduct capacity building.



## Annex 1. Draft Anti-Corruption Protocol

In order to operationalize the “Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing” (the Anti-corruption Guidelines, or ACGs), dated February 1, 2012 and revised on July 10, 2015, as issued by the International Bank of Reconstruction and Development (“Bank”) and applicable to the “Strengthening Intergovernmental Transfers and Subnational Finance for Service Delivery in Indonesia (SINERGIS) Program” pursuant to Section 5.13 of the General Conditions, as defined in the Loan Agreement for the financing of the Program, the Borrower and the Bank agree to the following supplementary Anti-Corruption Protocol:

1. The Borrower shall be responsible for carrying out administrative investigations of all material and credible allegations of fraud and corruption (as defined in the ACGs) under the Program, keeping the Bank abreast of their progress and findings, and make public their conclusions/results.
2. For the purposes of Section 6 of the ACGs, the Borrower through the DG Fiscal Balance of MoF shall collect, consolidate, and provide the Bank, on a semiannual basis, or more frequently as warranted and reasonably required by the Bank, with a report on (i) any credible and material allegations and other indications of fraud and corruption under the Program which come to the attention of the Borrower during such period, including those reported under the Borrower’s whistleblowing system; (ii) any investigations launched by the Borrower’s Inspectorate General units into such allegations; and (iii) the progress of and outcomes from such investigations and any remedial or corrective actions taken or planned in response to such allegations or the findings of such investigations. If there are no allegations received or investigations or remedial actions undertaken during the reporting period, the Borrower shall report this as well.
3. For purposes of Section 7(a) of the ACGs, the Bank shall inform the Borrower of any material and credible allegations of fraud and corruption in connection with the Program that may come to its attention, consistent with the Bank’s policies and procedures, for investigation by the Borrower under the relevant criminal and civil laws.
4. For purposes of Sections 6(f) and 7(b) of the ACGs, in the event that the Bank decides to conduct its own inquiry into allegations or other indications of fraud and corruption in connection with the Program—whether alone, jointly with the Borrower, or in parallel with a Borrower’s investigation—the Borrower shall cooperate fully with the representatives of the Bank and take all appropriate measures to ensure full cooperation of relevant persons and entities subject to the government jurisdiction in such investigation, including, in each case, allowing the Bank to access sites and facilities, meet with relevant persons/entities, and to inspect all of their relevant accounts, records, and other documents and have them audited by, or on behalf of, the Bank. If the Bank were to find evidence of corrupt practices, the Bank shall refer the case to the Borrower for investigation under the relevant criminal and civil laws.
5. The Borrower shall ensure that any person or entity debarred or suspended by the Bank is not awarded a contract under, or otherwise allowed to participate in or benefit from, the Program during such period of debarment or suspension by the Bank. To this end, the Borrower shall put in place appropriate measures, including but not limited to the following: (i) issue a notification or guidance to its procurement units and to the districts to ensure that no contract under the Program is awarded to a firm or individual that is under debarment and/or temporary suspension by the World Bank; and (ii) check the Bank’s debarment ([www.worldbank.org/debarr](http://www.worldbank.org/debarr)) and temporary suspension lists before contract award and record the verification in the bid evaluation report to ensure that no contract under the Program is awarded to a firm or individual that is under debarment and/or temporary suspension by the World Bank. A regular biannual report on the procurement profiles and contracts under the Program shall be

submitted to the Bank. For DAK Fisik contracts awarded by districts under the Program, compliance with the Bank’s suspension and debarment lists shall be verified by BPKP as part of the independent verification of DAK Fisik results for a representative sample of districts.

6. For the purposes of this Anti-Corruption Protocol, the Secretary for DG Fiscal Balance of MoF shall be the focal point, with whom the Bank can communicate with on these matters.

