



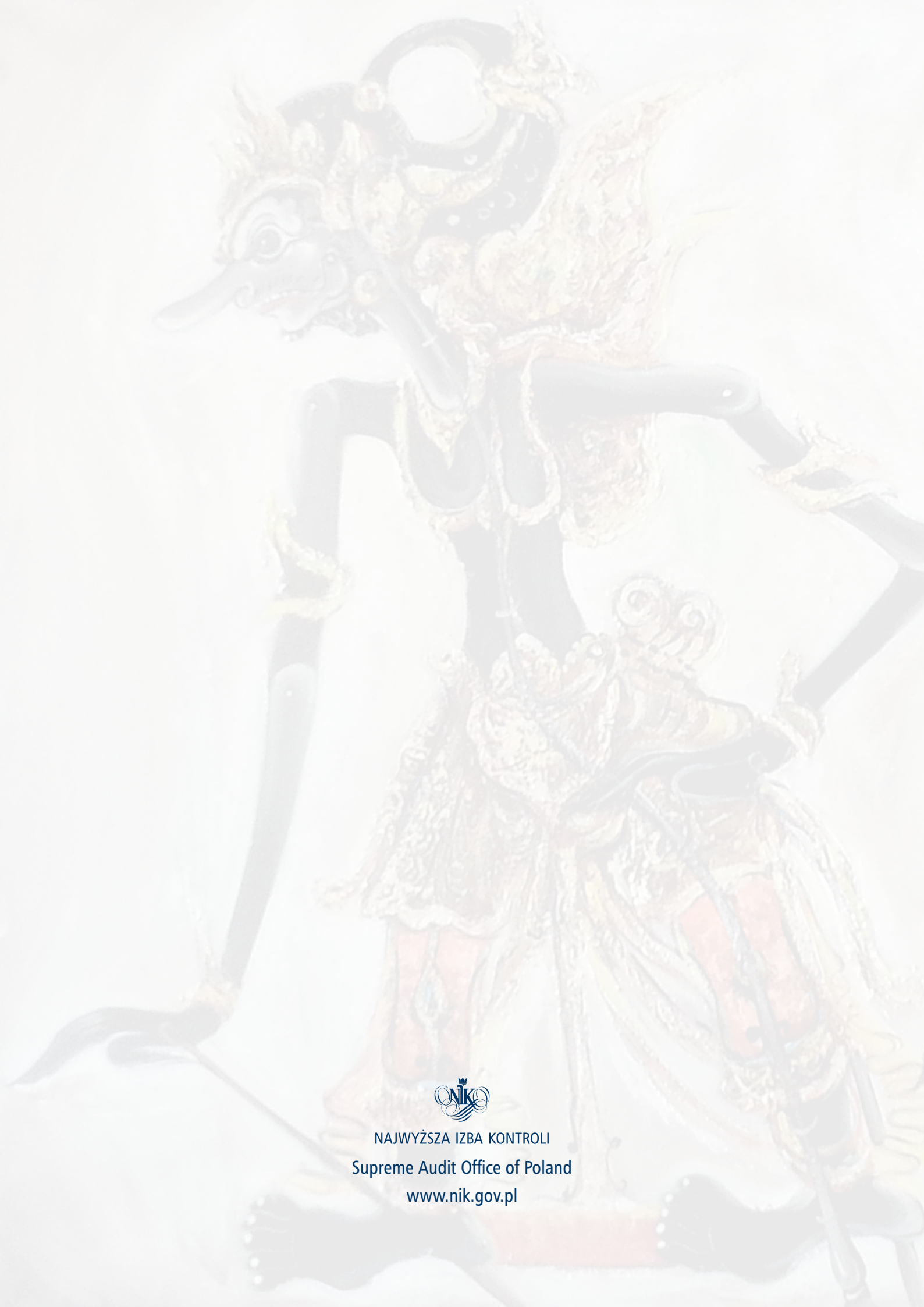
# PEER REVIEW REPORT

ON THE SUPREME AUDIT BOARD  
OF THE REPUBLIC OF INDONESIA

– BADAN PEMERIKSA KEUANGAN –

APRIL 2014





NAJWYŻSZA IZBA KONTROLI  
Supreme Audit Office of Poland  
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## Foreword

I am honoured to present to the Audit Board of the Republic of Indonesia the peer review report, which has been developed by a team of my colleagues from the Polish Supreme Audit Office.

Peer reviews carried out among SAIs within the INTOSAI community are of ever greater importance as a tool used to assure quality of our work and compliance with the ISSAI framework.

The aim of this peer review was to examine whether the BPK had prepared and implemented the quality control system in order to provide compliance with the State Finance Auditing Standards (SPKN) and to assess the extent to which the recommendations formulated during the previous peer review carried out by the Netherlands Court of Audit in 2009 had been executed. This concerned in particular the issues of: Independence and Mandate, Leadership and Internal Governance, Auditing Standards and Methodology, and Audit Performance.

Our societies expect to receive more comprehensive information on the functioning of the state, which is financed by taxpayers. That is the why the role of SAIs becomes even more significant. Our task is to inform societies on how the executive authorities fulfil their duties towards the citizens. We may execute this function by conducting professional and thorough audit studies and by informing about their results. Therefore, in this report we paid much attention to communicating the results of audits carried out by the BPK to the society and other main stakeholders.

I am pleased to compliment the BPK's staff on their impressive involvement, which was repeatedly witnessed by the peer review team, on various organizational levels, aimed at continuous development of the institution in which they work.

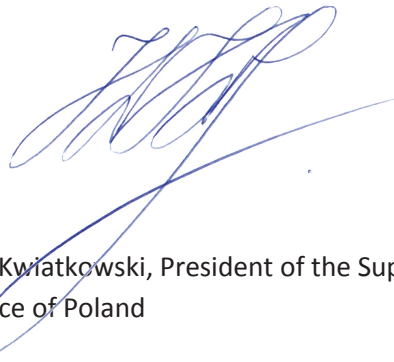
While presenting this report I hope that the suggestions and recommendations included therein will prove useful in further improvement of the BPK's functioning.

On behalf of the whole peer review team I would like to thank the BPK for providing most excellent working conditions during the team's stays in your office. We are highly impressed by the fact that people who worked here with us were always open and ready to help, which enabled the peer

review team to fulfil their duties in a relatively short time dedicated for the implementation of this project.

I would like to stress that during this peer review we have gathered a lot of valuable experience and observations, which we will certainly use in our work back at home in the Polish Supreme Audit Office, as the “mutual experience benefits all”, as the INTOSAI motto goes.

I would like to wish the BPK every successes and satisfaction from the implementing of their difficult mission of the state auditor for the sake of the well-being of the people of Indonesia.



Krzysztof Kwiatkowski, President of the Supreme  
Audit Office of Poland

Jakarta, 16 April 2014

## I. Executive Summary

Since the previous peer review conducted in 2009 the BPK has put a great deal of effort to develop its procedures, standards, guidelines and a systemic, richly documented strategic approach. In the Reviewer's opinion, this approach has been necessary and fruitful, especially in a country so big and internally so diverse as Indonesia. They can be proud of their strong methodological framework and of the devoted and professional team they have built.

The BPK's procedures and practice are in accordance with the International Standards of Supreme Audit Institutions (ISSAI). What should be particularly appreciated is strong emphasis put by the BPK on effective quality control system implementation with special role given to the Principal Inspectorate (ITAMA).

At the same time, further improvement and increasing of the BPK's potential and its audits' professional quality are still possible, and they are the general aim of detailed recommendations presented in this report. The Reviewer paid special attention to find solutions for:

- further possibilities to consolidate the BPK's independence in a way which would not harm their good cooperation with the Indonesian Government,
- directions of Information Technologies' application,
- a more determined strategy, and first of all: fast development of the BPK's performance audits and focusing them on the most important cross-section audit topics,
- better communication with key stakeholders and
- more efficiency in applying their rich set of internal procedures.

To summarize, usually at this stage of any organisation's life, good progress can be provided not as much through further formalisation and complexity of the procedures, but rather through their refinement, simplification and through more effective communication with key stakeholders. Appropriately applied, these directions for change will increase the BPK's efficiency and impact – its key mission enablers.



The Reviewer would also like to underline the BPK's strengths which seem to be specially valuable in the fulfilment of its mission:

### **BPK STRENGTHS**

- Young, well-educated and open-minded staff
- Discipline and respect for procedures – well-established in the BPK's organisational culture
- Strong IT unit and well-designed IT development strategy, including the e-audit initiative
- Valuable findings – in various types of audits
- Financial audit – highly appreciated by the national Parliament and regional legislative assemblies
- Forensic audit – valued by law-enforcement agencies as effective support for their investigations
- Follow-up procedure – consistent and effective, even if the size of the country and number of auditees make it difficult to monitor each case in-depth

## II. General Overview

In the Reviewer's opinion the current legal framework and practices adopted in Indonesia with regard to its SAI, fulfil the recognized international standards and allow the BPK to implement its mandate in an effective way for the sake of the sound management of the country's public finance.

### CONSTITUTIONAL FRAMEWORK

The Supreme Audit Board (Badan Pemeriksa Keuangan or BPK) is the supreme audit institution (SAI) of the Republic of Indonesia. The Constitution of the Republic of Indonesia states in Chapter VIII A that there shall be a Supreme Audit Board, free and independent, with its main task to audit management and accountability of state finances. According to the Constitution Members of the Board shall be elected by the House of Representatives (Dewan Perwakilan Rakyat or DPR) after getting consideration from the Regional Representative Council (Dewan Perwakilan Daerah or DPD), and formally appointed by the President, and that the leadership (Chairman and Vice-Chairman) of the Board shall be elected by and from among its Members. The 2006 Law on the BPK specifies that there shall be 9 Members, whose term of office shall last 5 years, and that they can be reelected only once.

The legal framework gives the BPK a strong position within the hierarchy of state authorities of Indonesia and can be compared to similar arrangements in many other democratic countries.

### BOARD

There is a number of SAIs around the globe that are established as a board. An example may be the Czech Audit Office, governed by the Board consisting of the President, Vice-President and 15 Members of the Office. The President and Vice-President of the Audit Office are appointed by the President of the Czech Republic for a definite term, i.e. 9 years, while the 15 Members of the Office are appointed by the Parliament for an indefinite term (they retire at the age of 65). Another SAI established as a Board of Members is the Norwegian Riksrevisjonen. The Riksrevisjonen is managed by a Board of five Auditors General, who are appointed by the Parliament

for a period of four years. The Parliament also appoints one of the Auditors General as the Chairman and the main executive officer of the Riksrevisjonen.

A similar arrangement as in Indonesia concerning the election of the President from among the Board's Members by Members themselves is quite frequent in the SAIs of a court type. For example in Spain the Tribunal de Cuentas is governed by a 9-men-strong Board appointed by the Parliament for a term of 9 years, where the Members appoint the President and Vice-President from among themselves for a term of 3 years .

