Peer Review Report

on the Audit Board
of the Republic of Indonesia

Badan Pemeriksa Keuangan

AUGUST 2019
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Foreword

I am honoured to present the Audit Board of the Republic of Indonesia with the report on the Peer Review that was conducted in 2019 by a team lead by the Supreme Audit Office of Poland, with the participation of the experts from the Office of the Auditor General of Norway and the National Audit Office of Estonia.

Supreme Audit Institutions are held to high expectations and must earn the trust of their stakeholders – the citizens of their respective countries, the legislative and executive bodies, and auditees – so they must be accountable, and their performance and the quality of their work should be examined. Here the question arises “Who audits auditors?” – since SAIs should be independent and have no supervisors. The answer is: auditors are audited by other auditors – by their peers during peer reviews. Although a peer review is not an audit in the true sense of the word, but rather an assessment and advice provided on a voluntary basis. And the reviewed SAI is not bound to the conclusions and recommendations of the peer review team, and can decide, as appropriate and necessary, on how to use the results of the assessment.

The main objective of this peer review was to assess the BPK’s activities with the use of the elements – domains and indicators – of the SAI Performance Measurement Framework methodology. The other objective was to assess the progress and ongoing efforts made by the BPK in the fulfilment of the recommendations from the previous peer review conducted in 2014. Additionally, the Reviewer extended the scope of the exercise by providing a general picture of how the BPK had been progressing since the peer review of 2004. With this in view, the Reviewer analysed the BPK’s achievements to date, including the way the previous peer reviews’ recommendations were addressed and how they added to the BPK’s improvements since then, as well as the effort that the BPK had been putting into developing its procedures and guidelines.

I am pleased to complement the BPK on that, and I would like to emphasise that it would not be possible without the BPK’s dedicated staff, their impressive involvement and willingness to continuously develop their institution and improve their own performance. Taking this opportunity, on behalf of all the Reviewers, I would like to thank the BPK for the excellent working conditions that they were provided with, for the support they were given and for the fantastic atmosphere they could work in – all these made this peer review exercise a real pleasure.

Needless to say, this job was beneficial to the Reviewers who had an opportunity to gather new experience and observations that they can use in their future work. So the INTOSAI motto about mutual experience that benefits all has – again – proved to be true. As a member of the INTOSAI community, I feel proud to quote it here.

I would like to wish the BPK every success and satisfaction in their further work, which is challenging – as helping the nations spend wisely is not an easy thing – but also rewarding, because if we do our job well, we can really make a difference to the lives of citizens.

Krzysztof Kwiatkowski
President
Supreme Audit Office of Poland
Lead Reviewer
I. Executive Summary

The Audit Board of the Republic of Indonesia has been constantly putting a great deal of effort into developing its procedures and guidelines, and updating them as necessary. These efforts were monitored and evaluated in the subsequent peer reviews, conducted in 2004, 2009 and 2014, and are subject to this peer review exercise as well.

The majority of the recommendations of 2014 can be considered as implemented. The remaining recommendations, which have been assessed either as in the process of implementation or as not yet implemented, have been reiterated, and supported with current observations. Among the most urgent is the issue of reports publication – this being a prerequisite for ensuring full independence of the BPK.

The progress that the BPK has made to date can be best traced if the observations and recommendations of the previous peer reviews are analysed and compared. As a result, a general picture can be delivered of where the institution was in the past, and where it is now. The areas where the greatest developments in the BPK’s operations can be observed include, but are not limited to, strategy, investigative audits, transition to accrual accounting and ethics. The progress can also be observed in the area of strengthening the BPK’s independence, however, as stated above, some room for improvement still exists there.

The SAI Performance Measurement Framework\(^1\) is a methodological tool that is frequently used as a benchmark or inspiration in peer reviews. Domain A of the SAI PMF is dedicated to Independence and Legal Framework. The legal bases for the BPK’s functioning, such as the Constitution and the Law on the Audit Board, provide that the BPK is free and independent in auditing state financial management and accountability, and that it shall have a separate budget allocation in the State budget. Nevertheless, despite such provisions some constraints can be observed with regard to the process of the BPK’s budget constructing, indicated during the previous peer reviews as well.

Within Domain B: Internal Governance and Ethics, the link between the BPK’s Strategic Plan and the Audit Plan should be appreciated – with the focus areas of the former having been incorporated in the BPK’s Overall Annual Plan 2017. At the same time, some effort should be made in order to ensure that the risk-based approach in the planning process is applied in a more systematic manner.

Within Domain C: Audit Quality and Reporting, three audit streams have been discussed separately. As for performance audit, a substantial improvement can be observed, compared to the findings from the

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\(^1\) The Supreme Audit Institution Performance Measurement Framework, or SAI PMF, is a methodological tool elaborated by the INTOSAI Development Initiative (IDI) that has been used as an inspiration in this peer review exercise, in accordance with the provisions of the INTOSAI Peer Review Guide (ISSAI S600).
previous peer reviews – several examples of well thought-out and properly conducted audits can be found, concluded with typical performance recommendations. Still, some performance audits are closer to typical compliance audits. Among the key issues with performance audit in the BPK, the lack of full understanding of the output-and-outcome concept can also be identified. As for the BPK’s compliance audit, it can be generally assessed as of high quality. Several challenges can be identified as for the BPK’s compliance audit guidelines, though, which seem not to explain thoroughly enough how the auditor derives criteria for assessing audit evidence. This could improve reporting – since knowing the criteria, the reader could easily understand the audit objective and audit questions. Also, it would be advisable if the communication process between the BPK and the auditee began already at the stage of audit planning, while the transparency of reporting would increase if the auditee’s response was included in the report – so as to illustrate the contradictory process. Also, the value of the BPK’s guidelines would increase if they comprised the assessment of materiality by nature and context.

In Domain D of the SAI PMF methodology: Financial Management, Assets and Support Services, in the area of the IT infrastructure, the SIPTL tool should be appreciated, in the first place, as a very good example of the BPK’s innovative developments. It is an information system for gathering the auditees’ feedback on how they fulfil the BPK’s recommendations.

In Domain E: Human Resources and Training, the BPK has established a comprehensive professional development framework, and has been working on developing a talent pool of experts in the three types of audit. The only problem seems to be spreading the knowledge gathered during training events more widely among the staff.

While looking at the BPK’s operations against the indicators of Domain F: Communication and Stakeholder Management, the stakeholders in general believe that the BPK properly fulfils its role in promoting good governance, its reports are perceived as a good and important source of information, and its recommendations are considered supportive.

On the basis of the analysis of the legal regulations governing the BPK’s mandate and operations, internal documents, a sample of audit files and interviews with the BPK’s staff, and with the use of the SAI PMF methodology, the Reviewer has identified the main strengths of the BPK, which have been emphasised and summarised below, and discussed in the body of this report:

- Educated, professional and motivated staff (both audit and non-audit staff).
- High score in the public entities assessment.
- Most audits done in a really short time and in a timely manner.
- Overall good discipline in documenting the work.
- Overall high quality financial audits.
- Excellent examples of compliance audit.
- High quality investigative audits.
- Sophisticated guidelines, updated or in the process of updating.
On the basis of their analyses and examinations, the Reviewer would also like to pay the BPK’s attention to several challenges that may need further effort:

- The BPK’s independence needs strengthening.
- More significance should be attached to the added value of the BPK’s activities, e.g. through emphasising the improvements in the governmental operations introduced as a result of the BPK’s findings and recommendations.
- Follow-up work should be improved – from mostly technical, oriented on results (percentages, deadlines) to focusing on the actual impact.
- More effort is still needed to fully understand the concept of performance audit by the BPK auditors, especially the notions of “efficiency” and “effectiveness”.

Challenges to the BPK
II. General Overview

Constitutional Framework

The Audit Board of the Republic of Indonesia (Badan Pemeriksa Keuangan, or the BPK) is the Supreme Audit Institution whose main task, according to the Constitution of the Republic of Indonesia of 1945 (Chapter VIIIA) is to audit the management and accountability of state finances. The Constitution provides that the Audit Board shall be free and independent, and that the Members of the Board shall be elected by the House of Representatives (Dewan Perwakilan Rakyat, or the DPR), after having been considered by the Regional Representative Council (Dewan Perwakilan Daerah, or the DPD), and later shall be ratified by a decree of the President of the Republic of Indonesia and sworn in before the Supreme Court. The Constitution sets forth that further provisions regarding the BPK shall be regulated by law.

The legal framework of the Republic of Indonesia regarding the BPK, in the Reviewer’s opinion, is compliant with the international standards, and it guarantees the BPK a strong position within the authorities of the Republic of Indonesia.

Board

According to Law No. 15 Year 2006, the Chairpersons of the Audit Board shall comprise a Chairman and a Deputy Chairman. They are appointed by and from among the nine Members of the Board whose term of office is five years (with one re-election possible). The appointment of chairpersons varies among SAIs worldwide.\(^2\)

Staff

The BPK has about 7,000 employees which makes it one of the biggest SAIs in the world. During their field visits to the BPK Headquarters and Representative Offices, the Reviewers had an opportunity to meet and talk to many members of the BPK’s staff, who proved to be one of the greatest assets of the organisation – these are mostly young, dedicated and well-educated people. Some 40 percent of them are non-auditors, though, which in the opinion of the Reviewer needs to be changed, and a respective recommendation has been formulated.

Headquarters and Representative Offices

The BPK is divided into the Headquarters Office located in Jakarta and 34 Representative Offices in all the provinces of the Republic of Indonesia. The Headquarters comprise seven Principal Auditorates of State Finances

\(^2\) For instance, the Office of the Auditor General of Norway (Riksrevisjonen) is managed by a Board of five Auditors General appointed by the Parliament for a four-year term of office. The Parliament also appoints one of the Auditors General as the Chairman and the main executive of the Office.
Each dealing with several different sectors of the Government's operations, the Principal Investigative Auditorate, the Secretariat General, the Principal Inspectorate, the Principal Directorate of State Audit Planning, Evaluation and Development, the Principal Directorate of Legal Counsel and Development, the Education and Training Agency and four Advisors to the Board.

The requirement for the BPK to have a Representative Office in each province is set forth in the Constitution of the Republic of Indonesia. Such a regional structure of a SAI is well-known, although it is not very frequent. In a country of the size of Indonesia – the fourth largest population in the world, with some 17,000 islands and spreading along three time zones (the length comparable to the diameter of the European continent) – is a very demanding structure for state auditing, where a regional level seems to be a necessity. The supervision over the Representative Offices lies with the BPK Board Members based in the Headquarters.
III. Implementation of Recommendations of Peer Review 2014

One of the objectives of this peer review was to assess the implementation of the recommendations the peer review exercise conducted in 2014 by the Peer Review Team from the Supreme Audit Office of Poland (NIK). The assessment has been made on the basis of the report on the recommendations implementation developed by the BPK, and on the basis of the interviews with the BPK staff, and the Reviewer’s own observations.

The majority of the recommendations have been assessed as completed, and these have not been referred to in this peer review report. The recommendations whose implementation, in the opinion of the Reviewer, needs further effort in addition to what the BPK has achieved to date, have been discussed below, followed by some advice and guidance on how to arrive at their completion.

**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.

This recommendation is marked as “In Process” on the BPK’s report on the monitoring of the follow up action of the 2014 peer review.

In accordance with the BPK’s Action Plan for the implementation of recommendations, a mechanism was to be established for publishing audit reports on the BPK’s website by 2015. To this end, the Information and Communication Centre (PIK) was created where the readers can obtain audit reports upon request. Also, the summaries of audit reports are included in the BPK’s biannual semester reports, which undoubtedly is a good step forward.

In the opinion of the Reviewer, however, these solutions only partially fulfil the requirement of the SAIs to have their reports easily accessible and therefore to make their achievements publically available – filing up a request demands certain effort on the part of the intended reader, who also cannot remain anonymous.