**Table A1.1 Template for Reporting the Handling of Allegations of Fraud and Corruption**

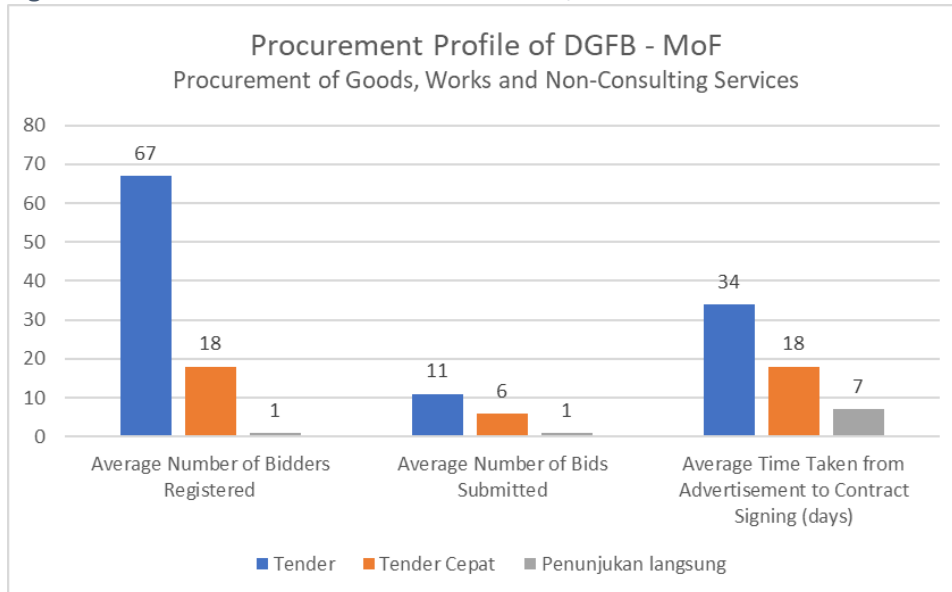
Location	Date Allegation Received	Complainant (Full name and address, if not anonymous)	Alleged Perpetrator	Means of Submission of Complaint (e.g., telephone, email, writing, verbal)	Description of Allegation	Grievance Handling <ul style="list-style-type: none"> <li>• Stage of handling of allegation (initial review, investigation, referral, prosecution, etc.)</li> <li>• Description of progress in investigation (for ongoing investigations)</li> <li>• Outcome of investigation (for completed investigations)</li> </ul>

## Annex 2. Implementing Agencies' Procurement Profiles

### A. Procurement Profile of Directorate General for Fiscal Balance, Ministry of Finance (DGFB-MoF)

The DGFB-MoF's Procurement Profile for FY2020–22 is based on data publicly available on MoF's website and the e-procurement system. The procurement profile shows that for the three procurement methods (open tender, fast tender, and direct contracting) the average number of bidders registered is 67 (open tender), with 18 bidders for fast tender and 1 bidder for direct contracting.

Figure A2.1 Procurement Profile of DGFB-MoF, FY2020–22



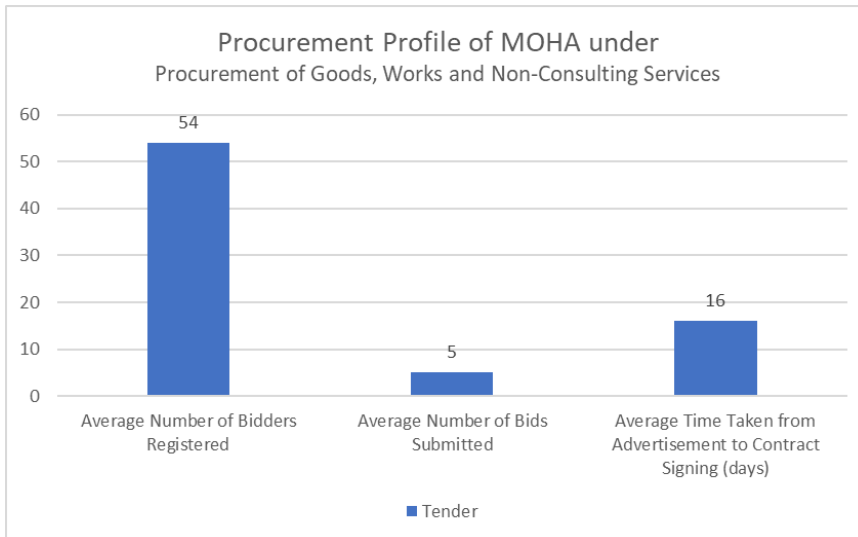
Source: Data from the SPSE (government e-procurement system).

Note: DGFB = Directorate General Fiscal Balance; MoF = Ministry of Finance.

### B. Procurement Profile of the Ministry of Home Affairs (MOHA)

The MOHA Procurement Profile for FY2020-2022 is based on data publicly available on MOHA's website and the e-procurement system. The procurement profile shows that for tender process, the average number of bidders registered is 54, while the average number of bids submitted is 5 bids. The average time taken from advertisement to contract signing is 16 days.