## SIZE

BPK with its over 6000 employees can be perceived as a big SAI, when compared with its counterparts in other countries, e.g. the UK NAO – 860 or Polish NIK – 1700. The impression changes when one compares the total number of the country's inhabitants to the SAI staff's number, which makes Polish NIK almost twice bigger (the respective ratio reflecting the SAI's size for Indonesia and Poland is like 2.5 to 4.5). The perspective changes even more, when diversity and communication realities are taken into account. As the fourth biggest state on Earth, the quickly developing Indonesia – with its three time zones and more than 17000 islands – is a very demanding subject of state auditing. When one adds specific tasks, among them obligatory financial audits of about 3100 entities each year and the duty to calculate state losses, it can be concluded that the need for further grow of the BPK's staff number seems justified.

## YOUNG STAFF

In the course of the peer review, the Reviewer had a chance to meet and to talk to many of the BPK's staff, of various professional positions and locations. In our opinion it is its people who are among the BPK's greatest assets. The BPK's staff are young, dedicated and better and better educated. The BPK employs over 6136 (in 2013) people in all Indonesia, about 2200 of whom are non-auditors. The staff are very young: as much as 62 per cent of them are below 36 years of age and only less than 1 per cent are over 55!

## THE CAPITAL AND REGIONS

Organizationally the BPK is divided into the head office located in Jakarta (comprising 7 audit departments and auxiliary units) and 33 representative

offices in all provinces of Indonesia. The BPK is required by the Constitution to have a representative office in each province; the 34th representative office in the newly established province of North Kalimantan is going to be set up soon.

The regional structure of SAIs is a well-known, though not very frequent, pattern also in other countries, including the partner SAI of this peer review, Poland, but also for example France, Morocco or Slovakia (centralised to a various extent). Different degrees of centralisation and legal basis exist in this regard, e.g. the BPK is required by the Constitution to establish an office in each province, while in Poland the regional structure is regulated by a lower act, namely by the NIK's Organisational Charter, signed by the Speaker of the Sejm (the lower chamber of the Polish parliament).

### **CIVIL SERVICE**

The BPK's staff are members of the Civil Service. It is also an arrangement known in other SAIs. For example in Germany, Lithuania or the UK, though it is actually not the case in the peer review partner's country. NIK auditors are not part of the Polish Civil Service (which comprises only the government), however they have a very similar status to that of civil servants granted by the Law on NIK, within their own corpse of NIK auditors.



### III. Independence and Mandate

Supreme Audit Institutions play a crucial role in supplying transparency and integrity to public management. In the General Assembly's resolution of 2011, the United Nations stressed the important role of SAIs in promoting efficiency, accountability, effectiveness and transparency of public administration, which is essential in order to achieve national, as well as international development objectives and goals.

To be able to fulfil this role SAI needs an appropriate degree of independence in carrying out its duties, as independence ensures the proper performance of its function. The aspects of SAI independence have been laid down in the basic standards, namely the Lima Declaration of 1977 and the Mexico Declaration of 2007. The Lima Declaration states that Supreme Audit Institutions can accomplish their tasks only if they are independent of the audited entity and protected against external influence. It is also experience of Supreme Audit Institutions of the world that independence is strictly connected with mandate, and both decide about real impact of SAI on public management.

Moreover, according to the INTOSAI Code of Ethics (ISSAI 30) special care should be applied to any forms of political involvement by SAI staff and management:

*Paragraph 20: It is important to maintain both the actual and perceived political neutrality of the SAI. Therefore, it is important that auditors maintain their independence from political influence in order to discharge their audit responsibilities in an impartial way. This is relevant for auditors since SAIs work closely with the legislative authorities, the executive or other government entity empowered by law to consider the SAI's reports.*

*Paragraph 21: It is important that where auditors undertake, or consider undertaking, political activities they bear in mind the impact which such involvement might have - or be seen to have on their ability to discharge their professional duties impartially. If auditors are permitted to participate in political activities they have to be aware that these activities may lead to professional conflicts.*

According to those principal standards the Reviewer has reviewed key aspects of the BPK's independence. We can ascertain that the BPK has sound legal basis. Its mandate is defined in Articles 23E, 23F, 23G of the

Constitution and Law No. 15 Year 2006. The Constitution states that the Audit Board of the Republic of Indonesia shall be a free and independent institution, which is obliged to audit the management and accountability of state finance.

The legal base of the BPK's functioning grants then its broad autonomy in all aspects of public finance auditing. In the Reviewer's opinion the SAI of Indonesia has sufficient competence in the audit process planning, conducting, and identifying audit subjects.

The aim of the following remarks is to support further strengthening of the BPK's independence:

### **POSITION OF THE SAI'S HEAD AND APPOINTMENT OF THE BPK BOARD**

The Board, which comprises of nine members, who enjoy the status of state officials, has a firm position given by the constitutional mandate and due to the fact that it plays an important role within the organization. That is why prescribed specific professional competence and ethical requirements for candidates for Board Members would be desirable.

During the meetings with external stakeholders the Reviewer repeatedly met with opinions that the Members of the Board should not be involved in current political activities. Taking into account the standards laid down by INTOSAI (ISSAI) and existing practice of many SAIs we recommend:

#### Recommendation 1.

A potential Board Member should be required to resign from membership in any political organization and withdraw from any political activity for the duration of their mandate, after being elected by the Parliament and prior to appointment by the President and taking the oath. If a Member decides to stand for election or get involved in any other political activity, he or she should resign or suspend the membership in the BPK Board (e.g. for the time of the election campaign).

The Board consists of 9 Members who enjoy considerable independence in fulfilling their mission, which is meant to contribute to the objectivity of audit results. However, such an arrangement involves also a risk of not ensuring enough management coordination, which may lead to functional separation of the organisation's units supervised by individual Members,

and to not drawing enough on the synergy effect. Therefore, the Reviewer finds it appropriate for the BPK to find ways to evaluate the effectiveness and efficiency of the current arrangement.

### **CONTENT OF BPK AUDITS – CALCULATION OF STATE LOSS**

One of the duties imposed on the BPK by the law is calculation of State loss. It is handled as part of BPK audits or as a separate task. In the practice of other SAIs, losses incurred by the State in particular entities are also often calculated. The difference is they are part of particular audit tasks and the decision to calculate them is taken by SAIs. What is more, the freedom to decide on the content (and timing) of audit reports is one of the principles of SAI independence<sup>1</sup>. In the Reviewer's opinion, the obligation to calculate state loss can create expectations by the law enforcement agencies towards the BPK, even if no SAI should be treated as subordinate to Government agencies.

#### Recommendation 2.

Consider broader discussion on the BPK's obligation to calculate state losses, taking into account the necessity of giving the SAI freedom to decide when and to what extent they should be calculated.

### **Relations with law enforcement agencies**

One of the attributes of SAIs' independence is freedom to set up their own work plan and choose the subjects and entities to be audited. In some of the INTOSAI member countries the legislative bodies are entitled to impose duties on SAIs. But especially a situation in which institutions of executive power, therefore audited by the SAI, have a similar competence may raise doubts.

The Reviewer has learnt that law enforcement institutions like the Police, the Prosecutor's Office, the KPK (Corruption Eradication Commission) can demand audit by the BPK. In practice, only demands completely impossible to fulfil are rejected. We think that observations and suggestions from law enforcement institutions can be very helpful when developing the SAI's work plan, however they should not be obligatory for the BPK as the

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<sup>1</sup> ISSAI 10, principle 6



supreme audit institution of the state. On the other hand, the law enforcement institutions that receive from the BPK information on a possible case of fraud, corruption or other criminal activity, are not obliged by the law to inform the BPK about results of their proceedings in the case.

#### Recommendation 3.

Establish practice, in which suggestions by Government institutions are treated as valuable information, but the final decision about performing an audit (or not), its content and timing, is always at the BPK's discretion.

Discuss with the Parliament a change in the law obligating law enforcement agencies and the Prosecutor's Office to promptly inform the BPK about results of proceedings triggered by the information delivered by BPK.

## REPORTS' AVAILABILITY

Well established independence of a Supreme Audit Institution is related to its mandate which in the democratic state environment depends not only on appropriate relations with other State authorities but involves to a great extent the public opinion. The significance of the following two aspects should be emphasized:

- 1) the more easily SAI reports are available for the public opinion, the bigger potential number of its readers is;
- 2) the more plain language used (especially in reports' summaries), the more real recipients of the SAI work's and the more interest of the mass media in the SAI's reports.

In the Reviewer's opinion, in both of these aspects the BPK's impact on public opinion is limited at present, which can also indirectly weaken the practical application of the Board's independence. The BPK's website provides the broad public only with audit reports' summaries. The access to the full version is given only on request and registered.

*[For description of the problem from the point of view of governance and for the relevant recommendation see: Communicating audit results, p. 18]*

## RESOURCES

### Financing

According to the provisions of law, the BPK's budget shall be allocated to a separate part in the State Budget and shall be submitted by the BPK to the DPR to be discussed in the preliminary discussion on draft State Budget<sup>2</sup>. At the same time the budgeting processes and financial accountability of the BPK have to comply with the regulations obligatory for all ministries and public institutions in Indonesia<sup>3</sup>.

The Reviewer has learnt that in practice the first draft of the BPK's budget is discussed with the Ministry of Finance before being submitted to the Parliament. While talking about the BPK's budgetary process with the Ministry of Finance, the Directorate of Budget, the Reviewer was told that the Directorate deals with 86 ministries and the BPK is treated as just one of them. The ceiling of resources is set by the Ministry, even if the BPK usually suggests a higher amount. Following that, the draft agreement is jointly discussed with the Ministry of National Development Planning as well.

The Reviewer wishes to emphasize, that the legal framework grants the BPK authority to submit their proposal, even if not previously agreed on with the ministries, to the Parliament, i.e. the body to decide on the national budget. This is in compliance with the Mexico Declaration on SAI Independence<sup>4</sup>. It is also to be emphasized that both the BPK and the Ministry of Finance are satisfied with the cooperation on the BPK budget. However, it should be noticed that the recent years' economic growth in Indonesia supports this cooperation. If the economic situation gets worse, the BPK's independence with regard to its resources can be put at risk.

Another issue related to the budget concerns the freedom of allocating funds within the assigned budget. The reviewer has learnt that shifting funds by the General Secretary from one part to another within the BPK'S budget needs approval of the Ministry of Finance. This procedure results from the regulation of the Minister of Finance, i.e. one of the BPK's auditees.

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<sup>2</sup> Art. 23 Law 15/2006.

<sup>3</sup> Pursuant to the provisions of UU No. 17 2003 concerning State Finance, UU No. 1 2004 concerning State Treasury, UU No. 15 2004 concerning Audit of Management and Accountability of State Finance and other relevant regulations.

<sup>4</sup> ISSAI 10

#### Recommendation 4.

Consider limiting the role of ministries in the budget negotiation process in order to reduce the influence of the BPK's auditees on the BPK's resources .

