

Infrastructure Governance

- A Message from the MPW Inspector General ■ Improving Internal Audit Functions
 - Change Management ■ The Role of Mentoring ■ Anticorruption Measures
 - Procurement and Governance
-

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Editor's Message

"Infrastructure governance" in Indonesia, the theme of this issue of *Prakarsa*, is a multifaceted topic that encompasses a wide range of interrelated themes. It begins with the idea of reform – reform that will lead not only to more efficient and effective expenditures by the Government, but also to enhanced public trust and an investment climate that supports economic growth and social welfare.

Such reform can only be accomplished when a number of conditions are met. First is leadership, such as that provided by the Inspector General at the Ministry of Public Works, Dr. Ir. M. Basuki Hadimuljono, M.Sc., whose opening essay on page 3 leads off this edition. Equally important is creating institutional capacity (see "Governance Reform in Internal Audit Function: An Overview" on page 6), to ensure that reforms made can be sustained. Capacity building involves training and mentoring (see "From Policing Projects to Managing Risk" on page 24) and upgrading specific skills related to activities such as procurement (see "The Case for Corporate Governance" on page 27), audit (see "Improving the Effectiveness of the Inspectorate General" on page 17), and preventing corruption (see "Managing the Challenges of Corruption" on page 27).

A broad program of capacity building that introduces far-reaching changes to operations can only succeed when change is carefully managed (see "Approaching Reform and Institutional Change Management" on page 12). While successful change management encompasses a variety of elements, one of the most crucial is communication – which is also a fundamental part of many of the concepts mentioned above, such as leadership and mentoring.

It's easy to see that any effort to summarise the concepts that underlie infrastructure governance runs the risk of quickly turning into a laundry list of interlocking management principles: leadership, institutional capacity development, mentoring, change management, anticorruption, communication. What ties these ideas together is that at heart they are not just about systems, but about people. In his article, the Inspector General notes that 30 percent of his staff consists of young professionals. As people who are still in the early phases of their careers, these individuals are especially ready to learn from leaders and mentors. In the decades to come, they will become leaders and mentors themselves – hopefully no longer dedicated to a new program of "reform," but to sustaining a system where infrastructure governance is already well established. • CSW

Infrastructure by the Numbers

1

The rank of the Ministry of Public Works among all Indonesian ministries in expenditures for 2011.

40%

The proportion of projects procured in the construction sector that exceed their original budgets.

60%

The proportion of projects procured in the construction sector that overshoot their completion dates.

70%

The proportion of projects procured in the construction sector that do not meet expected quality standards.

Rp 26 trillion

The estimated annual cost to Indonesia of poor quality road construction.

262

The number of Inspectorate Generals (out of 281 surveyed) in Indonesian ministries at the lowest level of the IA-CM, a framework that identifies the processes essential to effective auditing in government (see page 17).

0

The number of Inspectorate Generals higher than Level 2 on the IA-CM, which has five levels.

Up to 10

The expected number of years it will take to upgrade all Inspectorate Generals now at Level 1 to Level 2.

A MESSAGE FROM THE INSPECTOR GENERAL, MINISTRY OF PUBLIC WORKS

Good governance is essential so that Indonesia can attract investment, satisfy public opinion, and spend its money efficiently and effectively. The role of Inspectorate Generals in ensuring good governance is assuming increasing importance. • By Dr. Ir. M. Basuki Hadimuljono, M.Sc.



Dr. Ir. M. Basuki Hadimuljono, M.Sc.
Courtesy of Indll

The Government of Indonesia (GoI) has a responsibility to manage its funds wisely, whether the source is tax dollars collected from citizens, or external assistance such as funding that Australia provides through its partnership with Indonesia. It is the Government's duty to direct spending to priority needs and ensure that the money is used efficiently and effectively. As the Government strives to fulfil this requirement, it is turning more and more attention to the principles of good governance and how these principles can be institutionalised in all government activities.