Considering the above observations, the recommendation needs to be assessed as still valid.

**Recommendation 14**

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

The BPK reported that the implementation of this recommendation is in process. In order to implement it, two measures were foreseen in the Action Plan. The first was to develop a guideline on human resources planning that would consider the proper proportion of auditors vs. non-auditors. At the time of this peer review, the draft guideline was ready.
and in the process of finalising by the Research and Development Directorate. The other measure aimed to follow up this recommendation was the implementation of the guideline, which has not been completed yet. Considering the above and the data on the actual proportion of the audit staff of the BPK vs. non-audit staff, which in 2019 is 60 percent to 40 percent, the Reviewer recommends further improvements in the area. Hence the recommendation needs to be assessed as still valid.

**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.*

During the assessment of the sampled audits, the Reviewer found that materiality was mostly assessed by using the concept value, scoring the subsequent observations and giving an average score at the end. By using solely a quantitative approach to materiality assessment, some areas may risk to never be audited, even if the stakeholders need to receive information based on a more qualitative approach. Hence, the recommendation needs to be assessed as still valid. An additional recommendation in the area has been formulated under the section dedicated to materiality.

**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.*

In the opinion of the Reviewer, based on the analysis of statistics, the number of performance audits has not increased. A dedicated performance audit unit would definitely contribute to the implementation of this recommendation. Hence, the recommendation needs to be assessed as still valid. More observations and guidance have been included in the section dedicated to performance audit.

**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.*

The BPK considers this recommendation as being in the process of implementation. The development of the guidelines for performance audit have been in progress during this peer review, the recommendation needs to be therefore assessed as still valid. More details have been provided in the section on performance audit.

**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.*
According to the SAI Performance Measurement Framework (indicator SAI-4): "Quality control of the audit process describes the sum of the measures taken to ensure the high quality of each audit product. It is carried out as an integrated part of the audit process. For a system of quality control to be effective, it needs to be part of an SAI’s strategy, culture, and policies and procedures. In this way, quality should be built into the work of an SAI and the production of its reports." While quality assurance “is a periodic evaluation of the audit process. It is a monitoring process designed to provide an SAI with reasonable assurance that the policies and procedures relating to the system of quality control are relevant and adequate and are operating effectively. Quality assurance should be carried out by individuals who are independent, i.e. have not taken part in the audit process they are reviewing. The quality assurance process should include a review of a sample of completed work across the range of work carried out by the SAI.”

In the Reviewer’s opinion, the current approach to the quality exercised by ITAMA is focused on quality control procedures: it is mainly implemented after an audit is completed, to see whether the quality control of the audit effectively operates and how to improve the quality control policies and procedures. As stated in the “Audit Management Guideline” and “Audit Support Management Guideline”, the implementation of quality assurance by ITAMA does not take the function of quality control, which is conducted internally by the audit unit. Procedural indiscipline revealed by the quality assurance review only indicates symptoms of ineffective quality control function, which should be solved by implementing the recommendations of quality assurance review. Requested by the Board, ITAMA can conduct quality assurance review before the audit work is completed (e.g. it conducted a “hot review” on the Central Government Financial Audit in 2017).

In the Reviewer’s opinion, the ex post assessment of audit files quality conducted by the BPK undoubtedly provides effective support to keep the procedural discipline. It cannot, however, replace the methodological support before the audit results are exposed to the auditees and the stakeholders – this also being an important function of quality assurance, which should be provided on a continuous basis: as an ongoing element of the audit reporting process, rather than as an ad hoc activity. Hence, the recommendation needs to be assessed as still valid.

**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.*

The BPK considers this recommendation as being in the process of implementation. Dedicated applications are being developed (SMP and SiPTL). In addition, BPK Decree No. 3 of 3 March 2016 concerning the Regional Government Financial Report Audit Guidelines contains examples of recommendations for several types of audit findings, as well as the Central Government Financial Report Audit Guidelines that are in the process of updating. Hence, the recommendation needs to be assessed as still valid.
IV. Previous Peer Reviews – Actions Taken

Pursuant to Article 33 (1) Law No. 15 of 2006 regarding the Audit Board of the Republic of Indonesia, the BPK has been subject to regular – every five years – peer reviews. Such a requirement, openly set forth in the national legal regulations, should be considered as an excellent realisation of the recommendations of the INTOSAI Peer Review Guide (ISSAI 5600).

The current Reviewer got acquainted with the reports of the previous Reviewers, starting with that of the Office of the Auditor General of New Zealand (2004), through the report by the Netherlands Court of Audit (2009), to the report developed by the Supreme Audit Office of Poland – the latest Peer Reviewer (2014). Having analysed the observations and recommendations of their predecessors, the Reviewers have a picture of the BPK’s developments since 2004 until now. In the first place, this allows the Reviewer to appreciate the attitude of the BPK and its willingness and commitment to implement the recommendations of the Reviewers, and to use their advice. In this section of the report, the Reviewer would like to give examples of the areas where the most significant progress has been made by the BPK and where the most substantial improvements can be observed.

Towards Independence

One of the observations by the team that conducted the peer review of the BPK in 2004 stated that: “the BPK is seeking to enhance its independence in two key ways by having:

- the Board appointed by Parliament rather than the President and
- its funding determined by Parliament rather than the Executive.”

Fifteen years later, during this peer review, the BPK’s legal situation looks much different: the Law on the BPK was adopted, and the BPK’s Board Members are elected by the Parliament. Therefore, a significant improvement should be noted and appreciated, despite the existing dependence on the Government with regard to the BPK’s budget and human resources management, whose details have been discussed in the section dedicated to the implementation of the recommendations of 2014 and under the respective domains of the SAI PMF.

The first recommendation of the peer review of 2014 advised the BPK Board Members to resign from all political activities and from membership in political parties or other political organisations for their term of office.

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4) Law of the Republic of Indonesia Number 15 Year 2006 Concerning Audit Board.
5) 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).
In its report on the progress of the recommendations implementation, the BPK stated that: "BPK Regulation No. 3 of 2016 concerning the Code of Ethics in Article 6 states that every BPK Member is prohibited from showing partiality and support for practical political activities. In addition, the Strategic Plan also stated the target of completion of the Board Work Procedure. Then the BPK Regulation No. 2 of 2016 concerning the Board Work Procedure was issued".

**Designing Strategy**

While conducting their peer review exercise in 2004, the team from the SAI of New Zealand pointed that the BPK lacked a strategic audit planning process that would allow, among others, for identifying the key issues across the public sector and within individual sectors, for identifying key risks and audit interventions to address them, and for forming, in a coherent and logical form, the basis for BPK’s work programme (themes and issues to be considered or addressed in the planning).6) After five years, in the 2009 report the Reviewer considered the strategic planning as properly implemented at the BPK, and simultaneously appreciated the system of key performance indicators that the BPK had developed and implemented, this being a helpful instrument to ensure the realisation of the strategy.7) With a view to suggesting further improvements, the authors of the 2009 peer review report also observed that: "Starting with a description of expected outcomes, themes and sectors of its mandate, [the BPK] could define its multi-year audit plan (its 'umbrella') by specifying objectives it would like to attain. Such objectives would guide [the BPK] during its annual selection of audits or other activities. The success of government policies is hard to measure by means of a single audit but a cluster of interrelated audits can give better proof of policy success or failure".8) On the basis of that observation, the 2009 Reviewer recommended that the BPK “develop a multi-year strategy based on a limited number of topics that are aligned with the new government policy programme”.9)

During the peer review exercise in 2019, the Reviewer observed that the Strategic Plan of the BPK had been linked to the National Development Plan – which is the document defining the directions of the Government’s policies. The BPK Management emphasised that this was their own decision, aimed to allow the BPK to have a more general overview of the Government’s policy, and to monitor the Government’s activities. While considering it a positive step – as it is one of a SAI’s responsibilities to check whether the government spends the resources in an efficient, effective and economic manner – the Reviewer would like to observe a risk

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6) **Peer Review of the Audit Board of the Republic of Indonesia (BPK) Conducted by the Office of the Auditor-General of New Zealand, August 2004, Section 9.**

7) **Peer Review of the Audit Board of the Republic of Indonesia, 2009, p. 10.**

8) **Ibid.**

9) **Ibid, p. 11.**
that may arise here: the focus on the Government’s policy may reduce
the BPK’s sensitivity to the areas that are not included in the National
Development Plan. A respective recommendation has been formulated
in the section dedicated to overall audit planning of this report.
What is more, strategic initiatives are now prioritised by the BPK,
e.g. its 2016–2020 Strategic Plan contains six strategic goals, which should
be appreciated as implementation of the recommendation of the previous
peer review exercise.\(^\text{10}\)

**Investigative Audits**

In 2009, the Reviewer recommended the BPK to shift focus in fraud and
corruption cases from individuals to the systemic background – cause
and effect relation. To this end, a separate Investigative Audit Unit was
established at the BPK.

During the peer review of 2014, the effectiveness of the Unit could not
have been assessed, as the concept was not yet approved. In 2014 it was
recommended – considering that special purpose audits can be convenient
to integrate various types of audits – not to reduce special purpose audits
to compliance or fact sheets, and to apply systemic and performance
conclusions and recommendations whenever needed and useful.\(^\text{11}\) Despite
the doubts of the previous Reviewer, who feared that the works of the Unit
would be conducted under pressure of current expectations, its functioning
should be considered efficient and satisfactory, with its main task being to
take over cases and commence new audits – of the investigative nature
– whenever an investigative case has been found during another type
of audit, mainly compliance.

In this report, the Reviewer would like to emphasise that this recom-
mendation was followed by the BPK, and that notable improvements can
be observed here.

**Transition to Accrual Accounting**

In their report of 2004, the Peer Review Team from the SAI of the New
Zealand observed numerous challenges that the BPK had to face due to
the introduction to the New State Finance Law on accrual accounting,
and formulated several recommendations in the area. The subsequent
peer review conducted by the SAI of the Netherlands in 2009 consi-
dered those recommendations as implemented, and appreciated
the progress made by the BPK in response to them: the development
of a strategic plan that considered transition to accrual accounting and the
introduction of training courses on accrual accounting. As a result, the
BPK was ready to meet the challenges of accrual accounting yet before
they were introduced in the public sector of the Republic of Indonesia.\(^\text{12}\)

\(^{10}\) Recommendation 7 of 2014: *A short list of the highest priorities among strategic initiatives
would help in focusing the BPK’s effort on the goals that are considered as the most crucial.*

\(^{11}\) Recommendation 25 of 2014.

\(^{12}\) *Peer Review of the Audit Board of the Republic of Indonesia*, 2009, p. 50, items 9 and 12.
In the current Reviewer’s opinion, this is an example of a very good and prospective attitude that characterises a modern Supreme Audit Institution.

**Ethics**

In 2009, the Reviewer Team from the Netherlands formulated two recommendations for the BPK in the area of ethics: to reiterate its values and principles periodically and use the IntoSAINT tool to assess its own integrity, as well as to introduce a central registration of breaches to integrity.\(^{13}\) The subsequent peer review exercise (in 2014) assessed those recommendations as completed, since the Code of Ethics had been implemented at the BPK, and the assessment with the use of the IntoSAINT tool had been performed twice before that peer review was concluded. In addition, the BPK established the internal Ethics Council which is a solution that can be regarded as a good practice to be followed by other SAIs. The existence of such a solution and the ethical infrastructure of the BPK were recognised by the international community of SAIs when the BPK was requested to be a member of the international team tasked with the revision of the INTOSAI Code of Ethics.\(^{14}\)

It is also worth emphasising that a central registration of breaches of integrity has been introduced at the BPK – following the other recommendation of the peer review of 2009. This responsibility lies with the ITAMA unit.