### **Human resources**

#### ***Employment***

As far as the human resources management is concerned, the BPK is subject to the governmental regulations on the Civil Service, which in fact hinders a sovereign HR policy that would comply with the BPK's needs. The Civil Service is supervised by the Minister of State Apparatus and Bureaucratic Reform. The Reviewer did not come across any cases of reducing the BPK's independence in this aspect. Risks, however, are visible. An example may be the fact, that BPK had to wait for several months for the Final Assessment Team to appoint a principal auditor or to issue its internal regulations concerning its staff and internal organisation. The possibility to promote employees also depends on limits set for the whole civil service in a given year.

#### ***Recruitment***

All BPK staff are recruited in open competitions for Civil Servants organised by the Ministry of State Apparatus and Bureaucracy. To fill vacancies the BPK applies to the Ministry for staff needed, specifying their number and required qualifications. However, in recent years the Ministry has not recruited as many staff as the BPK required. At the moment the BPK estimates its staff shortages to amount to over 1.300 jobs (vs. 6.136 of the BPK's staff employed), which means that the organisation works under great human resources pressure in order to provide the required results of its work.

#### ***Promotion***

As civil servants the BPK staff are promoted also according to the regulations on Civil Servants issued by the government. To be promoted a member of staff needs to meet specific criteria, including work experience and competencies. Individual decisions are made by a board that consists of the BPK's top civil servants called Baperjakat (Badan Pertimbangan Jabatan dan Pangkat) and promulgated by the BPK Secretary General.

#### ***Remuneration***

BPK staff are remunerated according to the government regulations on the Civil Servants. There is no freedom on part of the BPK's managers to use the

pay rise tool in order for example to compensate some of their staff for working in difficult conditions and/or in remote areas of the country.

Recommendation 5.

Consider ways in which BPK'S management policy, as well as recruitment, promotion and other HR-related processes could be conducted more independently from the Government.

### *Insurance*

Indonesia is a huge and diverse country. The level of development of its various parts differs sometimes very significantly. The BPK staff's working conditions vary respectively. Some of them work in or travel to remote and/or less developed, even dangerous areas, following the public resources that need to be audited. The Reviewer was struck, in the positive sense of the word, by the BPK's staff's understanding of that situation and dedication to pursue with their work wherever it is needed. Many of the BPK's staff interviewed by the Reviewer stressed however the pressing need on their part and on the part of their families for life and health insurance. Such a need seems to be perfectly understandable.

However, solving this problem is not only related to financial constraints but also to the issue of the BPK's independence. The BPK in its current legal framework has to follow the general rules of the Civil Service, on which it has no influence as it is regulated by the Government.

Recommendation 6.

As this issue seems to be common in the whole Civil Service, the BPK could consider carrying out an audit in this field and proposing some improvements in that respect to the government.

### **FOLLOW-UP**

The system of BPK audits' follow-up monitoring is sufficient. The Parliament is informed about progress and difficulties in the implementation of BPK recommendations in reports issued periodically. The natural barrier is a big number of auditees, which makes it practically difficult to monitor regularly

the real implementation of recommendations. The BPK is aware that the current follow-up monitoring system's capacity should be enhanced in future.

#### **ACCESS TO MOF TAX DATA BASE**

The access was presented by the BPK as satisfactory. The only constraints remain in the area of individual tax payers data and presumptions on tax prognosis.

## IV. Leadership and Governance

### STRATEGIC PLANNING

The BPK developed a strategic approach for the years 2011-2015, which is based on: three strategic goals, 10 strategic objectives, 20 key performance indicators (KPI) and 32 strategic initiatives, which are followed by further lists of activities and outputs.

The three goals are of high-level strategic nature and can be described as follows:

1. Good public finance management.
2. High quality and useful audit reports.
3. Modern management of the BPK.

Strategic Goal 1 encompasses one strategic objective, Strategic Goal 2 encompasses five strategic objectives, and Strategic Goal 3: four of them. Specific actions planned in order to obtain the strategic objectives and goals are described in 32 strategic initiatives.

Grouping of these initiatives turns attention: most of the strategic objectives (8 out of 10) are to be reached by means of one or two strategic initiatives. The exceptions are:

- Strategic Objective 2. *Enhancing the Functions of Audit Management* – planned to be implemented through 14 initiatives.
- Strategic Objective 8. *Enhancing Human Resources Competency and Management* – 5 initiatives.

Among initiatives covered by Strategic Objective 2 one can find all important aspects of BPK audits, from improvement of planning, through the application of e-Audit, to the capacity enhancement of all types of audits and empowerment of Government's Internal Supervisory Apparatus in the Implementation of the Authorities and Responsibilities of BPK.

This multiannual planning approach is monitored and assessed, in e.g. Implementation Planning Of Strategic Initiative 2.6 "Capacity Improvement Of Performance Audit". Certain difficulty may appear when one tries to identify strategic priorities in this list of strategic activities defined by the BPK. Even if it can be presumed that Objectives 2 and 8 are more demanding than others, still, it does not explain which of the strategic initiatives are the most crucial for the success of the BPK's strategy.

#### Recommendation 7.

A short list of the highest priorities among strategic initiatives would help in focusing the BPK's effort on the goals which are considered as the most crucial.

### ANNUAL PLANNING

The BPK's annual work plan is integrated with its annual budget. It makes the BPK budgetary decisions strictly related to its work plans. E.g. during a meeting with the Indonesian Public Accounts Committee (BAKN) the MPs told the Reviewer that it was the Committee to decide about 15 per cent of the BPK's performance audits planned for 2014.

In the 2014 Annual Audit Plan, the BPK design to publish 265 performance audit reports or 20% from its total audit report produce, it is exclude audit on assistance to political parties.

All audits are planned in a two-years perspective, which is strictly related to the plan's connection with budgetary planning. In this process the audit universe concept is applied to entities rather than to the hierarchy of audit subjects.

### IMPACT ASSESSMENT

The 2009 peer review report recommended developing more effective scenarios to publish BPK reports and building up a strategic alliance with relevant stakeholders. The expected output of the recommendations' implementation described in the follow-up action plan foresaw the development of a strategic plan covering those issues. The relevant Strategic Plan 2011-2015 was approved by a decision of the BPK Secretary General in September 2013.

### Seeking feedback

With reference to its public perception in the years 2011 and 2012 the BPK ordered external surveys, which were conducted by consulting firms and reports on their findings were developed. The objective of these surveys was to assess how the public opinion found BPK audit reports, as well as the BPK's public relations and communication. The groups of respondents were: auditees from the previous two semesters, MPs<sup>5</sup>, law enforcement

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<sup>5</sup> DPR,DPD,DPRD Provincial Parliament, DPRD Municipal Parliament

agencies<sup>6</sup> and the national media . The total number of respondents was 367 for 2011 and 362 for 2012.

It is very positive that the BPK seeks feedback from its stakeholders. However, in neither of the above mentioned surveys were the public (citizens) included. In the Reviewer's opinion the public are amongst the most important of the SAI's stakeholders and therefore it would be advisable to seek for a feedback also directly from citizens. SAIs need their high public profile for assuring their recommendations' better implementation, therefore it is very important to find ways to reach with the results of audit work to the society and in the long-term to deserve an image of a reliable provider of official information on the State's affairs. To fulfil this accountability function and assure understanding of its role and effective use of audit results it is important that the BPK develops and sustains a reliable image among its stakeholders including the public.

#### Recommendation 8.

Continue regular surveys on the BPK's perception by its stakeholders, also including the citizens, as the public is amongst the SAI's key stakeholders.

The BPK is also planning to take some actions to enhance the public awareness of the BPK: events such as road shows, mini advertising, events, social events and workshops are foreseen. Quite recently the BPK has also used some aid funds to make 3 short films presenting the findings and conclusions of its audits in the areas of strong public interest. The films are going to be shown on TV and in cinemas and their main aim is to increase the public awareness of the BPK's contribution to the improvement of the public sector's activity in Indonesia.

#### **Expert methodology**

The impact of the BPK's audits on the State affairs is not currently assessed. The above mentioned surveys can help in better recognition of the BPK's public perception and they can support, but not replace, expert evaluation. In the same way, it can be complemented by quality assessments and evaluations conducted by ITAMA or EPP, as well as by auditees' surveys.

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<sup>6</sup> The Police, Attorney General, Corruption Eradication Commission



#### Recommendation 9.

Consider elaboration of the BPK's own expert methodology to assess your audits' impact on the State's functioning, which would be complementary to the above mentioned opinion surveys.

### **BPK'S IMPROVED IMAGE**

As the Reviewer found through interviews with the BPK's stakeholders, it is regarded as a strong, independent and professional organisation. It is agreed that its audit reports aim to deliver an objective and valuable opinion concerning the management of public funds.

#### **Communicating audit results**

The basis to share audits results - not only with auditees and central or local level authorities but also with the media and the public – are audit reports. ISSAI 300 reads: "Distributing audit reports widely can support the credibility of the audit function"<sup>7</sup>.

Till 2011 all of the BPK's audit reports were published on its Internet website. This system was discontinued in the attempt to avoid misreading and misuse. This decision was taken following cases of blackmail and threat received by officials on the basis of information from the BPK's audit reports. At present each report is presented to the public in the form of an executive summary published on internet. If one wants to get access to a full report, one has to submit a request. The BPK runs a register of such requests.

However, it seems that this new approach has not prevented the BPK from facing the problems known from the past. Restricted access to information leaves an open door for leakage of information, misunderstanding of only partially disclosed data and misinterpretation of the BPK's findings and recommendations.

The stakeholders of the BPK – representatives of the local and central Government and the media have emphasized the need for more open access to the BPK's reports, provided with necessary explanation and clarification concerning the findings (for example their materiality). This should limit opportunities for improper use of audit results.

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<sup>7</sup> ISSAI 300, paragraph 31

Recommendation 10.

Ensure full and timely access to the BPK's audit reports, including publication of full reports on the BPK's website, together with auditees' comments and if necessary with BPK's replies to them.

The main role of the BAKN and the DPD Accounting Committee is to review the BPK findings and discuss their follow-up. They can also provide feedback to the BPK concerning its annual audit plan and quality of audit reports. In that context assuring reports' readability is crucial. In MPs' opinion the majority of the BPK reports delivered to Parliament contain a great amount of information, and at the same time they do not emphasize the main issues or the most important findings, which makes them very difficult to analyse. However, the Committees admit that the quality of the BPK's audit reports have improved significantly in the last years. The main issues remaining to be urgently addressed in their opinion are:

- The BPK's give different recommendations despite similar findings.
- Some reports lack clear explanation on the grounds for opinions.
- Despite state loss generated by some entities, they receive unqualified opinions from the BPK.

The BAKN also turned the Reviewer's attention to the existence of a bureaucratic barrier that inhibits the BAKN staff and experts to communicate with the BPK auditors in relation to the BPK audit reports. Some BAKN experts being not civil servants are not allowed to communicate freely with the BPK officials or auditors. The Reviewer finds it particularly important to remove any formal and practical obstacles in communicating results to the Parliament when the audit report is ready.

Recommendation 11.

Find an appropriate way to communicate and explain to the Parliament results of audits, expressed in formally approved reports – to the extent necessary to make them clear and fully understandable.

### **Audit reports' readability**

It is the timing and the way of presenting audit findings and recommendations that make the valuable information included in the reports useful. Reports written in a transparent and open manner and promptly published will support the BPK in its efforts to keep and even strengthen its image of a trustworthy public organization.