Indonesia's past track record on governance has not been especially strong in comparison to other countries, and this has made the country less attractive to new investment. We must improve our performance. Upgrading GoI's internal audit institutions and introducing the consistent application of risk-based methodologies and practices will provide clear assurance to everyone that the Government's internal control systems ensure fully efficient and effective performance and the achievement of best value for money outcomes.

As the Inspector General of the Ministry of Public Works, I am conscious that aid should be used effectively. I am also aware of the goals of the 2005 Paris Declaration on Aid Effectiveness by donor countries (including Australia), which set out these Indicators of Progress for partner nations such as Indonesia:

1. Partners have operational development strategies
2. Partners have reliable public financial management and procurement systems
3. Capacity will be strengthened by coordinated support

I fully support those goals. We cannot accept a situation where 70 percent or more of corruption prosecutions are related to procurement, or where the public believes much government money is wasted. There will always be a natural tendency among the public to be sceptical about public procurement procedures. But that should simply strengthen our resolve to makes processes transparent and to demonstrate that public procurements are delivering best value for money.

Evolving Roles

The role of Inspectorate Generals (IGs) as oversight institutions within GoI ministries has evolved over the years but has not always kept up with international standards and best practices. BPKP (Badan Pengawasan Keuangan dan Pembangunan, the Indonesian government's internal audit institution) had overall responsibility for the government's internal auditing until the early 2000s, when its role was curtailed and devolved to the IG in each individual ministry. Since then, BPKP's role has been advisory only, with no authority to act on its own with respect to the internal audits in each ministry. Recently its role has been strengthened through legislation, giving it authority to coordinate and play a useful role as mentor and leader. It is now better able to support the IGs to become more effective and efficient and to raise good governance standards and practices to match international professional norms.

Recent legislation relating to governance has also made IGs themselves more accountable. They are required to adopt and implement a fundamentally different approach to their activities.

In the case of the IG within the MPW in particular, the internal audit function has evolved. In the past we did purely technical audits, involving staff who were generally professional engineers but not trained as auditors. Today, we serve as an oversight institution that is responsible for ensuring transparency, good governance and accountability in the Ministry's use of GoI funds. This is a significant step up in responsibility and we are still working on developing the right structures, staffing and policies to ensure we are capable of carrying out our responsibilities as envisaged by the Government.

In recognition of this, and also because of my responsibilities as Chairman of The Association of Government Internal Auditors, I believed it was my obligation to initiate and develop a Reform Agenda (RA) to provide the Ministry with better value-added services in terms of budget impact, infrastructure development and activity safeguards. This RA became an indicative trigger for the World Bank Infrastructure Development Policy Loan (IDPL 4), providing an additional incentive to ensure IG upgrades were successful. The RA has now been broadened to encompass the major objectives of the "Governance Reform in Internal Audit Function" activity that the AusAID funded Indonesia Infrastructure Initiative (IndII) is conducting together with the IG.

I am grateful to AusAID, which decided in 2009 to partner with me on this journey to upgrade skills in my institution. The efforts made from 2009 to the present laid an excellent foundation for our work today, which is substantially increased in scope and resources.

There have been significant changes in staffing in my department over the last four years, as the Ministry's budget has grown. Fully 30 percent of my staff are young professionals who depend on training and mentoring to help them develop professionally. For that reason, it is especially important that training and mentoring form a large component of IndII's activity.

As IndII and the IG work together, we will help IG staff to accomplish their goals for professional growth. This in turn will support the Ministry to achieve good governance goals. It is my hope that my legacy will be a stronger and more professional Internal Audit function, one that is aligned to international standards, that offers better value for money in procurements, and that is a model of transparency. ■

About the author:

Dr. Ir. M. Basuki Hadimuljono, M.Sc. is the Inspector General of the Ministry of Public Works (MPW). Previously, from 2005 to 2007, he headed MPW's R&D Department (Balitbang), where he was known for his ability to forge relationships with subordinates as well as his belief that the department should embrace innovation and new developments in science and technology. He has brought emergency teams in to address the aftermath of natural disasters in Indonesia, such as the 2005 tsunami in Aceh and the 2006 earthquake that struck Yogyakarta. He is the author of *Semburan Lumpur Panas Sidoarjo Pelajaran dari sebuah Bencana* (The Sidoarjo Hot Mudflow: Lessons from a Disaster), which he wrote after President Susilo Bambang Yudhoyono appointed him as Head of the National Team to resolve the Sidoarjo mudflow.