**Figure A2.2 Procurement Profile of the Ministry of Home Affairs, FY2020–22**

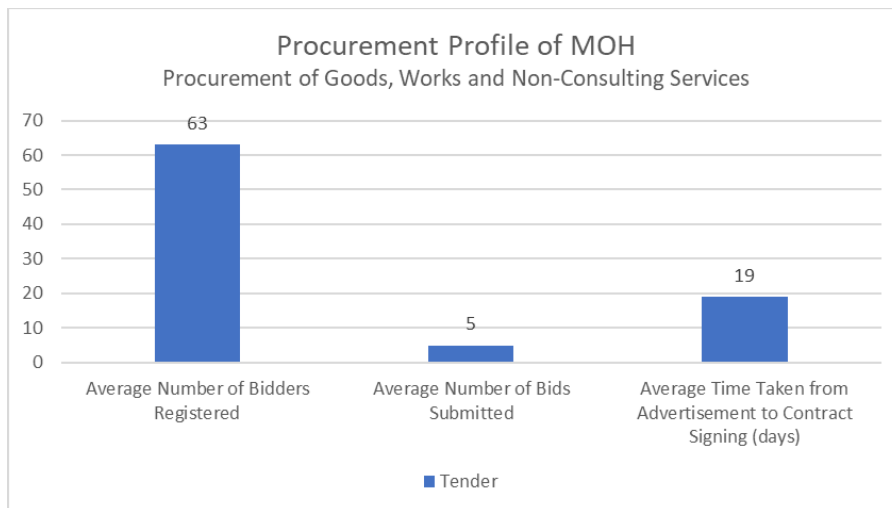


Source: Data from the SPSE (government e-procurement system) under the Secretariat General, DG Regional Development, and DG Regional Finance

**C. Procurement Profile of Ministry of Health**

The MOH Procurement Profile for FY2020-2022 is based on data publicly available on MOH’s website and the e-procurement system. The procurement profile shows that for tender process, the average number of bidders registered is 63, while the average number of bids submitted is 5 bids. The average time taken from advertisement to contract signing is 19 days.

**Figure A2.3 Procurement Profile of Ministry of Health, FY2020–22**



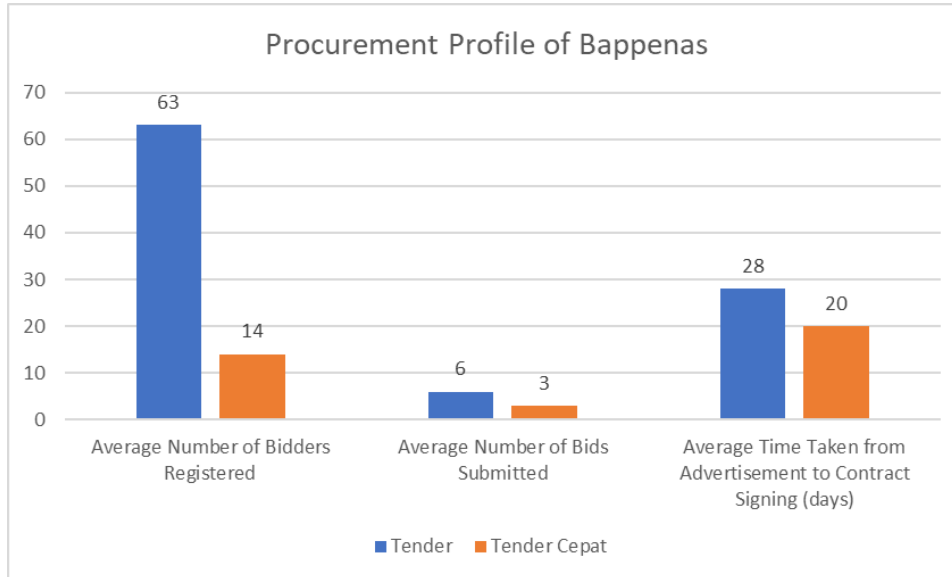
Source: Data from the SPSE (government e-procurement system)

**D. Procurement Profile of Bappenas (Badan Perencanaan Pembangunan Nasional/ National Development Planning Agency)**

The Bappenas Procurement Profile for FY2020-2022 is based on data publicly available on Bappenas’ website and the e-procurement system. The procurement profile shows that for tender and fast tender

processes, the average numbers of bidders registered are 63 and 14 respectively, while the average numbers of bids submitted are 6 (for tender) and 3 (for fast tender). The average times taken from advertisement to contract signing are 28 and 20 days respectively.