In its audit reports the BPK uses a specific technical language. What is more, the reports, especially those concerning the financial statements, contain a lot of tables and figures which are justified from the professional point of view, but which make reports more difficult to be understood by stakeholders, the media and the public.

As mentioned above, the BPK's stakeholders need more clarification and explanation regarding the audit criteria used by the BPK to assess the regularity and soundness of the public funds management. In all the world, one of the most frequent misunderstandings regarding the interpretation of audit results is caused by the fact that the outside reader is not familiar with the language of audit opinions and generally with the language of audit reports. For example, which was signalled to the Reviewer several times, some readers do not understand why in spite of an unqualified opinion regarding the entity's financial statements, it is still prone to irregularities and even corruption.

### **Executive summaries**

The Reviewer analysed executive summaries of 16 BPK audit reports from the years 2011-2013. The reviewed sample of executive summaries are very diverse as regard their layout, structure and volume.

Executive summaries of financial statements audits are relatively more extensive than others. They consist of parts regarding the financial statement itself, the entity's internal control system and its compliance with laws and regulations.

Sometimes the lead-in part of the summaries is simply a detailed reference to the audit's legal basis, which is important but not necessarily at the very beginning of the text where readers would usually expect to find the most essential information regarding the audit results.

Some of the reviewed summaries, in the section on financial statement, apart from the paragraph describing the legal base of the audit and references to applied auditing standards, give just the BPK's audit opinion. The sections concerning the internal control system assessment and compliance with regulations are more extended. These parts also contain

detailed reference to the legal basis of the audit and relevant standards. They are followed by presentation of the general assessment supported subsequently by disclosed irregularities with indication of their impact and explanation why they have occurred. At the end the recommendations are listed.

The layout of the document is formal and not reader-friendly. It does not support the significance of systemic conclusions or particularly important findings, e.g. those having impact on state finance or transparency and integrity of public management.

These constraints are shared also by the media's representatives who suggested that in order to avoid confusion regarding the language used by the BPK, workshops for journalists could be organized. Having more aware recipients of the BPK's reports could certainly help to increase the media's interest in them.

#### Recommendation 12.

Enhance readability of audit reports, paying special attention to short, clear, at the same time fully reliable and explanatory executive summaries.

One of possible ways to implement this recommendation may be the introduction of a well-defined executive summary template, e.g. no longer than 1-2 pages with a general opinion or remark in the beginning, and no more than 3-5 most important findings presented in a way that supports understanding of problems' hierarchy. The proper use of editing tools such as: lead paragraph, bolding, subtitles and reference to detailed parts of the report should also be applied, and if necessary, accompanied by additional explanatory notes and a glossary of terms. References to laws and regulations could be presented in further parts of the report or in footnotes.

#### **BPK reports' visibility**

The public opinion in Indonesia has been recently strongly focused on cases of fraud and corruption. There is a great expectation that the BPK activity will cover with its audits the areas most exposed to these problems.

Some of the media interviewed by the Reviewer were not aware that the BPK conducted not only financial audits, but also for example forensic audits and performance ones. They admitted that they were not familiar with other types of audits carried out by the BPK. The BPK information practice seems much more successful on the central level where the access and availability of information is more at hand. This indicates the need for up-to-date information and for a more active and uniform way of sharing audit results and distributing it to the media.

This implies on the part of the BPK both the effectiveness and openness in presenting audit results in a regular, transparent and recipient-friendly way. The Reviewer's enquiry demonstrates that there is a room for a more active public media policy in that respect, which can ensure that the BPK's efforts and achievements in financial, performance and forensics audits will meet expectations. Most of interviewed journalists stressed their need of more frequent meetings with the BPK, where they could get timely and reliable information about the outcome of its audits.

During the tenure of the previous Chairman of the Board weekly press conferences were held. At present the BPK has commercial cooperation with a popular 24 h Internet television. This communication channel is used once per year to present and discuss with experts the BPK's annual report. At the same time the BPK provides access to information via press conferences and press releases, spokespersons and a website. All the interviewed journalists underlined that BPK is for them the official source of information and declared their readiness to use it especially if delivered timely and with adequate clarification.

Obviously the media expect not only to read BPK reports but already more processed information deriving from audit findings and financial statement analysis, including clarification about its impact on performance of public funds managements and other possible consequences. For example prompt communication is asked by the media regarding fraud and corruption cases discovered in the course of the BPK's audits which leads to investigation conducted by law enforcement bodies. In such cases the information is expected to be conveyed to the media by the BPK.

Recommendation 13.

Develop a more active approach towards the public including the effective explanation of the role of the BPK set up in the legal framework and its position among other state institutions dedicated to eradicate corruption. Make your media policy definitely more proactive and design an effective strategy for BPK audit reports' better absorption and promotion by the media.

## STAFF

### Proportions

Over one third of all the staff are non-auditors. Taking into account the pressing and urgent need for skilled audit staff, it seems reasonable to look for ways in which those proportions could be improved in favour of the audit staff. In the Reviewer's SAI the non-audit staff constitutes about 23 per cent of all employers and in many other SAIs that proportion is even smaller. It seems the easiest way to restructure the existing and available human resources.

Recommendation 14.

Continue to increase the proportion of the auditors' number vs. to the non-audit staff.

### Rotation

Most of the BPK staff are located in the head office in Jakarta and most of them (over 75 per cent) actually originate from Java, the most populous of Indonesia's islands. Jakarta and Java in general are considered by most of the BPK staff as the most attractive places to live and work in .

To increase its auditors' independence and to boost their professional development the BPK has implemented a procedure of staff rotation, applied to both auditors and administrative staff, among its working units in the head office in Jakarta and its provincial representative offices. Each

member of the staff is expected to be rotated every 4-5 years. The same approach is also applied by some Government agencies.

At the end of May and November each year the BPK Secretary General issues an order listing the names of the staff to be rotated and their new locations. The order is issued about one month in advance: the rotation takes place at the beginning of July and January respectively.

Recently, the BPK has reviewed its rotation scheme, in order to relieve its staff frustration: now each member of staff declares one province as their home province, and is guaranteed that at least every third rotation he/she will be transferred to a place close to his/her home. Also every third rotation should transfer people to the head office in Jakarta, which offers the greatest variety of interesting and attractive jobs. Staff rotated to the most eastern provinces, generally considered the most challenging and difficult places to work and stay, are promised to be rotated from there after 3-4 years, i.e. sooner than from other locations.

The BPK pays for the transportation of the rotated staff, their spouse and up to 3 children to the new location, and ensures them free location for the first week in the new place. The rotated personnel is paid special allowances to cover the costs of the transfer and renting a flat. However, families of many of the staff rotated decide not to move with them and many of the BPK staff are separated from their families, which causes frustration and may have negative influence on their professional performance.

Out of among over 6000 of BPK's staff, in 2013 over 900 were rotated: out of which 113 among different working units located in Jakarta, 262 from working units in Jakarta to representative offices in other provinces, 251 from representative offices in other provinces to working units in Jakarta, and 284 between various provincial representative offices.

There is a general agreement among the BPK staff that a rotation procedure is necessary: the BPK has to address Indonesia's great internal diversity and size. Staff also generally agree that rotation contributes to the independence of individual auditors, and as a result to the BPK's enhanced credibility. At the same time, however, many of the BPK's staff find the current system not transparent and/or consistent enough. In this the Reviewer sees some risk of decreasing the staff's motivation or even losing some valuable staff when they are faced with the rotation in the current shape.

At the same time, rotation can be perceived by the staff as a benefit, if it is related with professional development opportunities. BPK budget

constraints are a reason for reduced assistance (travel, and goods shipment and a week of accommodation plus leaving costs) to the relocated employees. An employee is given one month to arrange his/her relocation.

None of the employees interviewed by the Reviewer undermined the very idea of rotation. Still, some regions are more popular (Java, esp. Jogjakarta and Jakarta) and some other - less developed or with a risk of infecting malaria – are very unpopular. Most of the staff emphasized that they need more clarity and certainty for how long and where they are going to be transferred. They are also badly in need of more time to prepare for moving to another region of Indonesia – during the Peer Review it was about one month from receiving an order to the move. Moreover, the family life was usually pointed to as the main victim of the rotation in the current shape.

#### Recommendation 15.

Make the rotation system more staff-friendly: give the staff more time to prepare for the transfer (not less than 3-6 months), provide bonuses and promotion perspectives. Support, if possible, better living conditions and facilitate family life conditions esp. in poorer regions of the country. Provide the rotated staff with more possibilities to stay with their families. Consider additional days off for those rotated particularly far away from their families. Regularly evaluate and review the system and assess its impact on the BPK's performance. In the long-term think of ways to make the rotation as voluntary as possible.

## IT SYSTEMS TO SUPPORT BPK AUDITS

BPK has developed the IT strategy and has a strong internal IT team – about 50 employees, including about 20 programmers, and additionally two or three IT experts in each representative office. The following three big projects are currently being developed :

*e-Audit* – aimed to enable BPK audits to be performed entirely or partially without necessity to visit auditees' premises. It is based on access to auditees' data bases and analysis based on the BPK's own audit approach. At the moment some data are being received and analysed. In practice it is much easier in case of central agencies, that are managed by similar systems.



*Audit management (SMP)* – from planning, through evaluation to follow-up.

*e-Working Papers (SiAP)* – declared to be ready to use for financial audits in 2014. A study visit to the Australian National Audit Office has been used to help to design the system. A pilot is expected to be launched in April 2014. The most difficult part can be problems of infrastructural nature, e.g. in less developed Eastern parts of Indonesia. For the time being, the SiAP is focused on financial audit. An approach to special purpose audits and performance audits is planned to be a simplified one – because of less standardised procedure steps – and is to be applied in the second part of the year.

### Development

All auditors asked by the peers about burden of administrative support – related to documenting, monitoring and supervising audits – were pinning their hopes on the IT document management system *e-Working Papers*, during the peer review being still under development. Also according to the IT unit the system should reduce the burden of procedural workload put on auditors, by providing them with everything that is needed in one electronic workspace: access to internal and external data, forms, lists, templates, methodological support, working papers and other useful tools.

The business architecture and business process modelling works (for workflow purposes) of the system are still in progress. Problems occur with regular and up-to-date supply of documents and data to the system. The issue of the system's ownership is also considered an important problem. It should be reminded that in most cases, problems with IT systems stem from organisation not technology.

#### Recommendation 16.

IT projects should be continued, with aim to build up the professional potential of the BPK in its more and more digitalised audit environment. Organisational part of IT projects should be especially taken care of and the Board's support should be convincingly demonstrated.

The integration of the BPK's IT systems is foreseen in the *e-BPK* approach. Diverse data covering the BPK's audits, organisation and budget are accessible for the managers of various levels through the Intranet interfaces (dashboard). Apart from full support for the use of a wide range of

information technology to support the BPK management, the Reviewer notes that sometimes, too broad scope of information may make it difficult for the managers to focus on relevant data. In some cases there is a strong need for graphical presentation of key data that could boost their readability.