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GOVERNANCE REFORM IN INTERNAL AUDIT FUNCTION: AN OVERVIEW

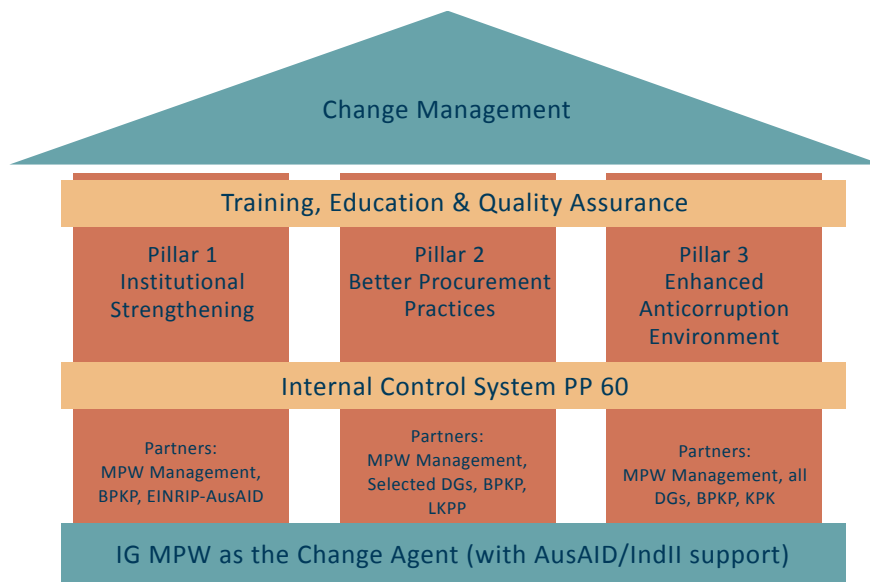
Through institutional strengthening, better procurement practices, and an enhanced anticorruption environment, this activity is designed to build on previous accomplishments and ensure that roadblocks do not prevent the gains that have been made from being sustainable over the long term. • By Bhashkar Bhindie, Franky Setiawan and Agam Fatchurrochman



The “Governance Reform in Internal Audit” activity is coordinating with consultants from the Eastern Indonesia Road Improvement Program.
Courtesy of Teguh Wiyono

The “Governance Reform in Internal Audit” activity, which is supported by the AusAID funded Indonesia Infrastructure Initiative (IndII), has three overall objectives. First is to continue assisting the Inspectorate General (IG) of the Ministry of Public Works (MPW) to strengthen the institution and its capacity. The IG can thereby achieve a higher performance ranking from the BPKP (Badan Pengawasan Keuangan dan Pembangunan, the Indonesian government’s internal audit institution), moving from Level 2 to Level 3 (see “Improving the Effectiveness of the Inspectorate General at the Ministry of Public Works” on page 17 of this issue for more about moving the IG from Level 2 to Level 3 using the Internal Audit Capability Model [IA-CM]). Second is to enhance oversight and auditing processes that improve governance and accountability. Third is to reduce corruption, particularly by implementing more effective procurement auditing. Figure 1 gives a graphic representation of the pillars of this activity and how they fit together.

This is an entirely new, comprehensive program, in terms of the scope, approach and level of IndII support. It is expected to last two to three years. Although it builds on prior IndII support to the IG, we concluded there was a serious danger that the gains that have already been made may not be sustained in the longer term and may not be useful as building blocks for further improvements unless fundamental roadblocks (such as the need to update relevant management structures and support mechanisms) are addressed; hence the importance of IA-CM (Pillar 1 in Figure 1). In addition, the Government of Indonesia (GoI) is now more focused on eliminating or at least reducing corruption; so we have Pillars 2 (concentrating on improving procurement practices, and on doing better and more procurement auditing) and 3 (creating/monitoring a corruption-free environment).