**Figure A2.4 Procurement Profile of Bappenas, FY2020–22**

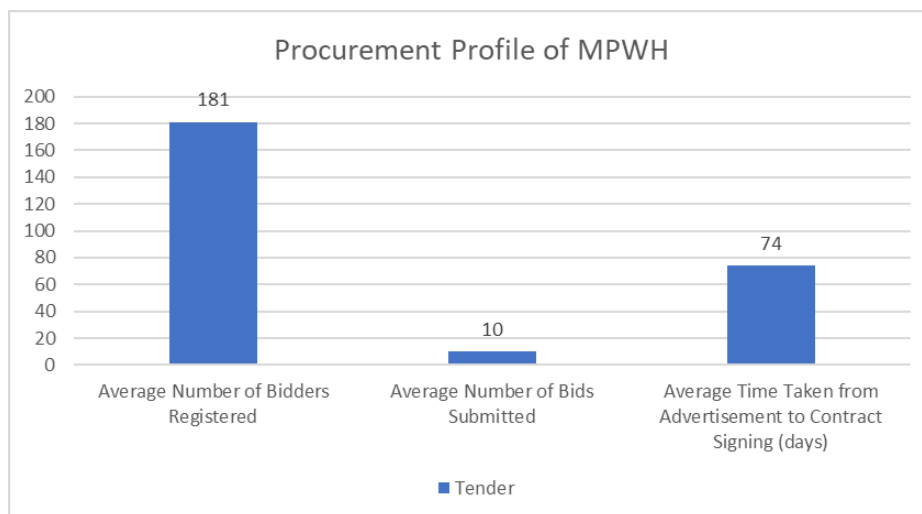


Source: Data from the SPSE (government e-procurement system)

**E. Procurement Profile of Ministry of Public Works and Housing (MPWH)**

MPWH Procurement Profile for FY2020-2022 is based on data publicly available on MPWH’s website and the e-procurement system. The procurement profile shows that for tender and fast tender processes, the average number of bidders registered is 181, while the average number of bids submitted is 10 bids. The average time taken from advertisement to contract signing is 74 days.