Recommendation 17.

Further development of the management IT dashboard should focus on a short lists of the most useful information that could be presented to various levels of management. Close cooperation with and reliable feedback from the management will be necessary for a success.

### IT audits

The BPK's IT audits are treated mainly as financial audit's support. There is no IT audit unit gathering IT auditors and supporting the IT component in non-IT audits. It means that more ambitious topics related to IT cannot be conducted. At the same time, SAIs of the world tend to use IT audits not only as autonomous audit projects but combine them effectively with assessing real value and progress of Government programmes. The audits are more focused then on State tasks or agencies' effectiveness than on IT systems only. This trend can be seen e.g. in the EUROSAI IT Working Group portal: 'Control Space of e-Government Audit' ([egov.nik.gov.pl](http://egov.nik.gov.pl)).

Recommendation 18.

Setting up a dedicated IT team should be considered – with an aim to synergize the quality and number of IT audits done by the BPK, as well as expanding the IT audit component in performance and special purpose audits.



## V. Auditing Standards and Methodology

The Reviewer was informed that BPK formally decided to comply with ISSAI. The iCAT self-testing tool, which can be a substantive help in evaluating the compliance with ISSAI is currently being customized to the BPK needs. In case of the performance audit, the evaluation process has been completed and is now in the translation process. More time is necessary to evaluate the compliance of financial audit.

### TRANSLATING STANDARDS

As the Reviewer was informed, the International Standards of Supreme Audit Institutions (ISSAI) have not been translated into Bahasa Indonesia from English yet, because the BPK presumes, that first they should work with them, to understand their content in-depth. The Reviewer agrees that this method is appropriate, especially with procedural and technical standards or guidance, i.e. ISSAI of level three (100-999) and four (1000-9999). However, the basic, high level ISSAIs, like the Lima Declaration (1) and level 2 ISSAIs (10-40) if distributed in Bahasa Indonesia would probably be helpful to some stakeholders who, as e.g. Members of Parliament, decide about the BPK's position in the State system.

#### Recommendation 19.

Translate into the Indonesian language Level 1 and 2 ISSAIs, as well as some other relevant documents including the UN Resolution A/66/209 concerning the independence of SAIs, and distribute them among your key stakeholders, take steps to effectively raise their awareness and refer to them when discussing systemic solutions regarding the BPK.

## FINANCIAL AUDITS

BPK auditors use a comprehensive Financial Audit Guideline . The current legal framework obliges the BPK to conduct financial audit each year in all ministries (93 in 2012), political parties, and local governments (altogether more than 3000 entities).

The BPK's opinion is necessary to proceed with the aforementioned entities' financial statements, and they cannot be discharged without it. When the opinion is qualified or lower, the Parliament usually investigates further on the accountability of a minister, agency etc. At the local level the Regional Assembly does the same. At both levels, some incentives are budgeted to entities that receive unqualified opinion.

Data on financial audits results in years 2008-2012 show a stable tendency to improve. At the central level unqualified opinions accounted for 41 per cent of cases in 2008 and for 74 per cent in 2012. At the same time, the cost of the BPK's financial audit is kept at the same very high level, involving all available resources in the first half of the year and leaving only the second half for other types of audits.

### Recommendation 20.

Re-evaluate the efficiency of financial audits and with the help of the Parliament consider redrawing the current approach – base it on the risk analysis to manage the resources in a more reasonable way and to reduce the cost of the annual financial statements' verification.

## Materiality

During interviews with the BPK's audit staff, the Reviewer noticed that financial audit teams understood materiality as a purely quantitative value. Such an attitude corresponds with the BPK's Financial Audit Implementation Guidance . On the other hand, the Reviewer found that qualitative approach is also present in the BPK's financial audit guidance . The Reviewer's team was told that auditors prefer to keep to the more objective and verifiable quantitative approach even if the Methodology Unit encourage them to make use also of the qualitative approach.

The definitions of materiality presented in the both above mentioned guides do not support sufficiently the use of qualitative assessment. Both the Materiality Limit Determination Technical Guidance and the Financial

Audit Implementation Guidance define a material error as one that can influence the judgment or consideration of a reasonable person.

According to ISSAIs it is a possible influence on decisions (not only judgment or consideration) that is crucial for determining the materiality:

*"In a financial statement audit, a misstatement is material, individually or when aggregated with other misstatements, when it could reasonably be expected to influence the economic decisions users take based on the financial statements."*<sup>8</sup>

They also introduce a notion of 'performance materiality' and emphasise:

*"The qualitative aspects of materiality generally play a greater role in the public sector than in other types of entities."*<sup>9</sup>

Audit teams may find the practical application of qualitative approach difficult, without additional methodological support and, what is even more important, without a clear mechanism of implementing it into their practice. An example of such a practical solution can be NIK Poland where a financial audit opinion, initially calculated versus quantitative materiality threshold, can be lowered or increased one level depending on the substantial qualitative explanation.

#### Recommendation 21.

Strengthen the qualitative element of determining the materiality in the BPK's financial audits. The ISSAI definition of materiality should be applied and a clear mechanism of pragmatic use suggested to audit teams.

## PERFORMANCE AUDITS

The analysis of the BPK's performance audit showed that there is a substantial improvement of their quality, especially taking into account remarks by previous Reviewers. Even if in case of some performance audits it could be said that they are closer rather to typical compliance audits, there were also examples of well thought out and conducted performance audits, completed with typical performance recommendations.

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<sup>8</sup> ISSAI 200, paragraph 66

<sup>9</sup> ISSAI 200, paragraph 65

Topics for performance audits are usually suggested by units or Board members, and the Board decides about the final list. Government programmes are taken into account, priorities are applied and particular topics chosen. In the Reviewer's opinion, together with further development of performance audit activity, a need for well-targeted planning will grow. If not, the BPK will risk allocating its resources to subjects of not sufficient scale or weight.

The stakeholders who were interviewed by the Reviewer expect a focus shift by the BPK to public service programmes, e.g. education, health, infrastructure. For instance the Ministry of Finance signalled that mainly tax and customs units are covered by the BPK's performance and special purpose audits. In the Ministry's opinion there is also an urgent need to audit assets management and other systemic subjects. The BPK's audit on public debt management was stressed as a good example of a wider, strategic level audit.

Recommendation 22.

Consider elaboration of system for selecting topics of performance audits, based on centralised assessment of cross-section risks, and assuring sound balance between top-down and bottom-up flow of ideas.

Another visible problem is lack of time-flexibility - the performance audits (and special purpose audits) can be conducted only from July to December. The rest of the year has to be used for financial audits. Time for all performance audits is then roughly the same each year, but a variety of performance audit subjects sometimes will demand more and sometimes less time to be audited properly.

Recommendation 23.

Find ways to conduct some performance audits parallel with financial audits. To make it possible some auditors should not be engaged in financial audits in the period January-June.

Both the BPK themselves and all of their stakeholders agree that performance audit should be conducted by the BPK on a much larger scale. It is generally considered to be one of the greatest challenges faced by the BPK. The BPK's strategy identifies an increase in the number of performance audits as one of its goals. At the same time, the BPK is aware of the aforementioned obstacles preventing it from reaching that goal. However, there is no consistent plan how to overcome these obstacles.

Recommendation 24.

Elaborate a comprehensive plan to increase the share of performance audits in the total number of the BPK's audits and at the same time to improve the quality of performance audits.

## SPECIAL PURPOSE AUDITS

Special Purpose Audit is a specific type of audit defined in the Act as neither financial nor performance . Special purpose audits can be triggered by a request (Parliament, Government, law enforcement agencies) or on the BPK's own initiative.

The Reviewer found that this type of audit is sometimes treated by the BPK's auditors simply as a compliance audit, though there are many cases when it also has a forensic character and is carried out as support for investigations conducted by law-enforcement agencies.

The compliance type of summaries focused on a particular entity was dominating in special purpose audits analysed by the Reviewer – even if the audits' findings needed systemic or performance conclusions and recommendations.

Recommendation 25.

Special purpose audits can be a convenient form to integrate various types of audits. It should not be reduced to compliance or fact sheets: systemic and performance conclusions and recommendations should be applied everywhere, where needed and useful.



### Corruption and fraud detecting

One of the 2009 peer review recommendations was to shift focus in fraud and corruption cases from individuals to the systemic background: causes and effects. In the BPK a plan emerged to set up an Investigative Unit as an efficient tool to audit fraud and corruption in all regards. The concept was presented to the BPK Board. Up to the time of this peer review the concept has not been approved. In the Reviewer's opinion such a unit will not necessarily solve the problem, if its work will be conducted under pressure of current expectations. It is an appropriate methodology together with organisational approach that can help in this regard.

Recommendation 26.

Find a solution that will refocus the BPK's audits concerned with fraud and corruption from individuals to causes and effects.

### RISK ANALYSIS

BPK auditors use risk analysis approach to plan all types of audits. Potential problems are evaluated in detail to select the most important and at the same time auditable audit subjects. Translating qualitative values as high, medium or low to digital equivalents helps to calculate and rank risk summaries.

In practice the high value means that a disadvantageous event can occur. It means that the risk analysis is aimed to compose an audit sample but without clearly stating what the high risk value means. Practical problems may occur when risks pointed as high are materialized as findings, but still they do not appear important enough to impact the final audit result.

Recommendation 27.

Relate risk analysis more directly to materiality decisive for audit results. High value should be given to a risk which, if materialised and found, would change audit opinion.

Another problem related to risk analysis is connected with the two-phase nature of BPK non-financial audits. After a preliminary phase the risk analysis is conducted, based on data obtained. This practice helps to specify pre-audit hypotheses and refine risk analysis. In performance audits, a short list of five main risk areas is drawn up at this stage. Next, the five areas are analysed in-depth and only one of them is decided to be audited.

The analysis is directed to obtain a set of the most significant audit subjects and thus to use audit resources as efficiently as possible, but some problems may occur as a result. In one of the cases analysed by the Reviewer, audit results given by such a 'funnelling' of audit subjects were visibly effective, but the audit title was no longer fully corresponding to the narrowed scope of the audit . In another case, the BPK Board decided to deviate from the methodology and to focus the second stage of the audit not on one but on three of five main areas .

Recommendation 28.

Consider a more flexible methodology of the two-phase audit approach. Sometimes it may be useful to change the audit title after the first phase or even to abandon the audit if no serious risks have been found. In other cases, reducing audit subjects to just one out of five can make the audit's scope too narrow.



## VI. Audit Performance

### QUALITY ASSURANCE

The current audit quality assurance procedure has been implemented since 2009. Two types of reviews are applied:

- 'hot' – or *ex ante*, before sending an audit report to the auditee;
- 'cold' – or *ex post*, after finishing the audit process.

Audit team leaders, audit supervisors and auditors in charge play a crucial role in the 'hot' reviews. The audit report is usually signed by one of the Board members or, in case of representative offices, by the head of a representative office. In 'cold' reviews it is the BPK's Principal Inspectorate (ITAMA) that plays a key role.