The mechanism of all audit team members to sign integrity declarations before every audit engagement, which has been introduced in the BPK, can be regarded as a practical example of the implementation of the Code of Ethics, and as a good practice.

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\(^{13}\) *Ibid*, p. 16.

\(^{14}\) The revision project of the INTOSAI Code of Ethics took place in the years 2014–2016 and the final version of the revised code was adopted at the INTOSAI Congress in Abu Dhabi in December 2016.
V. Supreme Audit Institution
Performance Measurement Framework

1. Domain A: Independence and Legal Framework

There are several prerequisites for the functioning of Supreme Audit Institutions in the international audit environment. SAIs must have financial and organisational independence, also the independence of the SAI head must be ensured, including security of tenure and legal immunity in the discharge of their duties. Furthermore, a SAI should be free from direction or interference from the legislature or the executive in the discharge of its functions, including obtaining information and reporting on its work. The mechanisms for execution of these functions may vary according to a SAI model or country context.

The aspects of SAIs’ independence have been laid down in the United Nations Resolutions and in the fundamental standards for SAIs. 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 a prerequisite to achieve national, as well as international development objectives and goals. On 19 December 2014, the United Nations General Assembly took a new, essential step to strengthen SAIs and adopted the Resolution Promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions and once again highlighted the importance of SAIs’ independence. The resolution states explicitly that SAIs “can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence”.

The aspects of SAIs’ independence have been laid down in the Lima Declaration of INTOSAI of 1977. The document also emphasises that the establishment of SAIs and the necessary degree of their independence shall be laid down in the Constitutions, while details may be set out in legislation. The independence of SAIs is inseparably linked to the independence of its members, which shall be guaranteed by the Constitution, too. According to the Lima Declaration, SAIs must be provided with the financial means to enable them to accomplish their tasks and be, if required, entitled to apply directly for the necessary financial resources to the public body responsible for the national budget. The document also defines the SAIs’ relationship with the parliament, government and administration.

The preface to the Mexico Declaration reads: “Whereas the Lima Declaration recognizes that state institutions cannot be absolutely independent, it further recognizes that SAIs should have the functional and organizational independence required to carry out their mandate”, which is followed by eight core principles being essential requirements.
for the proper public sector auditing. These include the independence of SAI heads and members (or collegial institutions), financial and managerial (administrative) autonomy, availability of appropriate human, material, and monetary resources, and no control or direct access to these resources on the part of the executive.

**Recommendation 1:**

With a view to further disseminating the idea of SAIs’ independence, more intense promotion of the United Nations Resolutions of 2011 and 2014 could be undertaken among the BPK’s stakeholders.

**Impact of Mandatory Audits**

The Mexico Declaration of 2007 underlines the importance of a sufficiently broad mandate and full discretion in the discharge of SAIs’ functions. One of the attributes of SAIs’ independence is freedom in planning their work. In that process the BPK, like other SAIs, prepares a vertical and horizontal risk analysis, in which the Representative Offices are also involved. After comprehensive risk analysis, audit subjects and entities to be audited are selected.

During the planning process, the BPK can consider suggestions and information submitted by the Parliament and the Government, and these can be used as an inspiration in developing the working plan with a view to adjusting it to the current needs of the public – since these bodies may be more familiar with the citizens’ problems and expectations. Nevertheless, in many countries a broader approach is frequently applied: various other stakeholders can voice their suggestions as for audit topics. In the Reviewer’s opinion, the BPK could consider this practice as an example to follow.

During discussions on the BPK’s working papers, the Reviewer found out that the law enforcement institutions such as the Police, the Corruption Eradication Commission, or the Attorney General can demand audits from the BPK. Based on requests from the law enforcement agencies, the audit objective is to calculate state financial losses. The BPK plays an important role and authority in calculating state financial losses, and it is left for the auditors’ professional judgement to decide whether to follow up the requirements of investigative audits or not. Nevertheless, not all auditors interviewed by the Reviewer were fully convinced whether it would be possible to reject these suggestions. The explanation was that the only institution to manage public finance related issues was the BPK.

While observations and suggestions from the law enforcement agencies can be very useful in the process of strategies and work plans development, they should not, however, be obligatory for the BPK as an independent institution.

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15) The BPK presented the Reviewer with a copy of a letter rejecting a state calculation demand.
At the same time there is no “mirror-effect” in the Indonesian regulations – in the case when the law enforcement agencies are informed about a possible criminal activity, they are not obliged to share this information with the BPK.

**Recommendation 2:**
Consider solutions to minimise the potential negative impact of mandatory audits on the BPK’s resources and capacity to perform audits on its own initiative.

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**Budget Constraints**

In accordance with the legal regulations, the budgets of all public institutions are centralised in Indonesia. The BPK, as it was stated at the meeting at the Ministry of Finance, is treated as one of ministries, so during the budgeting processes the financial resources of the BPK are set by the Ministry of Finance. Since the BPK is not one of the ministries (i.e. a responsible party), there is a mismatch between the roles and responsibilities of the BPK (i.e. the auditor).[16]

According to Article 2 of Law No. 15/2006 on the Audit Board of Republic of Indonesia, the BPK is free and independent in auditing state financial management and accountability. The provision comprised in Article 35 sets forth that the BPK shall have a separate budget allocation in the State budget, to be proposed by the BPK and submitted to the Parliament of the Republic of Indonesia (DPR) for preliminary discussion on the draft State budget.

In accordance with Article 11 of Law No. 17/2003, state expenditure shall be specified according to the organisations, function and type of expenditures – as a result the BPK submits its budget proposals to the Parliament during the annual budget preparation process, following the same procedures as the other government agencies. The Ministry of Finance drafts the State’s annual budget considering the proposals that have been submitted. The final budget draft takes into account the Government’s financial capacity as well. Therefore, it cannot be guaranteed that the BPK will always be allocated such a budget as it proposes. Therefore it may be assumed that the above dependence aspects in the budgetary process limit the BPK’s independence.

In many countries, the entities that need to be independent financially of the government, such as SAIs, are independent in constructing their budgets – in compliance with the binding laws on public finance. Ministries of Finance shall not modify their budgets, which is possible for parliaments only. Such a situation exists e.g. in Poland, and it guarantees the financial independence of the Supreme Audit Office (NIK).

**Recommendation 3:**
Consider establishing legal solutions that would allow the BPK for increasing its independence in the process of its budget construction.

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[16] ISSAI 100/25.
The Reviewer was informed that some restrictions in budget revisions existed, as well as possible budget cuts during the given year, and the obligation for the BPK to follow the Finance Minister’s Regulations on Budget Implementation. On the basis of the data on budget allocations in the years 2015–2019 and comparisons of the indicative ceiling, the budget ceiling and the final budget, it can be concluded that the BPK did not always receive what it expected. However, according to the information that the Reviewer gathered e.g. from the Ministry of Finance and the State Accountability Committee during the peer review exercise, it did not negatively affect the BPK’s capacity to perform its core business nor its audit work plan. Nevertheless it is a subjective opinion of the stakeholders only, and in fact budget constraints to the BPK’s independence exist.

During the meeting that the Reviewer had with representatives of the Indonesian Ministry of Finance, it was emphasised that the cooperation with the BPK was smooth and satisfying. The Ministry, being an auditee and one of the main stakeholders, perceives the BPK as an independent, respected and credible institution with considerable standing and authority. Since currently Indonesia’s economic situation has been improving, and considering the present legal regulations and smooth cooperation with the Ministry of Finance, the financial situation of the BPK should remain unaffected. However, if the country’s economic situation deteriorates, some risks may arise threatening the BPK’s financial independence.

The Ministry of Finance, during the meeting with the Reviewer, stated that strengthening of the BPK’s financial independence is not feasible in the current legal and organisational circumstances. However, in the perspective of works on the new law on the BPK, to take place in the near future, the Reviewer’s observations in the area can potentially be used.

Consequently, the Reviewer is of the opinion that steps should be taken with a view to considering potential ways to provide the BPK with full independence, in accordance with the current international standards and to reflect the provisions of the United Nations’ resolutions. This is also in line with Recommendation 4 of the Peer Review of 2014 that advised the BPK to consider limiting the role of ministries in the budget negotiation process, whose main message has been reiterated in this report.

**Recommendation 4:**
The BPK should take actions to limit the role of the Ministry of Finance in the BPK’s budget negotiation process by proposing respective amendments to the financial law.

**Human Resources Constraints**

From the discussions with the representatives of Ministry of Administrative and Bureaucratic Reform the Reviewer got a general impression that cooperation with the BPK, both the Board Members and other officials, was mutually satisfying. This is positive, considering that the BPK’s auditors, in the light of the binding legal regulations, are civil servants (officials) and their status is regulated by Law No. 5/2014 on State Civil Apparatus.
The Civil Service in Indonesia is supervised by the Ministry of Administrative and Bureaucratic Reform. The BPK needs the Ministry’s consent to recruit new employees, and the recruitment process depends on the Ministry. Also, the BPK must comply with the Government’s regulations from the National Civil Service Agency for career, promotion, basic salary, performance allowances, etc.

In the international audit environment, it is common for SAIs’ employees to be members of the civil service system. However, at this point a question frequently arises about the limitations to and the impact on the independence and mandate of SAIs. Since a potential risks exists as for whether the needs of the BPK with regard to the number of staff and their qualifications are always meet, with the recruitment process being conducted by another entity. Moreover, human resource management faces real difficulties when funds for incentive payments to a large extent depend on the audited entities. According to the BPK, the independence of its audit process is not affected despite the influences on the BPK’s financial and human resources. During their discussions with the Reviewer, the BPK representatives did not refer to any situations when the performance of their duties was negatively affected, nor to any actual cases of reducing their independence. Still, such risks have to be considered as very probable. Therefore, and on the basis of Recommendation 5 formulated in the peer review report of 2014, the Reviewer would like the BPK to remain sensitive to this issue and consider potential steps that may be taken.

**Recommendation 5:**
The BPK should make an effort to reduce the influence of the Ministry of Administrative and Bureaucratic Reform on its human resources.

**Legal Framework**

The legal framework of the BPK fulfils the requirements of the recognised international standards and guarantees the BPK a strong position within the hierarchy of state authorities of Indonesia. The Constitution of 1945 gives the BPK a strong legal and constitutional position, at the same level as the position of the President of the Republic – as the executive power, the People Constitutive Assembly, the House of Representative and the Regional Representative Council – as the legislative/representative power, and the Supreme Court and the Constitutional Court – as the judicial power.

The Constitution of the Republic of Indonesia in Chapter VIIIA sets forth that the Audit Board shall be free and independent to investigate the management and accountability of state finances. The results of any investigation of state finance shall be submitted to the respective legislative bodies. The Constitution also states that the BPK shall be based in the capital of the country, it shall have a representation in every province, and that further provisions regarding the BPK shall be regulated by law. The most important regulations setting the BPK’s mandate are Law No. 17/2003 on State Finance, Law No. 1/2004 on State Treasury, Law No. 15/2004 on Audit of Management and Accountability of State Finance and Law No. 15/2006 on the Audit Board of the Republic of Indonesia.
According to Article 2 of the Law on the Audit Board, the BPK shall be a state institution that is free and independent in auditing state financial management and accountability. Chapter VI contains crucial provisions about the independence of auditors – who shall perform their audit duties in a free and independent manner. This law also stipulates that there shall be nine Board Members, whose term of office shall last five years, and who can be re-elected only once.

More detailed provisions regulate the individual areas of the BPK’s work: auditing (e.g. State Financial Audit Standards 1/2017, Monitoring of follow-up on recommendations of BPK’s audit results 2/2017, Guidance on Audit management Decree 5/2015), organisation (BPK Work Procedures 1/2018, Divisions of task and domain of Board Member of the BPK, BPK’s Code of Ethics 4/2018) and supporting (Honorary Assembly of BPK’s Code of Ethics – PBPK 5/2018).