Figure 1: The Governance Reform in Internal Audit Function Activity**Key**

MPW = Ministry of Public Works

BPKP = Badan Pengawasan Keuangan dan Pembangunan,
the Indonesian government's internal audit institution

EINRIP = Eastern Indonesia Road Improvement Program

DG = Directorate General

LKPP = Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah, the Government Goods and Services Procurement Policy Agency

Key Points

The “Governance Reform in Internal Audit” activity, which is supported by the AusAID funded Indonesia Infrastructure Initiative (IndII), has three overall objectives: first is to continue assisting the Inspectorate General (IG) of the Ministry of Public Works (MPW) to strengthen the institution and its capacity; second, to enhance oversight and auditing processes that improve governance and accountability; and third is to reduce corruption.

This is a new program, expected to last two to three years, that builds on prior IndII support to the IG. It is intended to reinforce gains that have already been made and remove roadblocks so that these gains can be sustainable over the long term.

The activity has three pillars. Pillar 1, Institutional Strengthening, is designed to help the IG advance from Level 2 to Level 3 on the Internal Audit Capability Model. This pillar is also building the capacity of audit-oriented staff through mentoring and working shoulder-to-shoulder with IG staff. Pillar 1 is also coordinating with technical audits of the East Indonesia National Road Improvement Plan (EINRIP).

Pillar 2, Better Procurement Practices, takes a two-pronged approach: assistance to IG and more generally to the MPW, because increasing the capacity in the IG operations alone will not achieve the desired results in terms of better practices, policies and procedures of procurement. Training support will be given to MPW management to help the IG fulfill its role as a change agent.

Pillar 3, An Enhanced Anticorruption Environment, includes working with both the IG and MPW management to refine the anticorruption environment. Staff will increase their sensitivity to their code of ethics, the implementation of this code, and public accountability when corruption is exposed. Pillar 3 includes assisting management to enhance and uphold the Minister's edict to create a “Corruption Free Zone” by implementing his Program for Controlling Corrupt Practices.

Pillar 1: Institutional Strengthening, builds on prior IndII assistance. It includes the IA-CM exercise (see page 17) and increasing the capacity of auditing practices benchmarked to international practices. The present configuration of the IG does not include enough experienced audit-oriented staff who can train and mentor other staff. To accelerate the process for building capacity in auditing skills, this component includes a small team of audit experts on a full time basis working shoulder-to-shoulder with staff in the field (see “From Policing Projects to Managing Risk: Strengthening Audit Practice at the Ministry of Public Works” on page 24 of this edition). This team is acting as advisors/supervisors on selected audits on an ongoing basis, and is also providing supervisory support and mentoring to the Inspectors who need to build their technical strength.

Box 1: The Role of RBIA

RBIA is the contemporary expression of the transition from auditing focused on *past* activities to managing the future. RBIA assumes that audit resources are finite, that activities to be audited are subject to different risks, and that they have relatively differing degrees of importance. RBIA ensures that the most effective use is made of audit staff. It identifies areas of higher risk and concentrates audit efforts in those areas, and conversely identifies areas of low risk and places less effort there. The result of RBIA is that the auditor performs a more effective and more efficient audit, focused on higher risk areas.

Piggybacking on the East Indonesia National Road Improvement Plan (EINRIP) experience is also a part of Pillar 1. Audits under the AusAID EINRIP program reveal concerns over the quality of construction work. This is compounded when there is poor oversight at the technical level, related to the capacity of engineers and consultants. When these problems are addressed in concert with the IG, assistance can be doubly effective. EINRIP consultants currently doing technical audits will assist and work with the IG to train staff (on a “twinning” basis) to improve technical auditing skills.

Pillar 2: Better Procurement Practices, takes a two-pronged approach: assistance to IG and more generally to the MPW, because increasing the capacity in the IG operations alone will not achieve the desired results in terms of better practices, policies and procedures of procurement. Training support will be given to MPW management (including *Balai* and *Satker* – regional offices and *satuan kerja*, or task forces). Pillar 2 therefore includes steps necessary to fulfill the role the IG can play as a change agent.