### ITAMA

The Principal Inspectorate (ITAMA) forms a robust team, fulfilling – among others – three significant functions: that of internal audit, and of quality assurance and of integrity control. ITAMA is subordinated directly to the BPK's only Vice-Chairman. At the peer review time, the Inspectorate had 115 staff, including about 80 reviewers. The main streams of its activities were: the BPK's financial statement review (35 cases in 2012), the quality assurance review of the BPK's audit performance (40) and the BPK's performance (41).

ITAMA reviews are based on the Annual plan, but ad hoc reviews are also possible.

Warnings of various grades are given to teams or individual auditors whose negligent behaviour has been proved. Sanctions related to ethical misbehaviour are also possible. Materiality and calculations applied for the assessment are the most frequent points of discussion. General recommendations are given in the quality assurance area. Sometimes the ITAMA reviews' results are discussed by the Board. The follow-up procedure contains: an action schedule and the subsequent implementation reporting to ITAMA. Not all of the ITAMA recommendations are implemented – excuses by auditing units are sometimes presented to prolong the implementation.

The Reviewer found that important steps to improve transparency and quality of ITAMA's works have been taken in the recent years.

One of the Peer Review 2009 by the ARK stated: “We recommend that BPK separate the inspection task from quality assurance.” The current review has made the Reviewer sure that this recommendation still needs to be implemented:

Recommendation 29.

Internal audit and inspection functions should be developed and implemented separately from the quality assurance.

In the Reviewer’s opinion, the current approach to quality exercised by ITAMA should be described as quality assessment rather than quality assurance. The ex post inspection and assessment of audit materials’ quality by ITAMA plays a very positive role. It is an effective support to keep the procedural discipline, which in case of an institution active in such a vast and diverse area as Indonesia, is of great importance. However, the internal audit or inspection cannot fulfil or replace the quality assurance function, which is closer to methodological support and should be used mainly *before*<sup>10</sup> the audit materials are exposed to auditees and external stakeholders. Quality assurance in this sense is today carried out only by means of ‘hot reviews’, i.e. internally by the unit responsible for issuing a given report.

Recommendation 30.

The BPK’s quality assurance should be enriched with methodological reviews and support by a team external to the unit which has conducted an audit and developed a report. The reviews should be carried out before the report is published.

## AUDITORS’ SPECIALISATION

All BPK audit units and representative offices carry out all three types of audit: financial, performance and special purpose audit. Auditors do not specialise in any of these types of audit and are expected to be able to take

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<sup>10</sup> See: ISSAI 40 *Quality Control for SAIs*, second paragraph on page 12 – guidance to *Element 5: Performance of audit and other work*.

part in audits of any of the three types. This arrangement is similar to that in the Reviewer's SAI: in NIK neither its departments nor individual auditors specialise in a particular type of audit. In some countries this approach prevails, while in others (e.g. in the UK NAO and in Denmark) specialisation is preferred, sometimes very strict - i.e. financial auditors do not do any performance audits and vice versa and/or are organised into separate units. No model has been proven to be the best one in this regard. SAIs rely rather on state auditing of their countries – with all advantages and disadvantages of any of the approaches adopted.

There is no doubt that the contemporary audit environment is progressively demanding and complex, and often calls for a substantial dose of expert knowledge in various domains. It seems then obvious that some specialisation of auditors is inevitable. This, however, can be supported by the skilled recruitment, training and audits management, not necessarily by dividing auditors into separate professions. It is also important not to lose the BPK auditors' current ability to combine various narrow fields of knowledge. It is quite important then, before a decision to change the current integrated model, to assess its possible future costs, benefits and shortcomings.

## AUDIT COST MONITORING

The planning of audit costs is tightly connected in the BPK with the whole of its budgeting process. Each planned audit's cost is presented to the Parliament in the planning documents. Tasks and workload of audit team members are also planned and agreed with auditors for each audit. The actual costs are calculated by audit team leaders or supervisors on the basis of auditors' weekly reports. However, those calculations are not saved nor analysed later on.

### Recommendation 31.

Develop an IT supported actual costs monitoring system, to enrich the efficiency analysis and to identify more accurately the most costly problems in real life audits.

## RELATIONS WITH AUDIT CLIENTS AND FINDINGS VIS-À-VIS RECOMMENDATIONS

The Ministry of Finance (MoF), one of the most important BPK clients in the Government, told the Reviewer – as a positive example – that nowadays the BPK more and more often tends not only to point out errors but also to suggest solutions.

Another example of an important finding by BPK auditors was given by the MoF Inspector General: the BPK found series of not reported accounts in the bank accountancy. The recommendations were followed up by the Ministry that imposed strict rules on bank accounts' establishing by Government entities.

The most common subjects of disagreement between the BPK and its auditees usually concern the assessment of causes and technical matters.

The Reviewer's team was also told by different stakeholders<sup>11</sup> about cases where the same findings were followed by different recommendations with no clear reason<sup>12</sup>. The BPK explained that from 2011 an audit management approach is being developed to avoid problem stemming from auditors' judgment, which most often occur in case of State loss calculations.

It may indicate a need for a more careful coordination of finding-recommendation analysis by the BPK at the audit unit, as well as at the central level, especially before sending the report to a stakeholder.

*[See also Quality Assurance, p. 37 and Audit reports' readability, p. 20]*

### Recommendation 32.

Quality assurance should cover coordination of problems with types of recommendations given in case of the same findings. A regularly updated database of good practices shared by the whole BPK could help the quality coordination.

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<sup>11</sup> Ministry of Finance Inspectorat General, DPD RI and BAKN DPR RI

<sup>12</sup> PAP and Committee IV of DPD RI

## ENTITIES COVERED BY AUDIT

Each of the BPK's audit units and regional representative offices has a strictly defined "area of competence" in terms of auditees' coverage. Audits are designed in a way to fit in those areas of competence. The Reviewer noted that some difficulties may occur when audited matters lie in the area of responsibility of more than one entity.

During one of the BPK's audits, a Ministry's effectiveness in implementing a programme was subject to the audit. It was found by BPK auditors that the programme got stuck at a crucial point due to a missing decision to be made by the President of the Republic. The audit team did not ask the President's Office for explanations as it had not been foreseen in the audit programme nor covered by the auditing unit's area of competence. As a result real causes of the problem were not found.

### Recommendation 33.

Give auditors tools to follow with their audit questions to the public organs and entities responsible, even if originally they were not mentioned in the given audit programme or are not covered by the auditing unit's area of competence.

## TIMING

The Indonesian Public Account Committee (BAKN) is one of the key recipients of BPK reports. Apart from high appreciation of BPK works, the following two problems concerning the timing of the reports' delivery were signalled:

- Even when the BPK's reports contain valuable findings and recommendations, some of them arrive very late and comprise data sometimes even two years old.
- Similarly the time of delivering the BPK audit reports does not match the time of budget discussion between the Parliament and Ministries and other Government Agencies. The Parliament receives the consolidated financial audit report mostly after the budget discussion has been finished, which results in a waste of valuable information included in the BPK's audit reports, since they cannot be taken into consideration when it comes to budgetary decisions.



In the Reviewer's opinion, especially the second problem is mainly on the side of current legal procedure. The BPK is obliged to conduct its financial audit strictly following the calendar of issuing and approving financial statements. The problem of providing the Parliament with information earlier, can be then solved only with the Parliament's help.

Recommendation 34.

Consider and discuss with the BAKN practical and legal possibilities to supply the Parliament earlier with relevant information.

## VII. About the peer review

The peer review was carried out in 2013 and 2014. The main part of the review was performed during a 2-week-long field visit. Fieldwork was conducted at the BPK's headquarters in Jakarta and at the representative office in Samarinda in East Kalimantan.

### TEAM

The members of the peer review team were: Jacek Jezierski, Special Advisor to the NIK President for International Relations (team leader), Paweł Banaś, Advisor to the NIK President, Sławomir Grzelak, Deputy Director of NIK's regional branch in Warsaw (later replaced by Maciej Maciejewski), Aleksandra Kukuła, Head of the International Relations Unit, and Maciej Maciejewski, audit coordinator from NIK's regional branch in Warsaw.

### METHOD

The peer review was implemented during 1 week-long preliminary visit and 1 two-week-long fieldwork visit.

The Reviewer selected a number of audit cases for review. The cases cover substantial audit areas of the BPK. Attachment 3 includes a list of audit cases reviewed. The sample covers both financial, performance and special purpose audit, carried out by different departments and representative offices and different subject matters.

The most important parts of the audit files (executive summaries) for the selected cases were translated for the Reviewer. The cases selected represent only a sample and were intended to provide insight into the BPK's multiple audit activities. The sample primarily includes audits completed in the years 2011-2013.

When assessing the BPK's audit approach, the Reviewer applied a combination of international standards as defined by INTOSAI, especially ISSAI 5600, as well as the team members' experience with and knowledge of good practice.

The review included not only the BPK's audit procedures and how these are used in the audit work, but also the BPK's guidelines, policies and strategies. The review covers not only audit-related issues but also to some extent management and organizational matters.

A number of central documents from the audit files as well as manuals describing audit procedures and various policy or strategy papers were translated for the Reviewer. In addition to these written sources, the peers also had access to key staff involved in the individual audits. The peers conducted a number of interviews with the staff involved in each audit and met with both auditors and audit supervisors.

## Attachment 1: Follow-up of ARK Recommendations

<p><b>Data access<sup>1</sup>.</b> We recommend that BPK give the highest priority to the full implementation of its mandate with regard to revenues and foreign funds and start an open and constructive dialogue with the Minister of Finance, foreign donors and parliament.</p>	<p>The access was presented by the BPK as satisfactory. The only constraints remain in the area of individual tax payers data and presumptions on tax prognosis.</p>
<p><b>Public financial management.</b> We recommend that BPK develops a common strategy together with government (including, internal control and audit units) and the people's representatives to raise public financial management to a structurally adequate level within a realistic but ambitious timeframe. We also recommend that BPK coordinate all action plans of lower tiers of government.</p>	<p>The Reviewer was explained that the development and improvement of financial management system lies in government domain. The BPK as external auditor will continuously suggest recommendations based on audits conducted. Based on its mandate BPK can provide opinions to the government regarding the improvement of the financial management system. No common strategy was established.</p>
<p><b>Focus of financial audit.</b> We recommend that BPK retain a strong focus on financial auditing by selecting important elements of public financial management, such as the internal audit function, asset management, revolving funds and contract management.</p>	<p>BPK holds a strong focus on financial audit as a whole. In particular audits the risk based approach is applied. Nevertheless on the strategic planning level the risk assessment is not sufficient or has no impact on the scope of focus of the financial audit.</p>
<p><b>Public Accounts Committee.</b> Furthermore, we consider the appointment of a Public Accounts Committee of crucial importance and therefore recommend that BPK actively promote the appointment of such a committee.</p>	<p>State Finance Accountability Committee - Badan Akuntabilitas Keuangan Negara (BAKN) was established in August 2009.</p>

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<sup>1</sup> ARK recommendations' labels are added by NIK - only for working communication purposes.