The BPK has developed a framework of audit manuals structured at four levels. The highest level are the provisions on the BPK in the Constitution and laws. The second top level are the BPK’s general or basic manuals: auditing standards, audit management, and the code of ethics. The third level are the BPK’s audit guidelines, which also comprise the BPK’s Quality Assurance Systems (QAS) Guideline. The fourth level is BPK’s technical guidance, developed in case the BPK’s audit guidelines need to be technically detailed, e.g. Performance Audit on Forest and Land Rehabilitation (201.000) or Food Subsidy Audit (305.000).

In the Reviewer’s opinion, the mandate of the BPK is clearly disclosed in the Constitution, laws and regulations. The legal framework allows the BPK to implement its mandate in an effective way and, together with the available audit manuals, allows for conducting good quality audits in accordance with the auditing standards.

2. Domain B: Internal Governance and Ethics – Indicator SAI-7: Overall Audit Planning

Strategic Planning

There is a link between the BPK’s Strategic Plan and the Audit Plan, with the focus areas of the former having been incorporated in the Overall Annual Plan 2017.

The responsibilities for planning, implementing and monitoring of the audit plan are clearly defined in the BPK Overall Annual Plan. The breakdown of estimated resources, financial and human alike, is included in detailed audit plans for individual audits. Still, in the opinion of the Reviewer, the Overall Annual Plan does not contain overall estimations on what resources are to be dedicated to particular audit streams: financial audits, performance audits and special purpose audits. The BPK monitors implementation through the overall audit plan and a yearly follow-up with reports.
**Recommendation 6:**

It would be advisable for the BPK to provide, in one comprehensive document, all the information related to annual audit planning, including overall estimations on the resources to be dedicated to three audit streams.

Reliance on Risk Assessment in Audit Topics Planning

Element 3 of ISSAI 140 states that the audit planning process follows a risk based methodology. Risk assessment is the main element in the development of the annual risk-based audit plan, as identification and prioritisation of key risks is crucial to ensuring that audit resources are allocated to the significant areas of the State’s activity. This supports the organisation in planning audit processes in such a manner that it is able to contribute to better governance of the State.

The obligation for the BPK to conduct financial audits in the first half of the year affects the planning of the other types of audit, which consequently can only be conducted from July to December. It is a challenging issue especially for performance audit, where the planning and audit processes are time consuming, and where auditors assess the economy, efficiency and effectiveness with the use of a result-oriented, problem-oriented or system-oriented audit approach.17)

The National Development Plan is elaborated by the Government and provides one of the sources for the BPK’s overall audit planning. Apart from thematic audits based on the National Development Plan, the BPK also plans and conducts thematic audits based on strategic issues analysis and requests from the stakeholders. For example, the audit on asset revaluations of 2018, the Land Reform Audit in 2018-2019, the Audit on Transportation Safety Programme of 2019, and the Special Autonomy Fund Audit 2019 were inspired by the stakeholders. Nevertheless, in the Reviewer’s opinion, significant reliance on the National Development Plan can make the plans of BPK more related to the Government than to the Parliament. Consequently, the model of defining the Parliament – as the intended user of the BPK’s reports – is not followed, as signals come mainly from the executive. This can also be in disagreement with the BPK’s mandate, as referred to in the Constitution of the Republic of Indonesia: “The result of any investigation of state finances shall be submitted to the DPR, DPD or DPRD in line with their respective authority.”18) More importantly, some significant issues may not be audited if they are not included in the National Development Plan. ISSAI 12/5 reads that a SAI should ensure that stakeholders’ expectations and emerging risks are factored into audit plans as appropriate (see also the section on IT audits). Therefore the Reviewer would like to observe that the BPK applies the risk-based approach in the planning process, using the top-down and bottom-up risk-assessment element, however further steps should be taken to make it more systematic.

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17) ISSAI 3000/40.
18) Chapter VIIIA.
Recommendation 7:
To make the risk assessment more efficient and effective, the BPK should consider:
- including a top-down and bottom-up approach to annual risk assessment in the annual plan,
- in order to assess risks that are material – using sources other than the National Development Plan more frequently.

Materiality Analysis in the Planning Process
When analysing the sampled compliance audits, the Reviewer found that materiality was mostly assessed by using the value concept – by scoring different observations and, at the end, giving an average score. While in the level-three ISSAIIs (ISSAI 100, 200, 300 and 400), the concept of nature and context was also introduced, the reason being that materiality has both quantitative (value) and qualitative (nature and context) elements. If only a quantitative approach is used for assessing materiality, some areas may not be audited at all, although information based on a more qualitative approach could be important to the Parliament.

Recommendation 8:
Consider incorporating materiality by nature and context in the process of assessing materiality in the overall planning of the audit coverage.

Performance Audit Planning
The INTOSAI auditing standards advise SAIs to have dedicated staff to conduct performance audits, with expertise in examining economy, efficiency and effectiveness, and trained on how to assess output and outcome. The BPK, however, does not have such staff at its disposal. In the audit sample examined by the Reviewer, analyses of root causes or results of the audited activities or programmes seemed to be absent, which should be one of the basic objectives of performance auditing. This is probably due to the lack of sufficient time to plan, execute and report a proper performance audit.

The performance audits conducted by the BPK provide assurance at the input level, while the auditing and reporting do not cover higher level goals (outcomes) of the audited agencies, programmes and projects. With their immense potential to contribute to good governance, performance audits are reckoned to be the future of SAIs, as giving more added value through providing information about the outcomes of the governments’ activities (providing services and results for the citizens).

Recommendation 9:
In order to provide the Parliament with an assessment of the outputs and outcomes of the State’s activities, the BPK should have a dedicated unit with auditors having necessary professional competence to conduct performance audits.
3. Domain C: Audit Quality and Reporting

Financial Audit

In accordance with the law, the BPK – as a state institution that is free and independent in auditing state financial management and accountability – performs financial audits of all the ministries and central government bodies, as well as local governments (542 financial audit reports for the 2017 fiscal year).

The audits of the financial statements of the entities listed above are aimed at providing reasonable assurance as to whether the financial statements have been fairly presented, in all material respects, in accordance with the generally accepted accounting principles of Indonesia. The financial audit is conducted by the BPK also in order to provide an opinion on the level of reliability of the information presented in the Government’s and local governments’ financial statements.

In the opinion of the Reviewer, the BPK’s financial audit is, in all aspects and important elements, compliant with the standards. During their meetings with the Reviewer, the BPK’s audit staff claimed that their self-assessment also confirmed their compliance with the standards. Nevertheless, the BPK does not always systematically explain the reasons why financial errors occurred and have not been detected by the internal control systems or other auditors (see section on Challenges for Financial Audit).

Financial Audit at the BPK

The data related to the results of financial audits in the years 2006–2017, which were presented by the BPK, proved that over that period the quality of financial statements had been constantly increasing. At the central level (ministries, agencies), the number of unqualified opinions was three in 2006 and increased to 80 in 2017, while the volume of qualified opinions and disclaimers decreased from 37 to 6, and from 30 to 2 respectively.

The majority of the BPK’s resources are spent on financial audits. In practice, financial audits are conducted from the end of the audited fiscal year and until the middle of the following year, when they are submitted to the Parliament (May). In general, the BPK conducts each financial audit within 60 days from the date on which the financial statement was delivered by the auditee.

Already in 2014 the Reviewer stressed the issue of time flexibility in the BPK, which stems from the provisions regulating its basic responsibilities. The legal obligation to conduct all financial audits in the first quarter of the year makes all the BPK’s audit resources involved and, consequently, it does not seem feasible for the auditors to deal with performance audits at the same time. If such substantial resources of all kind (time, auditors, training, budget, technology) are engaged in financial audits, the other types of audit may not be allocated sufficient resources and, consequently, a high risk exists that they will be underperformed or performed ineffectively.
Taking into account the stakeholders’ wide interest in performance audits results, it would be reasonable, on the basis of risk analysis, for the BPK to reduce the volume of the annual financial statement’s verification. This was already advised by the Reviewer in 2014 in their recommendations 20 and 23. The current Reviewer would like to echo their arguments.

**Recommendation 10:**
The efficiency of financial audits should be reconsidered and the resources should be allocated in a more reasonable way – on the basis of risk analysis – so as to reduce the cost of the annual financial statements’ verification. The BPK should look for ways to conduct some performance audits parallel with financial audits, e.g. by not engaging all its auditors in financial audits in the first half of the year.

Financial Audit Process

The financial audit process in the BPK, in accordance with the international standards, is divided into three main phases: planning, field audit and reporting. At the planning stage, the BPK analyses, among other things, the entity’s internal control system, the results of previous audits, and performs initial risk assessment. The field work covers risk level and materiality level adjustment, a test of control, a substantive test (also its evaluation) and final risk assessment and materiality determination. The reporting stage consists of formulation and discussion about the draft audit report, preparation of the final report and, ultimately, its dissemination.

During their missions at the BPK, the Reviewer thoroughly analysed all working papers from a sample of audits, selected randomly and stratified to cover different types of entities from different levels of the Government (central and local alike). The Reviewer would like to emphasise that all documents were prepared according to the established methodology and procedures. The audit teams followed all laws and regulations, and principle-based standards and guidance were used to regulate the substance of audit and non-audit (supporting) activities. The Reviewer would also like to appreciate the use of the SIAP information system for documenting the audit work done.

The reviewed financial audits give an overall picture of the BPK’s auditors following international standards – they obtain sufficient and appropriate audit evidence, they apply different audit sampling techniques and use the work of internal audit functions. The audit procedures were performed in such a way as to obtain sufficient and appropriate audit evidence.\(^{19}\)

The reviewed reports seemed to be objective and fair, and their findings were supported with appropriate audit evidence, and put into perspective and context.\(^ {20}\) The reports were well structured and comprehensive (e.g. *Report on the 2017 financial statements of the Ministry of Administrative*

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\(^ {19}\) ISSAI 200/126.

\(^ {20}\) ISSAI 100/51.

According to Law No. 17 Year 2003 concerning State Finance, the audited financial statement of the central government shall be tabled to the Parliament, and financial statements of the local government – to the Local Governments Parliament, no later than six months after the end of the fiscal year. This timetable is very demanding for the BPK. The Reviewers were informed that there were no late submissions in the years 2016 and 2017.

The crucial element of the financial audit process is quality control and quality assurance (elements of the Quality Management System based on the Audit Management Guidance). Hierarchical supervision and review are done to ensure that the audit evidence collected is sufficient (weekly reports to supervisors and feedback).

Follow-up

At the BPK proper follow-up systems are in place to ensure that audit findings and conclusions are properly addressed by those responsible and progress reported to the legislature. The existing legal framework requires the BPK to monitor the execution of the audit recommendations follow-up.

This obligation is exercised by the BPK through presentation of the audit recommendations implementation in semester reports. To this end, dedicated tools have been developed by the BPK: the Audit Management System (SMP) where relevant data are stored, and the Audit Follow Up Application System (SIPTL), which allows the auditees to update their action plans and follow-up status.

Use of Experts

During their mission to the Representative Office of the BPK in Padang, the Reviewers were informed that in case of difficult or contentious matters the BPK ensures appropriate resources, such as technical experts. While any differences of opinion within the BPK that arise are clearly documented and resolved before the report is issued.

The designated task forces/working groups are created to coordinate the audit process – from the planning stage, up to reporting and conducting studies on the problems found by audit teams. The auditors can obtain data and information through observations, interviews, surveys and measurements – the methods are selected following their professional judgment. The auditors can also employ experts to support them in designing methodologies for data and information collecting.

