Innovations in Public Sector Internal Audit: Case of Indonesia

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Points of Discussion

- Background
- Innovations in Public Sector Internal Audit
- Challenges, Strategy, and Future Developments
- Concluding Remarks
Background
Indonesia – Brief Introduction

5. Total SoEs: **118 SOEs** (2016)
6. Total assets of SOEs: **USD482.75 billion** (2016)

- 86 ministries and agencies
- 34 provinces
- 508 municipalities/cities

Source of picture: https://mapfight.appspot.com/id-vs-europe/indonesia-europe-size-comparison
Audit Agencies in Indonesian Public Sector

SCOPE OF INTERNAL AUDIT ACTIVITIES

1. Cross-sectoral programs and activities.
2. Activities directly funded by the state treasury.
3. Other activities by assignment from the President.

Sectoral programs and activities, funded by the national budget.

Regional programs and activities, funded by the subnational budget.

Legislature
- Supreme Audit Board
- President

INTERNAL AUDIT AGENCIES
- Ministries
- Agencies
- Ministry/Agency Inspectorates
- Provincial Inspectorates
- Municipal/City Inspectorates

SUBNATIONAL GOVERNMENTS
- Governors
- Heads of Municipality
- Mayors

34 units
508 units
86 units
Innovations in Public Sector Internal Audit
What Has Been Done in Indonesia

I. Head of BPKP in Cabinet Meetings

II. Building Risk and Control Culture

III. Toolkits of Internal Audit Activities
I. Involvement of BPKP in Cabinet Meetings

• President instructs the attendance of Head of BPKP in Cabinet Meetings.

• **Strategic National Issues**: infrastructure projects, poverty eradication programs, food security program, state-owned enterprises, etc.

• Emphasis on **prevention mechanism**, to mitigate risks, prevent fraud, and ensure program/policy effectiveness.

• Implications: **wider involvement** of BPKP in national policy cycle and **better contextual understanding** of BPKP to improve the quality of internal audit activities.

• **Results**: recommendation on strategic national issues.
II.1 Building Risk and Control Culture

President includes the target of **maturity of Government Internal Control System (GICS)** and **capability of government internal audit** in Medium Term National Development Plan 2015-2019.

To enhance transparency and accountability of the government
II.2 Government Internal Control System and Maturity Level

Internal control maturity level indicates the ability to perform and achieve targeted outcomes with transparency and accountability.
II.3 Internal Audit Capability

Internal audit capability model indicates the capability of internal audit units to provide assurance and advisory services in conformance to professional practice framework and supported by adequate internal audit management system.

Internal audit unit as an agent of change. Internal audit activities utilise learning from inside and outside the organisation.

Ability to provide complete assurance on governance, risk management, and internal control of the organisation. Internal audit activities use integrated information across the organisation.

Ability to provide advisory services and assurance on performance. Internal audit activities conform to professional practices framework.

Ability to provide assurance on compliance. Repeatable internal audit activities.

Unstructured internal audit activities. Activities are dependent on individuals; capability to perform is not institutionalised.

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III.1 Toolkits of BPKP activities

To engage with **Strategic National Issues** discussed in Cabinet Meetings, BPKP utilises various tools to provide effective response with regards to different contextual factors.

### Assurance

**Audit**
- Provides reasonable assurance

**Evaluation**
- Linked to specific program/policy objectives

**Review**
- Provides limited assurance through quick analysis

**Monitoring**
- Identifies bottlenecks and patterns of problems that hamper progress of program/activity

### Advisory

**Dissemination**
- Shares managerial tools/innovations

**Facilitation**
- Identifies support for public sector transformation

**Technical Assistance**
- Provides specific support related to public financial management or public sector performance

**Training**
- Provides training to government internal auditors
III.2 Implementation of BPKP Toolkits

- **New collaborative approach**
  - Involving more than 400 internal audit agencies at subnational level

- **National-wide implementation**
  - Provision of guidance to work in national context

- **Evidence for future funding policy**
  - Provide analysis on village fund disbursement in 74,954 villages.

- **Facilitation and Technical Assistance of Integrated Financial Management System**
  - Refining business processes
  - Reaching more than 80% subnational government units
  - Enhancing the quality of financial management
  - Embedding internal control into financial management information system
  - Simpler business process
  - Implemented in provinces, municipalities, and cities
  - Processes involve financial planning, budgeting, treasury, and reporting
  - Information system helps subnational governments to enhance the quality of their financial reporting
III.2 Implementation of BPKP Toolkits

- **Analysing value creation**
  - Using financial ratios and estimates, and potential value for development programs

- **Implementing before Merger**
  - Providing assurance for value creation after Merger

- **Review of Merger of SOEs**
  - Wider consideration regarding Merger of SOEs; linking to national priorities

- **Monitoring of Budget Absorption and Procurement**
  - Opportunities to identify bottlenecks and structural problems in the procurement system
  - Continuous monitoring of budget absorption
  - Implemented by internal audit agencies across different levels
  - Enable analysis of policy that influence speed of budget absorption
  - Identify weakness in the business process

- **Collaborative engagement to provide national view**
  - Continuous update to enable timely response
  - Provide evidence for de-bottle-necking and policy updates
III.2 Implementation of BPKP Toolkits

- Critically analyse poverty eradication program
- Involving different business processes in different ministries and agencies

Audit of Poverty Eradication Program

- Implemented in the intervention period
- Providing assurance in the effectiveness of business processes

- Finding inclusion and exclusion errors
- Providing evidence in different poverty eradication activities and their complementarities
Challenges, Strategy, and Future Developments
Challenges

Human Resources

Awareness regarding risk and control culture

Other resources
Strategy and Future Developments

• Collaboration initiative with other internal audit units.
• Communication with stakeholders at all levels (i.e. national governments, subnational governments, professional bodies).
• Integration of maturity level of GICS and internal audit capability as performance measure for governments.
• Educational and collaborative activities to build societal awareness and understanding about integrity.
Concluding Remarks
Lessons Learned

• Potentials and opportunities for innovation can be nurtured with leadership and support from the management (i.e. President).
• Innovations in public sector need support from various stakeholders, both in public and private sector.
• Innovations can gain more traction if they are aligned with the problems/issues encountered both at policy making and operational level.
Thank You