<p><b>Fraud and corruption.</b> We recommend that BPK focus more on the causes and effects of fraud and corruption and not solely on the misconduct of individuals. We suggest that BPK use its investigative audit results in combination with international and national knowledge to identify trends and the underlying structure that facilitates fraud and corruption. We also suggest that BPK exchange knowledge and experience with SAIs from other countries in the region that have comparable problems. This would further improve its approach to combating corruption and sharing its own valuable experience.</p>	<p>A special purpose audit manual has been adopted. The manual refers to Public Accountant Professional Standards and best international practices in special audit field. The review of the special purpose audits conducted by the Reviewer show that their results were satisfactory. However the structural approach to fraud and corruption is still to be developed by BPK.</p>
<p><b>Strategic plan.</b> We recommend that BPK develop a multi-year strategy based on a limited number of topics that are aligned with the new government policy programme. The strategy should address the three risks we identified earlier (limited access to information, weak financial management and fraud and corruption).</p>	<p>A Strategic Plan 2011-2015 and its Implementation Plan has been developed. Nevertheless its scope is very wide. We recommend to review the Plan and try to design it in a more focused way, in this way to increase the effectiveness of the implementation.</p>
<p><b>Familiarisation course.</b> We suggest that the current Board provide the newly elected Board members with a familiarisation course to enable them to make a flying start. We also recommend that the Board ensure that the new members incorporate this report's recommendations in the new strategy and annual working programmes.</p>	<p>The Reviewer was informed that familiarization course for new Board member had been designed by the BPK Training Center. They set up a module to introduce the BPK to newly elected members. Apart from that, results of the previous peer review (2009) and achievements of the Board for the period 2009-2014 were presented to the next Board and reflected in Strategic Plan 2011-2015.</p>

<p><b>Reports' effectiveness.</b> To increase the effectiveness of its reports, we recommend that BPK report more concise with a strong focus on causes, effects and solutions and not merely on findings. Furthermore, we recommend that BPK enhance the attractiveness of its reports by using communication experts and more visualisations to present its analysis and conclusions.</p> <p><b>Quality of reports.</b> BPK's auditors should broaden their understanding, views and skills to disclose issues and develop audit reports. They need to look behind the financial figures and clarify to parliament and auditees the causes and effects of the findings. Attention should be paid to their ability to monitor and understand the environment of BPK and to use that knowledge for assessing relevant risks and for designing and conducting audits.</p> <p><b>Communication.</b> Besides technical guidelines we recommend that BPK develop effective scenarios for responses/interventions to counter auditees' resistance to change. One example is selecting the right moment to publish reports so that they have the highest impact. Although this is not possible for the annual financial audits, it will improve the effectiveness of special purpose audits and performance audits.</p> <p><b>Interaction with stakeholders.</b> We recommend that BPK build up a strategic network of relevant stakeholders at international, national and regional level.</p>	<p>The current assessment of BPK reporting and communication policy and recommendations in that field is presented in details in the relevant chapter of this peer review report.</p>
<p><b>International relations of BPK.</b> We recommend the fast approval of BPK's international relations strategy once its development is completed in order to focus its international activities.</p>	<p>The Strategic Planning Framework for Public Relations and International Bureau was approved by decision of the Secretary General of BPK in September 2013.</p> <p>This should be subject to further development on the basis of the Strategic Planning Framework Public Relations and International Bureau adopted in September 2013. Since 2009 BPK developed its activities in international bodies and started to use tools prepared by INTOSAI community: INTOSAI Working Group on IT Audit, INTOSAINT, iCAT, INTOSAI WGEA.</p>

<p><b>Communication of annual audit results.</b> Although not required by law, we recommend that BPK develop and issue an annual report on BPK's performance and financial management. This annual report could serve as an example for transparency and accountability in the public sector of the Republic of Indonesia.</p>	<p>No annual report on the BPK's performance was issued.</p>
<p><b>Continuous improvement.</b> We recommend the development of a description of the vision, tasks, actors and relationship between the instruments necessary for quality assurance.</p>	<p>Not implemented yet.</p>
<p><b>Separation of inspection and quality assurance.</b> We recommend that BPK separate the inspection task from quality assurance. Moreover, we recommend that BPK define the role of ITAMA in more detail in relation to:</p> <ul style="list-style-type: none"> <li>• the evaluation unit (EPP);</li> <li>• internal review teams;</li> <li>• hot review teams in the audit units.</li> </ul>	<p>Not implemented yet.</p>
<p><b>Quality assurance.</b> BPK recently took the first steps to prepare project charters to clarify each function's use as a quality assurance instrument. We recommend that ITAMA be able to use the findings (errors) of the other units' summarising/verifying activities. Furthermore, we recommend that only ITAMA should report relevant findings and lessons to the management of BPK.</p>	<p>Analysis of errors is performed, passed to methodology unit and discussed with the BPK Management. This beneficial quality assessment activity, however, should yet be completed with elements of organised quality assurance.</p>
<p><b>Strengthening of ITAMA.</b> We recommend that the Board and management give their full support to the development of ITAMA and ensure there are enough experienced auditors within ITAMA to assess the quality of the work done by BPK's auditors.</p>	<p>The current assessment of ITAMA and recommendations in that field are presented in details in the relevant chapter of this peer review report.</p>

<p><b>Added value strategy.</b> We recommend that the strategy be revised so that more qualitative assessments of BPK audits and products can be started in the near future rather than wait another two years. Step by step ITAMA must develop a strategy to generate added value for BPK. What should it learn first and what afterwards?</p>	<p>Not implemented yet.</p>
<p><b>Human resources.</b> We recommend that BPK create more awareness amongst managers regarding the importance of human resources management and the available HRM policies and instruments. Furthermore, we recommend that BPK maximise the potential of its operational flexibility and ability to promote and reward talented people. Finally, we recommend that BPK involve line management in selecting new staff and putting the right person in the right place. <b>Staff performance.</b> We recommend that more attention be paid to good performance, feedback between manager and employee in both directions and selective rewards.</p>	<p>Partially implemented</p> <p>The system for individual performance assessment MAKIN is being developed.</p> <p>The current assessment of the BPK's follow-up in these fields are presented in details in relevant parts of this peer review report.</p>
<p><b>Staff recruitment.</b> We recommend that the present uncertainties in BPK's recruitment rules be evaluated.</p>	
<p><b>Staff rotation.</b> Given the three-year compulsory rotation and the recent opening of the new regional offices, we recommend that not all staff be changed at once as institutional knowledge would be lost.</p>	
<p><b>Skills development.</b> We recommend that the skills managers need be assessed and managers be offered specific training in how to work with professionals.</p>	
<p><b>Up skill.</b> Given the importance of coaching new employees, we recommend that a form of mentorship be introduced.</p>	



<p><b>Performance audit.</b> We recommend that more awareness be developed of the complexity of performance audit and the diversity of the types of audit that can be performed under the general heading of performance audit. To this end, BPK could develop courses on public administration and policy analysis with universities and public entities. A carefully performed performance audit of the effectiveness of policy, moreover, takes time: it cannot be completed in a couple of days.</p>	<p>The current assessment of the BPK's performance audit and recommendations in that field are presented in details in the relevant chapter of this peer review report.</p>
<p><b>Ethics.</b> We recommend that BPK reiterate its values and principles periodically and use the IntoSAINT tool to assess its own integrity. This could also facilitate the introduction and use of this tool at BPK to help its auditees perform self-assessments.</p>	<p>The BPK has issued the Code of Ethics and has established the internal Ethics Council. It has used the IntoSAINT assessment tool twice.</p>
<p><b>Integrity of the staff.</b> We recommend introduction of the central registration of breaches of integrity within BPK.</p>	<p>ITAMA is responsible for registration of breaches of integrity within BPK.</p>
<p><b>Management control.</b> We recommend that a controller be appointed within BPK. (management control)</p>	<p>The budgeting and monitoring functions are transferred to a new bureau, the establishment of which is being proposed, namely the Planning and Evaluation Bureau, while the Finance Bureau only performs the accounting and treasury functions.</p>
<p><b>Efficiency of the audit work.</b> We recommend that a new target ratio be set for direct versus indirect working hours spent on auditing and that compliance with it be monitored. A standard would enable BPK to improve its resource management and mitigate the risks of inefficiencies.</p>	<p>Partially implemented. The Chief Directorate of Research and Development has prepared the working hours comparison target ratio. However, the a/m system does not taken into account the staff's extra working hours (e.g. during weekends).</p>
<p><b>Making use of Information Technology.</b> To assess the level of it support for the business processes IT business alignment) and the steps necessary to improve this support, we recommend the use of the IT Self-Assessment tool.</p>	<p>Report of IT Self-Assessment of (4 June 2010) was presented to the Reviewer.</p>

## Attachment 2: Persons interviewed

The Reviewer conducted more around 50 interviews as well as a number of meetings where the initial findings were discussed. The fieldwork was conducted during 2 visits to Indonesia.

During the interviews, the peers explored a range of themes relevant to the BPK's procedures and practice. The interviews represented a significant source of information and provided the platform for discussions of specific as well as general aspects of the BPK's work.

The findings presented in this report are based on the observations made by the peers during the review of audit files and staff interviews and on the statements made by the stakeholders over the course of the review. It should be noted that this exercise is a review and not an audit.

The Reviewer received all necessary information in a spirit of cooperation, mutual respect and dialogue. The Reviewer was well received by all parties involved in the peer review exercise. The Reviewer's discussions with the BPK were characterized by openness and a willingness to exchange information. The peers also met with representatives of external stakeholders such as parliamentary committees, the media, auditees and law enforcement agencies at national and regional level.

Below is the list of the BPK's representatives that the Reviewer met and/or interviewed during the fieldwork.