During their meetings with the Reviewer, the respective stakeholders – in the case of financial audits these were the Ministry of Administrative and Bureaucratic Reform, the Ministry of Finance and the Padang City Office – emphasised a very high level of professionalism of the BPK’s auditors, their general knowledge of the entities’ environments, educational background, expertise and experience, as well as involvement and good ability to communicate clearly and effectively.
Challenges for Financial Audit

The BPK uses most of its resources for financial audits, and these are conducted in a thorough and professional manner, and in compliance with the BPK's manuals and procedures. Financial audits are comprehensive, but could be more focused on system level issues. The financial audits analysed by the Reviewer included relatively minor findings that seemed to be not all material or relevant for the opinion on the true and fair view of the financial statements. Furthermore, the BPK does not always systematically explain the reasons why financial errors occurred and have not been detected by the internal control systems or other auditors. This may be partially due to the financial system methodology, or the technique of report writing, especially in relation to internal control weaknesses description. According to ISSAI 200/143-144, the opinion should be expressed clearly in a written report that also describes the basis for the opinion.

The Reviewer observed that, even though the BPK's methodology is very comprehensive and detailed, the methodology and audit questions could be less general. Indeed, audit questions in financial audit are often similar – since the audit objectives are the same, while procedures for testing accounts vary, as they need to be adjusted to the risks of the given entity and the given account. However, in the Reviewer's opinion, more emphasis should be placed on tailoring the questions to the needs of the given audit – so as to prevent the schematic approach in designing of questions, and to make them more fit individual auditees. Also, among the working papers examined by the Reviewer several examples were found of the methodology guidance being repeated in extenso in the working papers (matrix).

As it was frequently emphasised by the BPK auditors, financial audits are the most time and resources consuming part of the BPK's tasks and they are strictly regulated in the law. The findings of financial audits are also the basis or inspiration for performance and special purpose audits. Some performance and compliance audits can be regarded as continuation of financial audits, as it is the reason why auditors go deeper into the irregularities detected.

**Recommendation 11:**
The BPK should focus more on explaining the reasons why financial errors occurred and have not been detected by the internal control systems or other auditors in a more systematic manner, which could help the auditees to eliminate them in the future.

Performance Audit

Out of the three main audit types, the performance audit is usually the most challenging for all the SAIs in the world. Compared to financial or compliance audit, the final performance audit subject matter is often not so clearly linked to the direct activity of public entities, therefore it usually requires the auditors to well understand the public and private processes in many various sectors.
Despite its complexity, the performance audit is often recognised as the most promising and useful tool for SAIs, as it offers possibilities to examine the actual problems (i.e., real life issues, such as poor health service quality, air pollution, drop-outs of school, etc.) and their causes, and to provide the auditee with guidance on how to improve — through their recommendations and added value. The contemporary world, with its possibilities to obtain all sorts of required information — including governments that become more and more aware of their responsibility to report on their activities, and NGOs with their high quality researches — is so different than some 20–30 years ago. Therefore it has become more and more important for SAIs to understand their position in the giant information production system. Performance audit, if conducted in an appropriate manner, can be the best option for SAIs to fulfil the unique role vis-à-vis ambitious expectations.

Position of Performance Audit at the BPK

Performance audit has been in the shadow of financial audit in the BPK for some time. Already in the peer review report of 2004, the Reviewer observed that the huge legal requirement for the BPK to audit the financial statements of all public entities must have an impact on its capacities to carry out performance audits in a proper manner. Since the first half of the year focuses on intensive financial audits, little time remains for dedicated performance audits.

Consequently, audit teams are mostly expected to possess universal skills and expertise, so that they are capable of doing both financial (in first half of the year) and special purpose audit and performance audits (in the second half). The experience of many SAIs has shown that this is a high risk approach, as the requirements for every audit type are in some aspects fundamentally different, and in practice it is hard for one person to possess all the necessary skills at the same time.\(^{21}\)

Considering the framework, methodology, guidelines and the audits analysed, the Reviewer needs to observe that the BPK has been facing largely the same challenges for the last 15 years. In the light of the obligations imposed on the BPK by the binding legal regulations, a satisfactory solution seems hard to find. Potential solutions include enlarging the proportion of audit staff, an option to move step-by-step to sampling that would be more risk-based, however in any case changes in the legislative acts seem indispensable.

The timeframe available for performance audits is also a challenging issue at the BPK, being very short with three up to four months available to complete the whole audit engagement. The solution that the BPK has found and has been applying are system-based performance audits, in which audit teams mostly consider some preconditions, while making an assumption that these will have a positive impact on performance.

\(^{21}\) ISSAI 100/22.
Indeed, the international auditing standards provide that the proper functioning of (financial) management systems can be examined in such a way. It must be realised, though, that system-based auditing is in nature limited, it can in the essence give only indirect presumption whether the management is actually working well or not. This is one of the main reasons why the classic 3E model is directed to evaluating the input, output and/or outcome, while leaving “black box of processes” outside the scope of assessment, using it mostly for understanding the reasons at the performance level.

The Reviewers were impressed by the overall work ethics of the BPK’s audit teams – they are all dedicated and beyond doubt strive to keep the audits in the planned time. Having examined a sample of performance audits, though, the Reviewer made a common deduction that these were all in fact compliance audits (assessing whether the laws, rules and regulations were followed by the auditee), with some elements of performance audit (e.g. indicating the link to some wider goals in the report). Taking into account the time available, the majority of performance audits could be considered as covering the maximum scope possible.

Realistically, it is not possible to carry out a full-scale effectiveness audit in three months (in the majority of European SAIs, three months usually suffice for reviews with a narrow scope). Since true performance audits frequently involve many counterparts, and their criteria are complex – they need many explanations, and the right approach is chosen through many discussions inside the team and the office – it inevitably takes a longer time to reach proper conclusions.

Similarities and Differences Between Compliance and Performance Audits

If all audits entitled as performance audits were presented to the Reviewer as compliance audits, they would probably get less of criticism: the topics were generally well justified, the scope reasonable and the criteria clear. Also, there was never a doubt about the findings, and the documentation was in accordance with auditing standards requirements (e.g. described how the evidence was obtained and how it supported the audit findings). Hence it can be assumed that all the audits were conducted in a trustworthy and objective manner.

However, the distinction between performance and compliance audit needs to be taken into account. Although both audit types are usually considered to be direct reporting engagements, since in both the auditor evaluates the audit subject matter directly (not through assessment of an annual report as is the case of financial audit), the true value of performance audit lies in the possibility to assess programmes, systems, etc. as a whole, involving all the aspects that the auditor has considered to be important in terms of economy, efficiency or effectiveness. If the timeframe for performance audits remains limited, their scope will inevitably be limited too, and the report presented by the auditor to the intended user will be inappropriate and have impact on audit risk.
One of the audits examined by the Reviewer was the performance audit of the qualification of teachers, and its main concern was whether the teachers had the required certifications – if certifications were lacking, a conclusion was that the effectiveness of the State was poor. During the interviews with the stakeholders, including teachers and school principals, the Reviewer could see that many other aspects could have been subject to this audit, which would influence the effectiveness of the education system, these being small and overcrowded classrooms and out-of-date methodology. Therefore, it is debatable whether the BPK’s opinion on the effectiveness in this matter is fully appropriate. Even though the BPK has a four-year plan to cover different aspects of the education system, the audit report or the audit teams did barely refer to that, in this way failing to explain how the qualification issues would affect the overall education quality. Undoubtedly, some limitations always exist, and decisions on the optimal scope of audit make one of the biggest challenges in every performance audit, still it is crucial to acknowledge the risks and make necessary disclaimers.

The analysis of the BPK’s performance audit sample during this peer review engagement proved that there has been a substantial improvement in the quality of performance audits, especially taking into account the observations of the previous Reviewers. Some examples of well thought-out and properly conducted performance audits, concluded with typical performance recommendations, could be found in the audit sample examined by the Reviewer. Simultaneously, several of the performance audits examined are, in the opinion of the Reviewer, closer to typical compliance audits.

**Recommendation 12:**

While planning to carry out system-based evaluations, the proper audit type should always be considered, by taking into account the needs of the intended user, and applying the efficiency and effectiveness approach only when the wider impact of activities is assessed.

**Performance Audit Overall Conclusion Concept**

Among the key issues with performance audit in the BPK, the lack of full understanding of the output-and-outcome concept comes as one of the most crucial. The majority of audit teams were keen to keep the conversation in the scope of the audit, and they were with no exception patently competent and knew their fields well. However, as soon as the Reviewer tried to bring the topic outside that scope, to understand the wider context of the issues and their possible reasons, the teams were

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22) The BPK explained that the *Performance audit of the qualification of teachers* is one of four aspects of the education development strategy audit, whose four different aspects were examined during four consecutive years: Education Infrastructure (2016), Teacher Competence (2017), Education Funding for Students (2018) and Curricula/Learning Systems (2019).
not too convincing about, e.g. what impact could a specific topic have, or in what circumstances it would be possible to extend the scope.

Currently the BPK is updating its performance audit guidelines so as to reflect the latest developments in the INTOSAI framework of pronouncements. Still, the guidelines used to date do actually deal with the output-outcome model in a correct, though maybe not in a very comprehensive and thorough manner. The example given in the technical guidelines about using public transport in order to reduce the overall volume of traffic can indeed give the reader a picture of the situation. However it is probably too narrow to understand fully the complexity of the impact concept, including analyses of side effects (e.g. a reduction in the overall traffic volume can be indeed a result of the higher volume of public transport, however other factors should also be considered, like the fact that in an overall economic recession people do have less cars, etc.). Even more important is to have comprehensive discussions about defining output and outcome in both trainings and designing new audits.

Another aspect that could be partially one of the reasons for the limited understanding of the 3E concept might be the understanding of the concept of an overall conclusion. In the BPK, in almost every audit a quantitative assessment model is used, where an audit design matrix is compiled on the basis of risk assessments and the proportional value of each sub-criteria, which later is evaluated and summarised in one single statement at the end of the audit, according to the findings.

Although performance audit standards do not require an overall strict conclusion in the report (unlike in the case of financial audit), the majority of SAIs do not carry out performance audits in that way. It does not mean that the BPK has chosen a wrong path, since this concept has definitely some advantages. It is in essence a transparent system, with good potential to discuss every detail with the auditee and to explain the audit results to the Parliament and the public. It also helps to reduce some typical risks, such as subjectivity or ambiguousness. However, at the same time this kind of strictly structured approach often leaves little room for open mind, which is especially essential for performance auditors.

**Recommendation 13:** Consider using the qualitative assessment model in performance audits more frequently, where a strict overall conclusion is not required, while general conclusions are expressed.

**Performance Audit Reports and Follow-up**

The BPK’s audit reports look solid and professional; they are illustrated with tables, graphs or pictures. The most important part of the report – the executive summary – is usually reasonably short, in the spirit of the principle “as short as possible, as long as necessary”. The format of the reports should be appreciated, too, and the idea of marking each paragraph with a side entry, e.g. “Legal basis of audit”, “Audit grounds”, etc. can be appreciated as a good practice example.
Audit findings are well communicated to the auditees, with almost no signs of serious conflicts or misunderstandings. The representatives of all the auditees and stakeholders interviewed during the peer review were positive about the BPKs’ attitude and competences, and they took seriously the recommendations. However, the lack of criticism might not always be positive. It is rather unusual that the majority of the recommendations (80-90%) are implemented in a relatively short time. On one hand, it may confirm that the auditees indeed respect the BPK highly, however, on the other hand, a risk exists that the recommendations are either too technical, or they are followed up only formally. True performance audits, which attempt to reach the core causes of the problems, can often end up with complex recommendations about changing the systems, which may sometimes need as long as five to ten years to be properly implement.

Focus on the implementation rate of recommendations only can lead away from the actual improvements and added value. This risk is especially noticeable in the case of the audits conducted on the same subjects periodically, which may be typically to follow-up previous audits. This is definitely a good practice and provides for important information about the actual results. However, in some cases, the number of findings and recommendations did not decrease over the timespan of, for example, ten years or even more. Although definitely there are some good reasons for it, such as recent changes in the legislation, it seems that the question of general development is not considered by the audit teams, therefore systemic errors may remain undetected.