Pillar 3: Enhanced Anticorruption Environment, ties in neatly with the other two pillars, since good governance and oversight involves minimising corruption. GoI has made reducing corruption a major focus, particularly given public perceptions and corruption’s high profile in the Indonesian news media. In addition to coordinating with IndII consultants on the other pillars, Pillar 3 efforts will include working with both IG and MPW management to refine the anticorruption

Box 2:

Why AusAID Supports the Inspector General

The IG:

- Understands that changes must be made to improve operations in order to meet his GoI obligations as IG and to make the unit into professional auditors.
- Was the primary mover in proposing the Reform Agenda – he is the “Change Agent.”
- Is Chairman of The Association of Government Internal Auditors, which has a membership of 565 or more IGs in GoI. As Chairman, he has a leadership role and sets an example to IGs in other ministries.
- Believes this experience can be a template to replicate within other IG operations.
- Understands the challenges going forward and has shown ownership.
- Wants to work with AusAID.

Box 3: The IG's Commitment to Gender Integration at the Ministry of Public Works

IndII's approach to supporting reform of the internal audit governance functions in the MPW-IG includes sustainable capacity building and gender equality in project execution. Capacity building exercises always stress equal access and participation for male and female staff.

The results of gender evaluation for Phase 1 activities last year made it clear that staff and program implementers are committed to gender inclusiveness. Talented young women have opportunities to be involved in various training programs, study tours and direct work with consultants. Women are also given the opportunity to take decision making positions.¹

This effort is very consistent with the commitment of the MPW to conduct gender mainstreaming. Thus, it is not surprising that the level of participation by women in various capacity building activities is quite high. Women's participation within the MPW-IG has shown a very significant increase, especially since over the last three years the staff recruited have been 44 percent male and 56 percent female. Women's rate of participation in training is also greater than men's.²

The majority of IG staff participate in *Diklat Penjenjangan* (progressive professional training), with 64 participants, of whom 38 percent are men and 62 percent women. The lowest percentage of staff take part in *Diklat Administrasi* (administrative training); those participants are 31 percent male and 69 percent female. Even the Project Monitoring Unit that was formed to monitor governance reform programs is dominated by women; seven of the nine members are female.

The above figures on participation offer a quantitative measure, but from IndII's observation the quality of the women participating is also quite good. Many of the women have already been recognised for their excellence and skill in fields such as finance and accounting. In some activities, female staff tended to receive the highest scores.

The IndII activity certainly can't claim direct credit for the achievement of the MPW-IG in increasing the participation of women. However, the attention that IndII pays to integrating gender concerns into program execution contributes to MPW-IG gender mainstreaming in its organisation and programming. In other words, IndII works in concert with MPW-IG as the Ministry continues to increase its efforts for gender equality.

NOTES

1. Gender Review for IG-MPW Audit Capacity Building
2. Data from the Ministry of Public Works and the Ministry of Women's Empowerment and Child Protection

environment. Staff will increase their sensitivity to their code of ethics, the implementation of this code, and public accountability when corruption is exposed. Pillar 3 includes assisting management to enhance and uphold the Minister's edict to create a "Corruption Free Zone" by implementing his Program for Controlling Corrupt Practices.

Cross-cutting efforts are needed to hold the three pillars together and ensure that this comprehensive activity succeeds. Essential cross-cutting work includes capacity building, quality control, extensive focus on Presidential Regulation no. 60/2008 on Government Internal Control, and support in implementing Change Management (see "Approaching Reform and Institutional

Box 4: Recent Gol Initiatives that Emphasise IG involvement

Focus on strengthening IG capacity for oversight: BPKP is implementing Presidential Instruction no. 4/2011 to ensure that IGs play a significant forward role in governance and oversight, and have the ability to be effective auditors. To do this, BPKP has commenced initiatives to encourage IGs to upgrade their skills, capacity and capability by benchmarking IG capacity and capability against IACM (see page 17).