Representatives of the BPK Board:

Mr Hadi Poernomo	Chairman of the BPK Board
Mr Hasan Bisri	Vice-Chairman of the BPK Board
Mr Moermahadi Soerja Djanegara	Board Member I
Mr Sapto Amal Damandari	Board Member II
Mr Bahrullah Akbar	Board Member VII

Representatives of the BPK Echelon 1 (top management officials):

Mr Hendar Ristriawan	Secretary General
Mr Mahendro Sumardjo	Principal Inspector
Mr Nizam Burhanuddin	Head of Principal Directorate of State Finance Audit Legal Counsel and Development

Mr Bambang Pamungkas	Head of Principal Directorate of The State Finance Audit Planning, Evaluation, Development, Education and Training
Mr Slamet Kurniawan	Principal Auditor of State Finance II
Mr J. Widodo Hario Mumpuni	Principal Auditor of State Finance III

Other representatives of the BPK's staff:

Mr Bahtiar Arif	Head of Public and International Relations Bureau
Mr Rochmadi Saptogiri	Head of IT Bureau
Mr Sucipto	Head of Finance Bureau
Mr Haedar	Head of Human Resources Bureau
Ms Ida Sundari	Inspector I
Mr Yulindra Tri Kusumo Nugroho	Inspector III
Mr Hery Subowo	Head of Research and Development Directorate
Mr Beni Ruslandi	Head of Strategic Planning and Performance Management Directorate
Mr Sri Haryoso Suliyanto	Head of Representative Office in East Kalimantan
Mr Agus Khotib	Head of Representative Office in Bangka Belitung Islands
Mr Khabib Zainuri	Head of Auditorate II.B
Ms Dewi Chairani	Head of Auditorate VII.A
Ms Inne Anggriani	Head of Sub Auditorate II.C.1
Mr Arief Senjaya	Head of Sub Auditorate IV.B.1
Mr Hari Wiwoho	Head of Sub Auditorate V.A.1
Mr Lisinius Swandi Sitanggung	Head of Sub Auditorate VII.C.3
Mr Muhamad Toha Arafat	Head of Sub Auditorate East Kalimantan I

Mr Padang Pamungkas	Head of Strategic Planning and Performance Management III Sub Directorate (former Head of Planning and Rotation Division)
Mr Slamet Riyadi	Head of Budgeting and Monitoring Division
Ms Ria Anugriani	Head of Information Technology Operations and Support Division
Mr Novis Pramantyabudi	Head of Computer Application Development Division
Ms Ikhtaria Syaziah	Head of International Cooperation
Mr Dwi Sabardiana	Head of Research and Financial and Performance Audit Development Sub Directorate
Mr Dian Primartanto	Head of Research and Specific Purpose Audit Development Sub Directorate
Ms Selvia Vivi Devianti	Head of Sector II.B at Principal Inspectorate
Mr Erwin Miftah	Head of Sector I.A at Principal Inspectorate
Ms Sainem	Head of Sector I.C at Principal Inspectorate
Mr Telviani Savitri	Head of Sector III.A at Principal Inspectorate
Mr Dedy Eryanto	Head of Research and Financial Audit Development Section
Ms Prima Liza	Head of Sub Sector I.C.1 at Principal Inspectorate
Ms Nila Eka Putri	Head of Sub Sector I.B.1 at Principal Inspectorate
Mr Risa Prakosa Mulya	Head of Computer Application Programming Sub Division

Mr Deden Masruri	
Mr Doni Restindia Chandra	
Mr Ichsan Rida	
Ms Kartini	
Ms L.M. Putri Parwati	
Mr Lukman Hakim Siregar	
Mr Masmur	

## Attachment 3: Audits analysed

	<b>Audit title</b>	<b>BPK Audit Unit</b>	<b>Report Date</b>	<b>Report Number</b>
1	Audit of the financial statements of the General Election Commission	Principal Auditorate of State Finance I (AKN I)	May 7, 2013	22a/HP/XIV/05/2013 22b/HP/XIV/05/2013 22c/HP/XIV/05/2013
2	Audit of the financial statements of the Ministry of Environment	Principal Auditorate of State Finance IV (AKN IV)	May 28, 2013	17.A/LHP/XVII/05/2013 17.B/LHP/XVII/05/2013 17.C/LHP/XVII/05/2013
3	Audit of the financial statements of the Ministry of Home Affairs	Principal Auditorate of State Finance V (AKN V)	May 28, 2012	23.a/HP/XVIII/05/2012 23.b/HP/XVIII/05/2012 23.c/HP/XVIII/05/2012
4	Audit of the financial statements of the Ministry of State-Owned Enterprises	Principal Auditorate of State Finance VII (AKN VII)	May 15, 2012	02.A/Auditama VII/GA/05/2012 02.B/Auditama VII/GA/05/2012 02.C/Auditama VII/GA/05/2012
5-6	2 special purpose audits: The accountability of BA 999.08 Expenditure in the Ministry of State Apparatus and Bureaucratic Reform in the fiscal years 2011 and 2012	Principal Auditorate of State Finance III (AKN III)	May 28, 2012 May 27, 2013	52/HP/XVI/05/2012 108/HP/XVI/05/2013
7	Performance audit: The legal entity and fiduciary guarantee ratification services at the Directorate General of Public Law Administration and the Jakarta Regional Office of the Ministry of Law and Human Rights	Principal Auditorate of State Finance I (AKN I)	December 28, 2012	148/HP/XIV/12/2012
8	Performance audit: THE Rented Simple Apartment Program in 2010, 2011 and the 1st semester of 2012 in the Directorate of Human Settlements of the Ministry of Public Works in the Provinces of DKI Jakarta, West Java, Central Java and East Java	Principal Auditorate of State Finance IV (AKN IV)	December 13, 2012	39/LHP/XVII/12/2012

	<b>Audit title</b>	<b>BPK Audit Unit</b>	<b>Report Date</b>	<b>Report Number</b>
9	Audit of the financial statements of the Tana Tidung Regency in the fiscal year of 2011	Representative Office of East Kalimantan Province (Perwakilan Provinsi Kalimantan Timur)	July 19, 2012	42.A/LHP/SMD/VII/2012 42.B/LHP/SMD/VII/2012 42.C/LHP/SMD/VII/2012
10	Performance audit: The effectiveness of Pharmaceutical Service Management in the Fiscal Years of 2011 and 2012 (1st semester) in the Panglima Sebaya Regional Hospital in Tana Paser	Representative Office of East Kalimantan Province (Perwakilan Provinsi Kalimantan Timur)	February 5, 2013	06/LHP/XIX.SMD/II/2013
11	Special purpose audit: Management and Accountability of other Budget Expenditures (BA999.08) in the fiscal year of 2012 on the capital expenditures on buildings and roads in the fiscal year of 2012 in the Kutai Barat Regency Government	Representative Office of East Kalimantan Province (Perwakilan Provinsi Kalimantan Timur)	March 1, 2013	11/LHP/XIX.SMD/III/2013
12	Performance Audit: The Effectiveness of Means and Infrastructure Management for the Budget Year of 2011 and 2012 (1 <sup>st</sup> Semester) of the Regional Public Hospital (RSUD) 'A. Wahab Sjahranie' in Samarinda	Representative Office of East Kalimantan Province (Perwakilan Provinsi Kalimantan Timur)	December 19, 2012	58/LHP/XIX.SMD/XII/2012
13	Special purpose audit: the Implementation of Regional Expenditures of Fiscal Years (FYs) 2010 and 2011 in the Kepulauan Mentawai Regional Government	Representative Office of West Sumatra Province (Perwakilan Provinsi Sumatera Barat)	December 2, 2011	39/LHP/XVIII.PDG/12/2011
14	Special purpose audit: the Fund Management of the National Sport Week (PON) XVIII of 2012 in the Riau Provincial Government, the General Committee of National Sport Week (PB PON) XVIII of 2012, and the Sub PB PON XVIII of 2012	Representative Office of Riau (Perwakilan Provinsi Riau)	June 28, 2013	31/LHP/XVIII.PEK/06/2013

	<b>Audit title</b>	<b>BPK Audit Unit</b>	<b>Report Date</b>	<b>Report Number</b>
15	Performance audit: the National NIK Issuance Program and the National NIK-based electronic identity card application	Principal Auditorate of State Finance V (AKN V)	July 16, 2012	27/HP/XVIII/07/2012
16	Performance audit: the effectiveness of macroeconomic framework and strategy for managing state debts for the period of 2010 – October 2012 to maintain the fiscal balance	Principal Auditorate of State Finance II (AKN II)	June 14, 2013	46/LHP/XV/06/2013



## Attachment 4: Glossary of acronyms used in the report

	<b><i>Bahasa Indonesia</i></b>	<b><i>English</i></b>	<b><i>Definition</i></b>
<b>AKN II</b>	Auditorat Keuangan Negara II	State Finance Auditorate II	One of seven audit units in the BPK
<b>AMS</b>	Sistem Manajemen Pemeriksaan	Audit Management System	An IT application to manage audits process in the BPK
<b>ARK</b>	Algemene Rekenkamer	Algemene Rekenkamer	SAI of the of Netherlands
<b>BAKN</b>	Badan Akuntabilitas Keuangan Negara	State Financial Accountability Board	A division in the Parliament (DPR) that coordinates the use of BPK audit reports for state financial oversight
<b>BPK</b>	Badan Pemeriksa Keuangan	The Audit Board of the Republic of Indonesia	SAI of the Republic of Indonesia
<b>DPD</b>	Dewan Perwakilan Daerah	Regional Representative Council	A constitutional institution in the state system of Indonesia whose members are representatives from each province elected by popular vote.
<b>DPR</b>	Dewan Perwakilan Rakyat	Parliament/ House of Representatives	A house of the Indonesian National Parliament, an institution in the state system of Indonesia whose members are representatives from each political parties who are elected by popular vote. The DPR is located in Jakarta, the capital of Indonesia.
<b>DPRD</b>	Dewan Perwakilan Rakyat Daerah	Provincial/District/ City House of Representatives	A local legislative assembly in each province / district / city) in Indonesia.

	<b>Bahasa Indonesia</b>	<b>English</b>	<b>Definition</b>
<b>EPP</b>	Direktorat Evaluasi dan Pelaporan Pemeriksaan	Directorate of Audit Evaluation and Reporting	A directorate in the BPK whose task is to compose a summary of audit reports per semester and evaluate the BPK's audit reports.
<b>EWP</b>	e-KKP (elektronik Kertas Kerja Pemeriksaan)	e-Working Paper	An IT application to manage audit working papers.
<b>INTOSAI</b>	Organisasi Internasional Lembaga Pemeriksa	International Organisation of Supreme Audit Institutions	
<b>ISSAI</b>	Standar Internasional Lembaga Pemeriksa	International Standards of Supreme Audit Institutions	
<b>ITAMA</b>	Inspektorat Utama	Principal Inspectorate	A unit of the BPK that fulfils the internal audit and quality assurance functions
<b>KPI</b>	Indikator Kinerja Utama	Key Performance Indicator	A type of performance measurement to help an organisation define and measure progress toward goals assumed
<b>KPK</b>	Komisi Pemberantasan Korupsi	Corruption Eradication Commission	A government agency established to address, prevent and eradicate corruption in Indonesia
<b>MAKIN</b>	Manajemen Kinerja Individu	Individual Performance Management	A process of planning, guidance, and assessment of employees' performance as part of the individual performance management process in the BPK
<b>MP</b>		Member of Parliament	
<b>NIK</b>		Supreme Audit Office of Poland (Najwyższa Izba Kontroli)	SAI of the Republic of Poland

	<b>Bahasa Indonesia</b>	<b>English</b>	<b>Definition</b>
<b>PAP</b>	Panitia Akuntabilitas Publik	Public Accountability Committee	A division in the DPD coordination the use of BPK audit reports for the state financial oversight
<b>RI</b>	Republik Indonesia	Republic of Indonesia	
<b>RIR</b>	Rencana Implementasi Renstra	Strategic Implementation Plan	The BPK's Implementation Plan of the Strategic Plan (containing an explanation of strategic objectives, strategic goals and steps to achieve the goals).
<b>RIR IS</b>	Rencana Implementasi Renstra - Inisiatif Strategis	Strategic Initiative - Strategic Implementation Plan	The BPK's initiatives to implement the Strategic Plan that will be conducted to achieve strategic goals and its success will be measured by key performance indicators
<b>SAI</b>	Lembaga Pemeriksa	Supreme Audit Institution	
<b>UU</b>	Undang-Undang	Act/Law	



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