Following the above observations and Recommendation 9 of the peer review report of 2014, the Reviewer would like to suggest that the BPK pay more attention to the added value of its work.

**Recommendation 14:**
The BPK should consider elaborating its own expert methodology to assess the impact of audit reports on the functioning of the State.

**Compliance Audit**
The BPK is a SAI model where the Parliament is the main intended user of audit reports. The INTOSAI standard on compliance auditing\(^23\) sets forth a requirement for a SAI to identify the intended user and responsible party, and they are defined as follows: "The intended user(s) are the persons for whom the auditor prepares the compliance audit report. The intended user(s) may be legislative or oversight bodies, those charged with governance, the public prosecutor, media or the general public. The responsible party is responsible for the subject matter, and is as such the subject for the audit."\(^24\) The BPK seems, to some extent, to mix the role of the intended user and the responsible party, as it evaluates and audits

\(^{23}\) ISSAI 4000/101.
\(^{24}\) ISSAI 4000/102.
the plans from the Government (i.e. the responsible party). The Ministry of National Development Planning is part of the Government and – by the three parties definition – it is responsible for the policy outlined in part III of the National Development Plan: Target & Policy Direction. The National Development Plan is the political platform of the Government, so the BPK can become the internal auditor of the Government if it audits the plan. A SAI that reports to the Parliament is supposed to hold the responsible party accountable for its actions. If audits concern only the actions that the responsible party themselves decide about, the Parliament, i.e. the intended user, may not receive the information needed.

Compliance Audit Guidelines

The compliance audit standard (ISSAI 4000) was approved by the INTOSAI Congress in Abu Dhabi in December 2016. The BPK updated the guidelines for compliance audit in 2018, and during this peer review the new guidelines were not fully implemented yet. The SAI-PMF tool, which provides a methodological inspiration for this peer review exercise, is based on the level three principles (ISSAI 100, 200, 300 and 400) and not on the standards proper (ISSAI 2000-, 3000- and 4000-series). The BPK’s compliance audit guidelines seem not to explain thoroughly enough how the auditor derives criteria for assessing the evidence gathered during the audit. Knowing the criteria, the reader could easily understand the audit objective and audit questions. It is also beneficial if the communication process between the SAI and the auditee begins already at the stage of planning, when there is time to discuss the audit objectives and criteria with the auditee. While the transparency of reporting is increased through including the auditee’s response in the report – in order to illustrate the contradictory process. The value of the BPK’s guidelines could also increase if they comprised the assessment of materiality by nature and context, and hints on how the auditors can reach conclusions from the analyses of findings.

**Recommendation 15:**

It would be advisable for the BPK to consider including in its compliance audit guidelines detailed explanations on how the auditor derives suitable criteria for assessing the evidence gathered during the audit, as well as the value of having the audit objective and suitable (based on characteristics) criteria discussed with the auditee before the audit, to present the auditee with the benchmark to measure the activity. Also, it would add value if hints were provided on how the auditors can reach conclusions from the analyses of findings, taking into consideration both their quantitative and qualitative aspects.
Competent Audit Teams

On the basis of the sample of compliance audits analysed by the Reviewer it can be stated that the audit teams are composed of persons with different backgrounds, both in auditing and in specific areas, such as road construction and engineering. If audit teams lack certain expertise, experienced experts are hired.

Approach to Criteria in Compliance Audit

Every audit is supposed to be a risk-based and systematic process.25) In compliance audits, the crucial point is determination of the criteria26) that underline the importance of the authorities which govern the audited entity. The BPK’s Compliance Audit Guidelines, in Chapter III (Audit Results) provide that for each audit finding, the criteria in detail should be presented, by quoting the paragraph, or the paragraph that was violated either or was not obeyed by the entity. This allows the reader to assess the accuracy of the use of criteria against the existing problems. Nevertheless, in the audit sample examined by the Reviewer, the references to the respective laws and regulations that were used as benchmark varied with regard to detail – some quoted the names of laws or regulations only, while others presented detailed references to specific paragraphs or provisions. In the analysed sample, there were no compliance audits where the criteria would be explained, with excerpts from the laws and regulations (the benchmark) being given. This makes it difficult for the reader to assess whether they have used the right paragraphs of the binding rules and regulations.

Recommendation 16:

The BPK should ensure that in compliance audits appropriate criteria are provided and explained, having the characteristics set forth in the international standards: relevance, completeness, reliability, neutrality, understandability, usefulness, comparability, acceptability or availability.

Quantitative Approach to Materiality

In the BPK, materiality is determined by quantitative calculating and giving a score. While the international standards on auditing provide that materiality can be determined either quantitatively or qualitatively, depending on the needs of the intended user27), and the concept of materiality includes nature, context and value.28) Materiality is often considered in terms of value, but the inherent nature or characteristics of an item or group of items may also render a matter material (qualitative factors). Quantitative materiality is determined by applying a percentage to a chosen benchmark as a starting point. This involves the exercise

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25) ISSAI 100/18.
26) ISSAI 400/12.
27) ISSAI 4000/125.
28) ISSAI 4000/127.
of professional judgment and reflects, in the auditor’s judgment, the measures that the user(s) of the information are most likely to consider important. Quantitative materiality is mostly used in attestation engagements, where auditors may select separate levels of materiality for classes of transactions or balances that are more important to the users of the accounts, or have a higher risk of non-compliance material by nature or context. In some cases, however, the qualitative factors are more important than the quantitative factors. Public expectations and public interest are examples of qualitative factors that may impact the auditor’s determination of materiality.

Since the scoring system used by the BPK takes into consideration the quantitative aspects of materiality, there are areas that are assessed as in compliance and non-material, even if they are material when the nature and context are taken into consideration. In the compliance audit of the management of the pensions programme, insurance programmes, investments, incomes and operation costs, fiscal year 2016 at PT Taspen and other related agencies in Jakarta, Surabaya and Medan, the materiality was only assessed by value. One of the findings was that PT Taspen’s Principal Branch Offices in Jakarta, Medan and Surabaya had underpaid the pension funds for children allowance in 2016 amounting to IDR427,594,059.00. This can be material by context, because there are parents that may suffer.

**Recommendation 17:**
The BPK should put more effort into ensuring that the guidance on the application of the concept of qualitative materiality is implemented during audit work.

**Investigative Audit**
Investigative audit is the other type of special purpose audit conducted by the BPK, whose aim is to reveal fraud indicating criminal offenses within the management of and responsibility for state finances. The BPK is mandated to conduct investigative audits on the basis of Article 13 of Law 15/2004 that states that an auditor may carry out an investigative audit in order to reveal indications of state losses and/or criminal offences. Investigative audits comprise the following phases:

- preliminary assessment – aimed to obtain, verify and analyse information, and to conclude the results;
- planning – whose objective is to develop hypothesis and audit programme;
- conducting – which comprises collection of audit evidence, analysis and evaluation of the audit evidence, preparation of draft of audit findings and conclusions, and discussion on draft audit findings and conclusions;
- reporting – which comprises preparation of the draft of an investigative audit report and its finalisation.

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29) ISSAI 4000/125-130.
In 2016, the Investigative Audit Unit (IAU) was established at the BPK in response to the observation of the peer review of 2014. The mission of this Unit is to audit the accountability and management of state finance, in a free and independent manner, and to become a role model for the other audit units in implementing the BPK’s core values: Independence, Integrity and Professionalism. Also, the IAU allows the BPK to play its role in combating crime: to prevent crime by designing audits so as to detect fraud, to detect fraud in its audits, to investigate fraud through investigative audit, to calculate state losses in fraud cases, and to support litigation by serving as expert in court.

The growing importance and effectiveness of the above functions and roles of the BPK in combating fraud can be illustrated with a comparison of several indicators in the last two years 2017 and 2018 respectively:

- number of investigative audit reports – a growth from 3 to 12,
- number of reports on state losses calculations – a growth from 81 to 85,
- serving as experts in court – a growth from 107 to 235 times,
- preliminary assessment – a growth from 116 to 188 cases.

Since the very idea and the consequent realisation of the investigative audit concept at the BPK meets with appreciation of the Reviewer, it was indicated as one of the areas where the greatest progress have been achieved by the BPK over the last fifteen years, and no recommendations have been formulated in this regard.

**Audit Risk**

The INTOSAI standards require the auditors to provide for procedures to reduce the risk of producing incorrect conclusions to an acceptably low level, with risk assessment being conducted throughout the planning, executing and reporting stage of the audit.

**Reporting**

According to INTOSAI, the audit report that has been tabled to the Parliament shall be open to the public. The Indonesian law states that the results of audits of state finance management and accountability tabled to the Parliament should be open to the public. The BPK does not make its reports publically available through publishing them on the website – which was the reason for Recommendation 10 of the peer review of 2014. With a view to implementing this recommendation, the BPK established the BPK’s Information Centre (PIK) where the public can access the audit reports, and requests can be made in person or electronically via email. The access to BPK’s reports is subject to a special procedure, and citizens are identified and obligated to provide the reason for their interest in the report. In the opinion of the Reviewer, this solution, although being

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30) ISSAI 4000/52.
31) Law No. 15 Year 2004 concerning the State Finance Audit, article 19 section (1).
32) Ibid, article 7, section (5).
33) Sekjen Decree No. 571 Year 2016 concerning SOP Public Information Transparency – Law No. 14 year 2008, article 14 letter c.
definitely a big step forward, does not realise the notion of availability to the public, hence Recommendation 10 of 2014 needs to be assessed as still valid.

In their correspondence with the State Finance Accountability Committee of Indonesian Parliament, the Reviewer was explained that: “Reports published by the BPK are not as a whole published on the website. BPK only publish two types of their reports, those are summary of the semester examination (IHPS) and the Central Government Financial Report (LKPP). IHPS and LKPP are categorized as an open public information that can be freely obtained by public as stated in Article 2 paragraph 1 Law Number 14 Year 2008. The detailed audit reports are not published on the BPK website due to categorize as excepted public information as stated in Article 2 paragraph 2 Law Number 14 Year 2008 that excepted public information is limited to public.” Therefore, in the opinion of the Reviewer, the categorisation of the BPK’s reports proves to be the main reason for their limited accessibility. At the same time, the BPK claims that the classification of audit reports is not the reason for not having them published, and that they do not belong to the category of excepted public information. That is why the Reviewer resigned from the idea to formulate a recommendation on proposing changes in the categorisation of the BPK’s reports, which had been initially planned.

Another reason for the BPK’s reluctance to publish full audit reports stems from the fear that the data included in the reports may be misused, e.g. for blackmailing or as a tool in political campaigns. Understanding these fears, the Reviewer would like to advise the BPK on how this risk can be minimised.

While analysing the sample of the BPK’s audit reports, the Reviewer observed that many executive summaries are not balanced as for presentation of positive and negative findings. In some cases, they tend to describe the most significant negative findings which may be confusing and diminish the value of the opinion, which is – later in the text of the report – either unqualified, in financial audit reports, or generally positive (in performance or special purpose audit reports).

**Recommendation 18:**

With the ultimate goal of providing for full availability of the BPK’s reports, the first step could be publishing executive summaries of all reports on individual audits on the website, once the reports have been submitted to the Parliament. In order to ensure that executive summaries provide for an appropriate indication of the reports’ contents, the findings referred to in the summaries should reflect the overall opinion of the audit – negative audit findings should not be emphasised if the overall audit opinion is positive or unqualified. At the same time, in order to avoid potential misuse of audit reports for dishonest purposes, they should not contain sensitive data that should be referred to in the audit files only. For the purpose of publically available reports, more general or aggregated data should be used. Appropriate guidance should be provided in the methodology, so that the auditors can prepare their reports accordingly.
**IT Audit**

In the contemporary world, with omnipresent digitalisation, information technologies audits have become a prerequisite for SAIs to properly fulfil their role and the expectations of their stakeholders. The Reviewer appreciates that the BPK has expanded its IT component in performance and special purpose audits – by establishing the Division of IT Based Audit Support, tasked with providing support to IT based audits in one of the BPK’s organisational units. This move, to a large extent, contributes to the implementation of Recommendation 18 of the peer review report of 2014. However, apart from developing the capacity to comprise an IT component in the audit process, it is essential for the BPK to develop its ability to conduct audits in the area of digitalised solutions that more and more frequently underline public sector activities. To this end, appropriate expertise, resources and organisational solutions are necessary.