Focus on good governance and anticorruption measures – prevention and accountability: Gol is placing an increasing emphasis on good governance, accountability and corruption. This focus emphasises and anticipates strong support of the IGs in carrying out their oversight responsibilities to achieve Gol objectives. Government departments are now mandated to ensure they focus on risk management and internal controls.

Komisi Pemberantasan Korupsi (KPK, the Indonesian Corruption Eradication Commission), the lead Gol agency fighting corruption, has concluded that prevention plays a large role in minimising corruption and is shifting its approach from focusing only on prosecuting corruption. Accordingly, KPK is working more closely with the IGs through a two-pronged approach: (a) devolving responsibility to the IGs to take a more proactive, aggressive stance in areas susceptible to corruption; and (b) requiring individual ministries to strengthen the anticorruption measures in place.

Likewise, Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah (LKPP, the Governmental Procurement Policy Institute) determined that governance of Presidential Regulation (PerPres) 54/2010: The Procurement of Government Goods/Services and its update, Perpres 70/2012, can be strengthened by adopting international standards and practices in better procurement and probity auditing processes. Together, KPK, LKPP and BPKP, IndII's partners, will require IGs to do more and improved procurement and probity auditing, using the recently completed updated Guidance Material, which was prepared with AusAID funding.

Increased role of IGs in good governance and oversight: It is clear that the profile of IGs is increasing, and that much more is expected of them in relation to good governance and oversight. As the Chairman of Forbes APIP (the informal association of all IGs in Indonesia) has stated, it is the responsibility of the MPW's Inspector General to support Gol initiatives to strengthen the capacity of all IGs and to be seen to be a constructive partner in Gol anticorruption initiatives.

Change Management" on page 12). Capacity building involves a combination of hands-on training, mentoring and tutoring, supported by relevant workshops, study tours, and attendance at professional conferences (both in-house and external). Apart from audit-oriented subjects, potential topics may include procurement, probity auditing, and anti-corruption.

The Origins of this Activity

In early 2009, the IG proposed a *Reform Agenda* (RA) to provide the Ministry with better value-added services in terms of budget impact, infrastructure development and activity safeguards. Discussion at the time of the MPW's initial request identified the need for continuing support over a number of stages, grouped by achievements/identified deliverables.

IndII support commenced in June 2009 as part of the RA in MPW and included an indicative trigger for the World Bank's Infrastructure Development Policy Loan (IDPL 4): *Adoption of an Action Plan to strengthen staff capacity at IG and introduce modern risk-based methodology and practices to provide assurance on the MPW internal control systems and compliance.* This trigger was successfully met with the help of IndII.

The earlier IndII support helped the IG to improve and strengthen its capacity and technical ability (when benchmarked against international best practice and internal audit standards) in undertaking internal audit work (including some change management). However, although substantial groundwork for fundamental auditing using Results Based Internal Auditing (RBIA) techniques (see Box 1) has been laid through earlier IndII support, there remained fundamental roadblocks within the IG structure and operations that

had to be resolved if the gains made were to be maintained and further improved. Therefore, the time was right to consider other critical areas of improvement, to ensure sustainability of progress.

IndII's work was conducted in three stages from July 2009 to June 2011. The outputs and outcomes included the introduction of the concepts of internal control analysis, RBIA and performance audit; seminars and in-house training; internal and external peer review of reports/lessons learned from pilot studies; study tours to Australia, Korea and the Philippines; and the commencement and institutionalisation of a Qualified Internal Auditor Program (QAIP).

Substantial progress was made, and this success is apparent across many IG activities and approaches. A significant indicator is the improvement in the audit opinions issued by Badan Pemeriksa Keuangan (the GoI Supreme Auditor) on MPW annual financial statements from 2008-2010, which advanced by two levels. This represents significant progress in the reliability of both the accounting and the internal audit processes of the IG. IndII/AusAID provided the impetus not only in practical terms but also in sensitising the IG to the positive importance of upgrading the operations. The IG developed its own momentum and ownership of the reforms. ■

About the authors:

Bhashkar Bhindie is a partner of Bhindie International Consultancy and Team Leader of IndII's "Governance Reform in Internal Audit" Activity that provides assistance in upgrading capacity and effectiveness in the Inspectorate General's operations at the Ministry of Public Works. Bhashkar is a Certified Public Accountant (USA) and a former Chartered Accountant (Australia). In a career spanning over 35 years, he has worked both as a professional accountant and as an independent consultant in auditing and financial matters. He has worked in about two dozen countries, including SE Asia, the Pacific, Australia, Canada and the US. He is a former audit partner of PricewaterhouseCoopers (formerly Price Waterhouse). He specialises in internal and external auditing, financial budgeting and reporting, restructuring and capacity building in public and private entities. He has been involved in Indonesia since 2008, mostly on projects funded by AusAID.

See page 26 for **Franky Setiawan's** author statement.

Agam Fatchurrochman is currently a consultant at the IG MPW under the IndII project for procurement auditing. Previously he worked with another AusAID project in Aceh, LKPP and BPKP on procurement reform. Agam graduated in Accounting from Gadjah Mada University and in Corporate Governance from Nottingham University, UK. He has been working in the issues of auditing, corporate governance, anticorruption, and change management, since working with the UNDP project, which includes giving assistance to the establishment of KPK (Anticorruption Commission), was secretary to the National Police reform working group, and was also involved in the Attorney General's Office reform working group, before joining a private mining company.

APPROACHING REFORM AND INSTITUTIONAL CHANGE MANAGEMENT



Organisational change is a fundamental aspect of reform at the Inspectorate General of the Ministry of Public Works. Managing this change calls for a sense of urgency, committed leadership with a vision and strategy, and clear communications. These elements will empower staff and offer early successes that can ultimately result in a new organisational culture. • By Steve Harris

Change Management (CM) plays a crucial role in the “Governance Reforms in Internal Audit Function” activity that is now underway within the Inspectorate General (IG) of the Ministry of Public Works (MPW). This activity, undertaken by the AusAID funded Indonesia Infrastructure Initiative (IndII), is a Risk-Based Internal Audit (RBIA) program with three specific objectives.

First, it aims to continue assisting MPW’s IG Office to strengthen the institution and its capacity, thereby achieving a higher performance ranking from BPKP (Badan Pengawasan Keuangan dan Pembangunan, the Indonesian Government’s internal audit institution). (See “Improving the Effectiveness of the Inspectorate General at the Ministry of Public Works” on page 17 of this issue for more about moving the IG from Level 2 to Level 3 using the Internal Audit Capability Model). Its second objective is to enhance oversight and auditing processes that improve governance and accountability, and its third is to reduce corruption, particularly by implementing more effective procurement auditing.

The Challenge

This BPKP-supported program has its origins in reform efforts begun in 2009, which sought to provide the MPW with better value-added services in terms of budget impact, infrastructure development and activity safeguards. By early 2012, IndII support had helped the IG strengthen its capacity and build its technical ability to undertake internal audit work, including some CM. However, while sturdy footings were established in MPW for fundamental auditing using RBIA techniques, a number of roadblocks (such as unnecessary management structures and support mechanisms) were identified that could hamper the results of the investments made in skills and capacity development. These challenges remain to be resolved within the IG structure and operations.

Remedies will require a change strategy that is well considered, logical in the way it addresses the human and structural circumstances of the organisation, and is sensitive to Indonesian culture. It must prepare the organisation for the future, value inputs from staff, and identify areas of resistance to planned changes. The role and vision of the Inspector General (InspGen)¹ is instrumental. So are the evolving activities of the CM Unit (CMU) that has been established to provide leadership and guidance to the IG at both the policy and operational levels.

What is CM?

In its simplest form, CM is a process of developing a systematic approach to change, both from the perspective of an organisation and, significantly, on the individual level. CM has at least three different features: adapting to, controlling and effecting change. For an organisation like the IG, CM will mean embracing these three aspects, and defining and/or refining and implementing procedures, processes and technologies to deal with and support changes in its business environment.