**Figure A.2.5 Procurement Profile of MPWH FY2020-22**

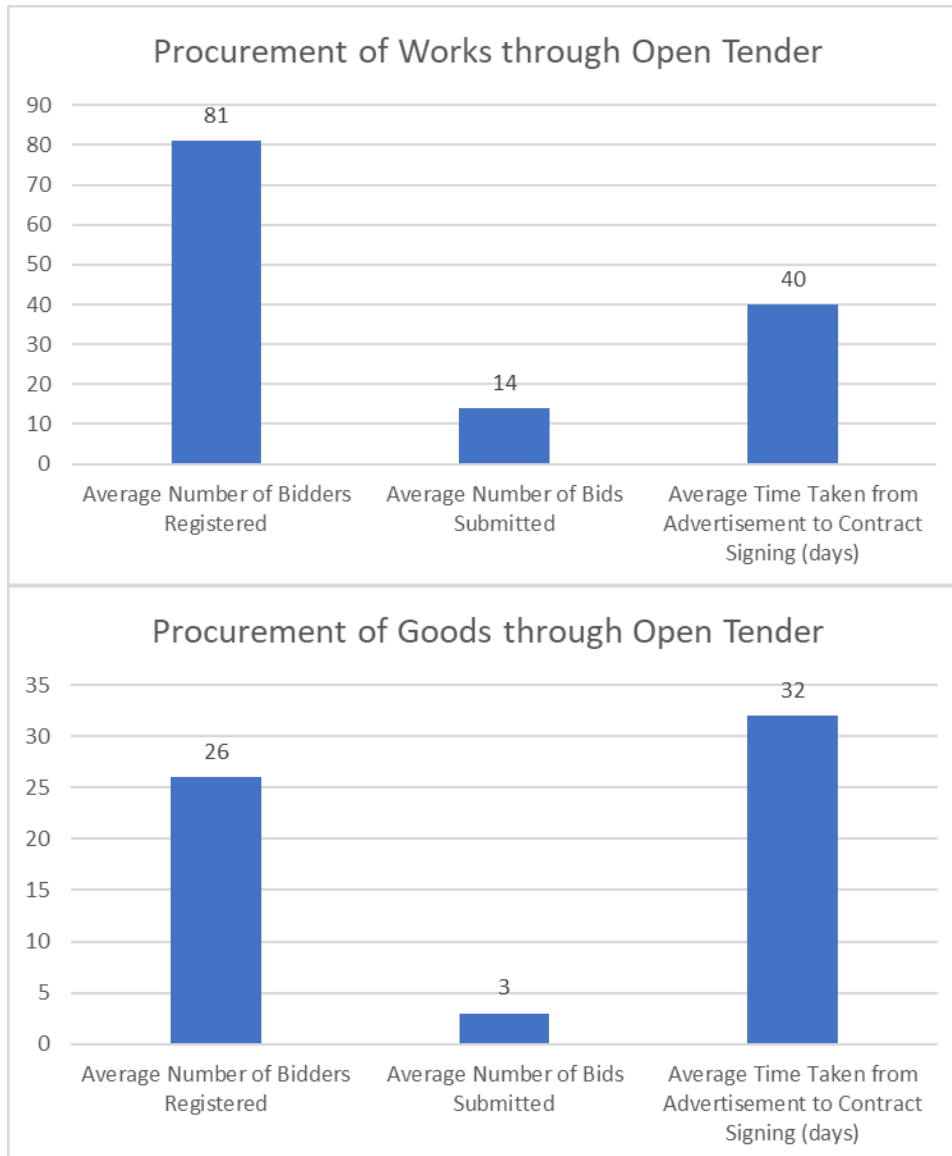


Source: Data from the SPSE (government e-procurement system)

## F. Procurement Profiles of Selected Subnational Governments

**F.1 Lombok Barat District's Procurement Profile in FY2022**—based on data publicly available on the subnational government's (SNG's) website and e-procurement system. The procurement profile shows that for procurement of works through the tender process, the average number of bidders registered is 81 bidders, 14 bidders submitted the bids, and 40 days' time was taken from tender advertising until contract signing. For procurement of goods, the average number of bidders registered is 26 bidders, 3 bidders submitted the bids, and 32 days was the time taken from tender advertising until contract signing.

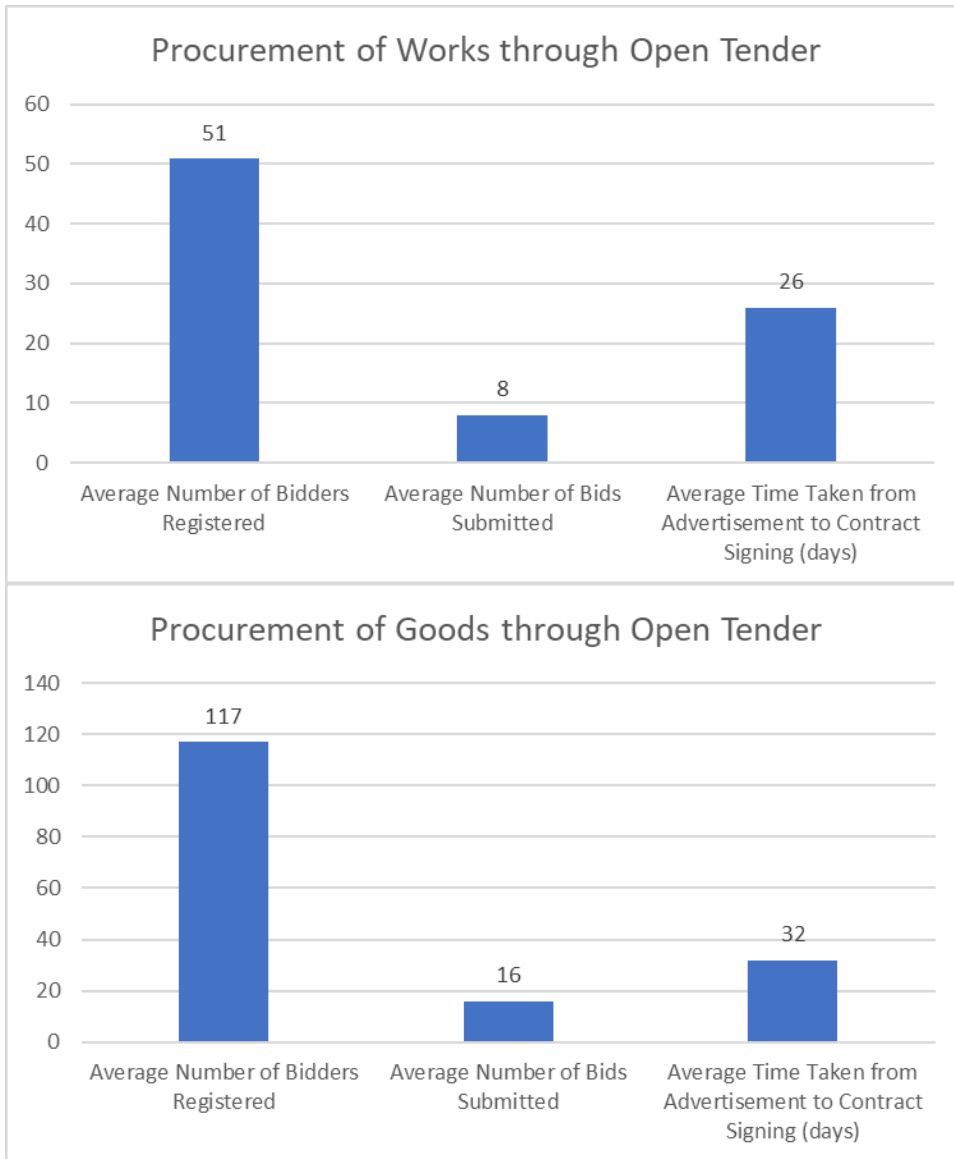
**Figure A2.65 Procurement Profile of Lombok Barat District, FY2022**