**Recommendation 19:**

It would be advisable if the BPK established a dedicated IT audit unit, with dedicated expert auditors that would deal with IT audits proper, so as to complement its progress in comprising IT elements in all types of audits, and to increase the number and quality of its IT audits.


The level of IT development in the BPK seems to mirror the diversity of the whole Republic of Indonesia or even the BPK itself. At some points, it looks really well, there are some fine examples of good ideas and the solutions seem to be implemented in an excellent manner. At the same time, it is still not difficult to find signs of the overall lack of an IT culture.

**IT Management**

At the BPK IT management, there are different levels of decision-making, including the important involvement of the top management. Although the section dedicated to ICT development in the BPK’s Strategic Plan 2016–2020 is rather short (some general remarks about shortcomings and a link to a generic programme), there are exhaustive documents for both grand design and detailed technical developments covering all important aspects (data security, integration of different systems, sustainability issues, etc.), including recognising some important deficiencies.

The structure of the IT management in the BPK looks solid enough. Considering the SAI PMF methodology used as an inspiration for this peer review, there is hardly anything to criticise. All the important aspects that the international auditing standards emphasise regarding ICT are formally met.

Not so common in SAIs generally, but probably a good practice, is to involve former auditors in ICT departments – as the BPK has chosen to develop many systems by itself, it is always good to have people who understand the business processes. The feedback from audit teams about in-the-house developed systems were mostly positive.
Implementation of IT Systems

One of the good examples of the BPK’s developments is SIPTL – the information system to gather the feedback from auditees about the fulfilment of recommendations. This demonstrates in the best way how using ICT wisely can greatly increase the efficiency of processes – first it shortens the time necessary to communicate with auditees, secondly collecting the statistics about the implemented recommendations is most likely indescribably easier than before.

Although the Reviewers have some doubts whether the quantitative measuring of implementations will always reflect the right aspects (the lack of the actual assessment of the impact of the BPK’s work as was also noted in the previous peer review reports), there is no question that in the sense of ICT itself, SIPTL is truly the case of “lead by example” in the public sector of Indonesia.

Apart from that, there are many other information systems and applications used in the BPK. For the main activity (auditing), one of the core systems is SIAP, which is an information system for documenting the work done. This is an example where the development of ICT has not been entirely able to keep pace with the natural evolution, which, however, is the issue that most of the SAIs in the world struggle with.

Most of the quality control and quality assurance systems are still paper-oriented, nevertheless auditors use electronic documents. As SIAP lacks both the signoff and hyperlinking capabilities, auditors type documents in computer and print them out, to have them reviewed (signed) and later scanned – which is a time- and resources-consuming process. During their meetings with the Reviewers, none of the audit teams presented the electronic papers directly from SIAP, but used backup folders instead.

Recommendation 20:

SIAP, whose potential advantages are unquestionable and may significantly facilitate the BPK’s audit work, should be further developed so that its user-friendliness is enhanced, and its use among the auditors is increased.

Care for Environment

The BPK has confirmed its plans to move to an entirely paper-free environment, but this is hardly feasible without well-developed IT culture, which is demonstrated, among others, with contact lists of auditees containing no e-mail addresses, or hand-written minutes of structured interviews, which could be easily substituted with web-based questionnaires. Undoubtedly, changing the mentality is a long process. However, the BPK could use its good reputation in the public sector and try to make an impact through its own behaviours. For example, the BPK could resign from sending paper letters to the auditees and other counterparts, with due consideration of possible risks of such changes.
5. Domain E: Human Resources and Training

Human Resources

At the BPK, a comprehensive framework for human resources management has been established, where no significant deficiencies could be observed during the peer review. The unit responsible for human resources management is well-established and performs the key functions in the modern personnel management. A human resources strategy is available at the BPK, and comprises human resources management plan, strategies and the Human Capital Development Plan. Also, appropriate functions exist to deal with manpower planning, remuneration and incentives, and performance evaluation.

The main constraints of human resource management, due to the BPK staff’s status of civil servants, and consecutive reliance on the Ministry of Administrative and Bureaucratic Reform in the BPK’s staff recruitment, have been discussed earlier in this report, followed by a respective recommendation.

Training

At the BPK, training is organised by the Training Institute and Human Resources Bureau in Jakarta, and it is delivered at the Training Institute in Jakarta and three regional training offices (in Medan, Yogyakarta and Gowa), as well as in Representative Offices. The Representative Offices can voice their needs and requests to be considered in the development of training curricula.

The basic objectives of the training management at the BPK comprise the following: anticipating change, accelerating change, developing career and fulfilling the competency gap.

The general rule is that a staff member in order to participate in an audit engagement needs to fulfil the obligation of having 40 hours of training a year, with these needed to be certified in the audit file. A good practice that should be appreciated, which is absent from many SAIs around the globe, is an orientation course that BPK has developed and offers to newcomer staff members. It is a 60-hour course, whose objective is to develop awareness of the BPK’s organisation, its Vision and Mission and ways to achieve them. The Orientation Course comprises, but is not limited to the following elements:

1. History and Mandate of the BPK
2. BPK Organisational Structure
3. BPK Strategic Plan
4. Code of Ethics and Code of Conduct
5. Human Resources Management
6. Training Management
7. IT Management.
The training offer for the auditors developing their professional competences is comprehensive and includes, e.g. accounting, public procurement, ethics, fraud awareness, as well as soft-skills training (e.g. team building) and training on IT-related skills (e.g. MS Excel).

The Reviewer would also like to appreciate the BPK’s for its comprehensive professional development framework and for its efforts in developing a talent pool of experts in the three types of audit (this, however, might be wasted, to a large extent, if the solution to the BPK’s deficiencies in performance auditing is not found). The only problem that was openly voiced during the discussions between the BPK’s representatives and the Reviewer was the delivery of knowledge, including that acquired during various training events, more widely among all the staff.

**Recommendation 21:**
The BPK should develop ways to spread the knowledge acquired during various training events among the broader representation of the BPK’s employees.

### 6. Domain F: Communication and Stakeholder Management

The Reviewer observed that the way the BPK communicates with its stakeholders is compliant with the international standards, and that it is of an ongoing nature – taking place at every stage of the audit process: at the planning stage (notification letter, entry meeting), field work (interviews, discussions on audit findings, exit meeting), and reporting (action plan letters exchange). When commencing an audit, the BPK always starts with a follow-up of the previous audit recommendations implementation, which is followed by effective continuous communication at three levels: (1) technical, (2) middle management level (BPK Echelon 3); (3) high level – which comprises, among others, entry meetings of the auditee’s head with the BPK Board Members.

This observation is based on the results of the discussions that the Reviewer had with representatives of the BPK’s key stakeholders, namely the State Finance Accountability Committee of the Indonesian Parliament, the Ministry of Finance, and the Ministry of Administrative and Bureaucratic Reform.

In general, the stakeholders believe that the BPK fulfils its task to promote good governance and high quality performance, while the BPK’s reports are considered a good and important source of information, with their recommendations being considered supportive. The added value of the BPK’s activities, in the opinion of the stakeholders, is that they feel assisted and supported with the BPK’s analyses, findings, conclusions and advice.

Financial audits conducted by the BPK at ministries are considered an informative and continuous process, during which the involved partners can count on their mutual support. For example, consolidated financial
statements are an important challenge, the difficulty being the need to gather the financial statements of some 80 different accounts within two months only (from February to April).

During the meeting with the Reviewer, the representatives of the Ministry of Finance emphasised that their mutual communication with the BPK was always good. The only area where some deficiencies can be identified is communication with regard to performance auditing. The representatives of the Ministry regretted not to be sufficiently informed about the planned performance audit engagements. Moreover, the Ministry would like to have a role in identification of potential topics for performance audits, believing that this type of audit can be an effective means for actual improvement of the Government’s activities, policies and programmes.

**Recommendation 22:**

Consider greater involvement of the stakeholders in the BPK’s performance audit process, especially at the stage of performance audit topics development. This could be achieved, for instance, through regular meetings between the executives of the two parties at the stage of the annual audit planning, when the auditees could have an opportunity to voice their opinion on the crucial areas where performance audits should be conducted to examine the effectiveness, efficiency and economy of the Government’s activities, programmes and policies.

An issue that was revealed during the Reviewer’s meetings with the BPK’s stakeholders, both at the central and regional (province) level was the deadline of 60 days for delivering information on the planned implementation of recommendations. The auditees tend to misunderstand this requirement and interpret it as the deadline for the actual implementation of the recommendations formulated as a result of audits. Whereas the requirement is about providing the auditees’ stance on how the recommendations are to be addressed and when they are to be implemented – in the form of, e.g. action plans.

**Recommendation 23:**

The BPK should clearly explain its expectations towards the auditees as for the 60-day deadline for submitting information on how the recommendations are to be addressed, so that the entities do not interpret this requirement as the deadline for the actual implementation of the recommendations, which frequently demands a longer time perspective.

With a view to obtaining a comprehensive picture of the BPK’s communication with its key stakeholders, the Reviewer contacted the State Finance Accountability Committee of the Parliament of the Republic of Indonesia. From the answers provided by the Committee it transpires that the BPK "has strategic role in maintaining and ensuring the use of state budget for people welfare as well as having a duty to scrutiny state
budget accountability in accordance to regulation. Strengthening required in the event of the follow-up to the results of the BPK examination. This reinforcement is the task of BAKN to increase the follow-up of the BPK’s audit results”. The Committee also sees the contribution of the BPK into its work, which has been phrased as follows: “The BPK audit report is the main component for BAKN in conducting its duties. The report contains problem description, related data, list of regulation that violated, the cause of problem, consequences of the problem, and recommendation from BPK as to solve the problem. Therefore, BPK Audit Report [...] will greatly assist BAKN in conducting its duties to analyse BPK Audit Report than and the analysis to related Committee to be used as a tool for DPR RI in conducting its duty to supervise the state budget. BAKN also can provide recommendations for the government to improve the state budget accountability”.

The only drawback is the publication of full texts of audit reports – which is, however, due to the other legal provisions, whose amending seems to be the only possible way to change the situation. This issue was mentioned by the State Finance Accountability Committee in their correspondence, and has been discussed in detail in the section dedicated to reporting. Despite the above, the Reviewers assess that the general communication of the BPK with its key stakeholders is compliant with the binding regulations and standards.
VI. About the Peer Review

The peer review was conducted in the first half of 2019, on the basis of the Memorandum of Understanding signed in January 2019. The peer review comprised the preliminary visit to the BPK Headquarters in Jakarta, as well as two field visits: to the Representative Office in Padang, and to the Representative Office in Denpasar, both connected with visits to the Headquarters. The report has been developed as a result of the meeting of the Reviewers in Warsaw in June 2019, most of the drafting was done, however, through exchange of correspondence between the five members of the Peer Review Team and via videoconferences.

Peer Review Team

The members of the Peer Review Team were: Piotr Prokopczyk, Director of the Department of Science, Education & National Heritage of the Supreme Audit Office of Poland (NIK) – Team Leader, Iwona Zyman, Director of the Regional Branch of NIK in Opole, Kamila Żyndul, Chief Expert at the Department of Strategy of NIK (Peer Review Secretariat), Ingvild Gulbrandsen, Senior Advisor, Office of the Auditor General of Norway, and Jaanus Kasendi, Development Manager, National Audit Office of Estonia.

Method

The peer review was conducted on the basis of the INTOSAI Peer Review Guideline (ISSAI 5600), and the SAI Performance Measurement Framework methodology was used as an inspiration during the exercise, with some of its elements (domains and indicators) serving as the structure of the peer review report. The members of the Peer Review Team also relied on their professional experience, knowledge and practices, gained during their employment at their respective SAIs, and through participation in numerous international projects.

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

The Reviewer has analysed a sample of sixteen audit files, selected from among all types of audits performed by the BPK, both by the Headquarters and by the Representative Offices where the peer review was conducted. Attachment 3 contains the list of the audits examined by the Reviewer.

The most important parts of the audit files, as well as the legal documents governing the mandate and functioning of the BPK and several internal documents, were translated by the BPK for the Reviewer.

Apart from the analysis of the written documents, the Reviewer gained their knowledge of the BPK’s operations from the presentations delivered by the representatives of the BPK’s various organisational units, and through interviews and written correspondence. The Reviewer had also meetings with representatives of the key stakeholders of the BPK, at the central and regional level alike, and with representatives of the auditees. The list of the persons interviewed is available from Attachment 2 to this report.
**Attachment 1:**
**List of Recommendations**

Recommendations formulated as a result of Peer Review 2019:

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<th>Recommendation 1:</th>
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<td>With a view to further disseminating the idea of SAIs’ independence, more intense promotion of the United Nations Resolutions of 2011 and 2014 could be undertaken among the BPK’s stakeholders.</td>
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<td>Consider solutions to minimise the potential negative impact of mandatory audits on the BPK’s resources and capacity to perform audits on its own initiative.</td>
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<td>Consider establishing legal solutions that would allow the BPK for increasing its independence in the process of its budget construction.</td>
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<th>Recommendation 4:</th>
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<td>The BPK should take actions to limit the role of the Ministry of Finance in the BPK’s budget negotiation process by proposing respective amendments to the financial law.</td>
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<th>Recommendation 5:</th>
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<td>The BPK should make an effort to reduce the influence of the Ministry of Administrative and Bureaucratic Reform on its human resources.</td>
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<th>Recommendation 6:</th>
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<td>It would be advisable for the BPK to provide, in one comprehensive document, all the information related to annual audit planning, including overall estimations on the resources to be dedicated to three audit streams.</td>
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| To make the risk assessment more efficient and effective, the BPK should consider:  
- including a top-down and bottom-up approach to annual risk assessment in the annual plan,  
- in order to assess risks that are material – using sources other than the National Development Plan more frequently. |  |
**Recommendation 8:**
Consider incorporating materiality by nature and context in the process of assessing materiality in the overall planning of the audit coverage.

**Recommendation 9:**
In order to provide the Parliament with an assessment of the outputs and outcomes of the State's activities, the BPK should have a dedicated unit with auditors having necessary professional competence to conduct performance audits.

**Recommendation 10:**
The efficiency of financial audits should be reconsidered and the resources should be allocated in a more reasonable way – on the basis of risk analysis – so as to reduce the cost of the annual financial statements' verification. The BPK should look for ways to conduct some performance audits parallel with financial audits, e.g. by not engaging all its auditors in financial audits in the first half of the year.

**Recommendation 11:**
The BPK should focus more on explaining the reasons why financial errors occurred and have not been detected by the internal control systems or other auditors in a more systematic manner, which could help the auditees to eliminate them in the future.

**Recommendation 12:**
While planning to carry out system-based evaluations, the proper audit type should always be considered, by taking into account the needs of the intended user, and applying the efficiency and effectiveness approach only when the wider impact of activities is assessed.

**Recommendation 13:**
Consider using the qualitative assessment model in performance audits more frequently, where a strict overall conclusion is not required, while general conclusions are expressed.

**Recommendation 14:**
The BPK should consider elaborating its own expert methodology to assess the impact of audit reports on the functioning of the State.
**Recommendation 15:**
It would be advisable for the BPK to consider including in its compliance audit guidelines detailed explanations on how the auditor derives suitable criteria for assessing the evidence gathered during the audit, as well as the value of having the audit objective and suitable (based on characteristics) criteria discussed with the auditee before the audit, to present the auditee with the benchmark to measure the activity. Also, it would add value if hints were provided on how the auditors can reach conclusions from the analyses of findings, taking into consideration both their quantitative and qualitative aspects.

**Recommendation 16:**
The BPK should ensure that in compliance audits appropriate criteria are provided and explained, having the characteristics set forth in the international standards: relevance, completeness, reliability, neutrality, understandability, usefulness, comparability, acceptability or availability.

**Recommendation 17:**
The BPK should put more effort into ensuring that the guidance on the application of the concept of qualitative materiality is implemented during audit work.

**Recommendation 18:**
With the ultimate goal of providing for full availability of the BPK’s reports, the first step could be publishing executive summaries of all reports on individual audits on the website, once the reports have been submitted to the Parliament. In order to ensure that executive summaries provide for an appropriate indication of the reports’ contents, the findings referred to in the summaries should reflect the overall opinion of the audit – negative audit findings should not be emphasised if the overall audit opinion is positive or unqualified. At the same time, in order to avoid potential misuse of audit reports for dishonest purposes, they should not contain sensitive data that should be referred to in the audit files only. For the purpose of publically available reports, more general or aggregated data should be used. Appropriate guidance should be provided in the methodology, so that the auditors can prepare their reports accordingly.

**Recommendation 19:**
It would be advisable if the BPK established a dedicated IT audit unit, with dedicated expert auditors that would deal with IT audits proper, so as to complement its progress in comprising IT elements in all types of audits, and to increase the number and quality of its IT audits.
**Recommendation 20:**
SIAP, whose potential advantages are unquestionable and may significantly facilitate the BPK’s audit work, should be further developed so that its user-friendliness is enhanced, and its use among the auditors is increased.

**Recommendation 21:**
The BPK should develop ways to spread the knowledge acquired during various training events among the broader representation of the BPK’s employees.

**Recommendation 22:**
Consider greater involvement of the stakeholders in the BPK’s performance audit process, especially at the stage of performance audit topics development. This could be achieved, for instance, through regular meetings between the executives of the two parties at the stage of the annual audit planning, when the auditees could have an opportunity to voice their opinion on the crucial areas where performance audits should be conducted to examine the effectiveness, efficiency and economy of the Government’s activities, programmes and policies.

**Recommendation 23:**
The BPK should clearly explain its expectations towards the auditees as for the 60-day deadline for submitting information on how the recommendations are to be addressed, so that the entities do not interpret this requirement as the deadline for the actual implementation of the recommendations, which frequently demands a longer time perspective.
Recommendations reiterated from the Peer Review 2014 – assessed as still valid:

**Recommendation 24** (Reiterated Recommendation 10 of 2014):
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.

**Recommendation 25** (Reiterated Recommendation 14 of 2014):
Continue to increase the proportion of the auditors’ number vs. to the non-audit staff.

**Recommendation 26** (Reiterated Recommendation 21 of 2014):
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.

**Recommendation 27** (Reiterated Recommendation 24 of 2014):
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.

**Recommendation 28** (Reiterated Recommendation 28 of 2014):
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.

**Recommendation 29** (Reiterated Recommendation 30 of 2014):
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.

**Recommendation 30** (Reiterated Recommendation 32 of 2014):
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.
Attachment 2:
Persons Interviewed

The Reviewer conducted a series of interviews and meetings with the BPK’s Management and Staff at the Headquarters and two Representative Offices. The Reviewers also met representatives of several BPK’s stakeholders. The meetings and interviews represented a significant source of information to complement the regulations and audit files analysed, and an opportunity to discuss the initial findings and to explore a range of themes relevant to the BPK’s procedures and working practices.

The Reviewer received all necessary information in the spirit of cooperation and mutual respect. The BPK staff were open and willing to exchange the information, which the Reviewer is highly appreciative of.

Below is the list of the representatives the BPK and its stakeholders that the Reviewer met or interviewed during the preliminary visit and two fieldwork visits.

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
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<tbody>
<tr>
<td>Prof Dr. Moermahadi Soerja Djanegara</td>
<td>Chairman of the BPK Board</td>
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<tr>
<td>Prof. Dr. Bahrullah Akbar, M.B.A</td>
<td>Vice Chairman of the BPK Board</td>
</tr>
<tr>
<td>Dr. Agung Firman Sampurna S.E., M.Si.</td>
<td>Board Member I</td>
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<td>Dr. Agus Joko Pramono, S.ST., M.Acc., Ak., CA.</td>
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<td>Ir. Isma Yatun, M.T.</td>
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<tr>
<td>Bahtiar Arif</td>
<td>Secretary General</td>
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<td>I Nyoman Wara</td>
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<tr>
<td>Hery Subowo</td>
<td>Chief of BPK Training Institute</td>
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<tr>
<td>Nizam Burhanuddin</td>
<td>Chief of Principal Directorate of Legal</td>
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<tr>
<td>Novy G. G. Pelenkahu</td>
<td>Adviser to Board on the State owned, Local Govt. Owned Enterprises</td>
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<td>Syamsudin</td>
<td>Adviser to Board on Local Government</td>
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<tr>
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<td>Bernardus Dwita Pradana</td>
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<td>Jariyatna</td>
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<td>Juska Meidy Enyke Sjam</td>
<td>Head of Public Relation and International Cooperation Bureau</td>
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<tr>
<td>Maulana Ginting</td>
<td>Inspector of Internal Audit and Institutional Quality Assurance</td>
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<tr>
<td>Etty Herawaty</td>
<td>Inspector of Integrity Enforcement</td>
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<td>Sainem</td>
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<tr>
<td>M. Iqbal Nazarudin</td>
<td>Ministry of Bureaucratic Reform</td>
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Attachment 3:
Audits Analysed

The Reviewer analysed a sample of sixteen audit files, selected from among different types of audit and performed both by the BPK Headquarters and the Representative Offices. Below, there is a list of the audits analysed, divided into the following audit streams: financial audits, performance audits, and special purpose audits – compliance and investigative audits.

Financial Audits:

Performance Audits:
1. Meeting the Needs of Professionals Teachers and Education Personnel, FY 2015, 2016, and 2017 (first semester) at the Ministry of Education and Culture
4. Management of Student Education Funding Through BOS and PIP Programs in Order to Actualize 12-Year Compulsory Education Implementation FY 2015 to 2018 (1st Semester) in Solok City (2018)
5. The Effectiveness of Domestic Waste Management Year 2016 to 2018 in Tabanan Regency

Special Purpose Audits – Compliance Audits:
1. Retirement Program Management, Insurance Program (THT, JKK, JKM), Investment, Income and Operating Expenses 2016 TB on Taspen (Persero) and Other Related Agencies in Jakarta, Surabaya and Medan
2. Money Printing, Expenditures and Destruction in 2017 At Bank Indonesia and Other Related Agencies
3. Asset Management FY 2016 to 3rd Quarter of 2017 In Solok Regency at Arosuka (2017)
5. Compliance Audit on the Accountability of School Operational Funds (BOS) Year 2017 and 2018 in Karangasem Regency
Special Purpose Audits – Investigative Audits:

1. Investigative Audit Reports on Land Capital Expenditures for Payment of Land / Building / Plants Compensation for Third Parties (Communities) at the Agency of Road Infrastructure, Spatial Planning and Settlements (PRASJALTARKIM) of the West Sumatra Provincial Government From 2011 to 2016 and Other Related Agencies

2. Investigative Audit Reports on the Procurement of Integrated Drilling Project Management (MPPT) Alas Dara Kemuning (ADK) PT Pertamina EP Cepu ADK FY 2014 at Jakarta, Central Java and East Java
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National Audit Office of Estonia