Source: Provided by Lombok Barat District taken from SPSE

**F.2 Sleman District’s Procurement Profile in FY2020-21—based on data publicly available on the SNG’s website and e-procurement system.** The procurement profile shows that for procurement of works through the tender process, the average number of bidders registered is 51 bidders, 8 bidders submitted the bids, and 26 days’ time was taken from tender advertising until contract signing. For procurement of goods, the average number of bidders registered is 117 bidders, 16 bidders submitted the bids, and 32 days was the time taken from tender advertising until contract signing.

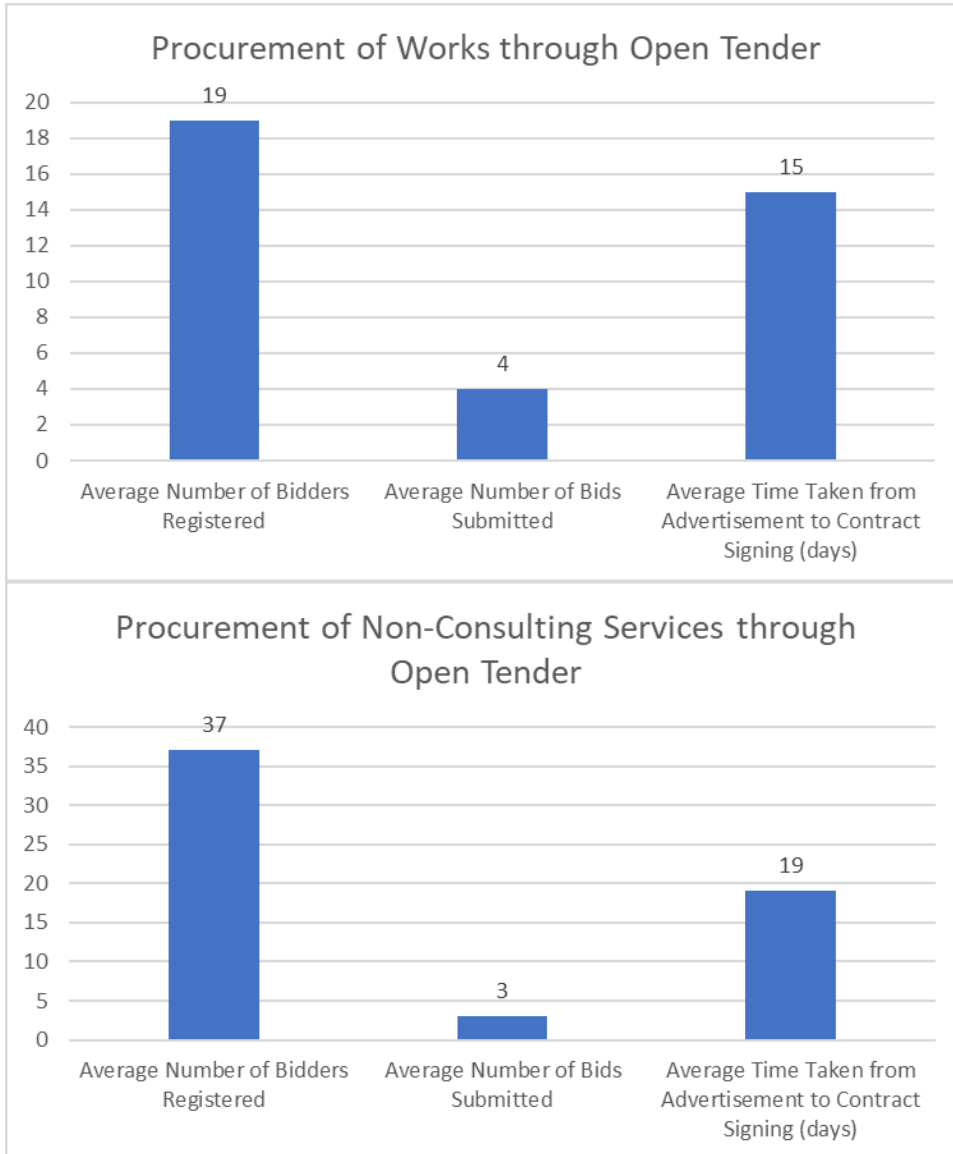
**Figure A.2.7 Procurement Profile of Sleman District FY2020-21**



Source: Data from the SPSE (government e-procurement system)

**F.3 Pangkejene Kepulauan (Pangkep) District’s Procurement Profile in FY2020-21—based on data publicly available on the SNG’s website and e-procurement system.** The procurement profile shows that for procurement of works through the tender process, the average number of bidders registered is 19 bidders, 4 bidders submitted the bids, and 15 days’ time was taken from tender advertising until contract signing. For procurement of non-consulting services, the average number of bidders registered is 37 bidders, 3 bidders submitted the bids, and 19 days was the time taken from tender advertising until contract signing.

**Figure A.2.7 Procurement Profile of Pangkep District FY2020-21**





## Annex 3. Program Financial Statement Format

### Strengthening Intergovernmental Transfers and Subnational Finance for Service Delivery in Indonesia (SINERGIS)

#### Financial Statements Format

#### Introduction

#### Table of Contents

#### Statement of Responsibility

#### Program Financial Statements

### Strengthening Intergovernmental Transfers and Subnational Finance for Service Delivery in Indonesia (SINERGIS) FY 20.....

#### Budget Realization Report

#### Notes to Financial Statements /Catatan Atas Laporan Keuangan (CaLK)

1. General Description
2. Accounting Policy
3. Budget Allocation and Realization Report by DGs
4. Annual Target Achievement and Problems Encountered (if any)

### Strengthening Intergovernmental Transfers and Subnational Finance for Service Delivery in Indonesia (SINERGIS)

#### BUDGET REALIZATION REPORT

FOR THE PERIOD ENDED 31 DECEMBER ..... AND .....

(in IDR)

No.	Program/Activity/Output				Budget	Realization	%
	Sub Total						
	Total						

**NOTES OF FINANCIAL STATEMENT**

**1. GENERAL DESCRIPTION**

1.1. General Description

1.2. Loan Profile

Program Name : **Strengthening Intergovernmental Transfers and Subnational Finance for Service Delivery in Indonesia (SINERGIS)**

Loan No. : Loan IBRD .....-ID

Negotiation Date :

Loan Signed Date :

Loan Effective Date :

Loan Closing Date :

Implementing Agency :

Total Loan Amount :

Scope of Implementation :

1.3. Organization and dan Project Management

1.4. Program Annual Target

1.5. Project Administration

**2. Accounting Policy**

**3. Budget realization by Directorate General**

**1. DG .....**

Code	PROGRAM/ ACTIVITY	Ref.	Budget	Realization	%
	Total				

**2. DG .....**

Code	PROGRAM/ ACTIVITY	Ref.	Budget	Realization	%
	Total				

**3. ....**

Code	PROGRAM/ ACTIVITY	Ref.	Budget	Realization	%
	Total				

**4. Annual Target Achievement and Problems Encountered (if any)**