To be successful, CM should primarily deal with the human aspect of change with a main aim of maximising the collective benefits for all individuals involved in the change process, while minimising the risk of failure. The process itself can be either “reactive”, whereby organisations and their top management respond to changes originating in the external environment, or it can be “proactive”, when organisations themselves initiate change in order to achieve a desired vision. Here the source of the change is internal, and implementing approaches are concerned with new procedures, processes and technologies, and overcoming resistance to change.

Changing Behaviour

Attitudes towards change are complex, and people react to change differently. On the positive side, change is seen as opportunity, rejuvenation, progress, innovation and growth. However, just as legitimately, change can be seen as instability, upheaval, unpredictability, threat and disorientation. Whether an individual in an organisation perceives change through one or other of these perspectives, or somewhere in between, depends in part on the individual’s psychological makeup, management’s actions, and the specific nature of the change.

Effective change programs are deliberately sequential, with early measures (such as the use of communication channels) directed at overcoming the initial apprehension, denial, anger and resentment, and gradually evolving into a program that supports compliance, acceptance and socialisation. The importance of this cannot be overstated. It is management’s responsibility to monitor the wider environment in order to identify resistance and potential blockages. This includes estimating the impact of actions on employee behaviour, day-to-day work processes, and productivity.

Above all else, top management must stay attuned to employee reactions as a whole, and craft a change strategy and program that will provide a framework of support as staff go through the process of accepting and, ideally, owning the change. The program must then be implemented, disseminated throughout the organisation, monitored for effectiveness, and adjusted where necessary. And it must be remembered that the reform now underway in the IG is a process, not an event, and this will necessarily consist of a series of building blocks over an estimated 5–10 year timeframe.²

Planning for Change

Critical in the change process is the role of the InspGen, Dr. Ir. M. Basuki Hadimuljono, M.Sc. (see his article on page 3), whose authority and influence is pivotal to reform. He understands that changes must be made to improve operations

Key Points

Change Management (CM) is crucial to the “Governance Reforms in Internal Audit Function” activity in the Inspectorate General (IG) of the Ministry of Public Works (MPW). This activity is assisting the IG to strengthen the institution and its capacity, enhance oversight and auditing processes and reduce corruption. Previous efforts have helped MPW to develop its capacity using Risk Based Internal Audit, but roadblocks remain. Under the leadership of the Inspector General, with support from the Change Management Unit, change management processes will enable the IG to adapt to, control, and stimulate change.

Attitudes towards change are complex, and people react to change differently. It can be seen as an opportunity for growth or as a threat. Effective change management uses sequential steps, constant communication and careful monitoring to introduce change and assess its impact, and make necessary adjustments over a multi-year timeframe.

As the primary champion of change, the Inspector General has a vision of where the organisation will be in five years and a belief that the MPW experience can be a model for other IG operations. Engaging the senior and middle management of the IG is the initial top priority, leading to ownership by IG staff of the change taking place in their organisation. Sustainability will ultimately be achieved through leadership that identifies the correct approach, creates a sense of urgency, targets and measures benefits, monitors progress, and communicates frequently and consistently about what changes are needed and why. The benefits will include an improved anticorruption environment; a rigorous process of IG oversight; and improved procurement practices and oversight procurement auditing processes.

Capacity building in the IG is crucial to realising the Inspector General’s vision for sustained change. Short term wins in this area, built around a series of achievable, affordable and well designed targets, will feed IG staff motivation and morale, while demonstrating to the organisation that the change process can be successful. These will be just the beginning of credible and unrelenting steps to consolidate gains and induce more problem-solving and change.

and meet Government of Indonesia (GoI) obligations. He fully appreciates what steps are needed to ensure the establishment and consolidation of a unit of Professional Auditors within the IG. Significantly, as the primary champion of change, the InspGen has a vision of where the organisation will be in five years and a belief that the MPW experience can be a model for other IG operations. The InspGen not only understands the challenges going forward and shows ownership of the reform process, he clearly wants to work with AusAID and to build a team that will realise his vision.

The CMU, which consists of the Heads of each Directorate in the IG, offers essential support for this leadership. The unit itself is now well staffed and led by Inspector IV (Spatial Planning), W. Bintarto, with participation and support from the IndII team.

For all stakeholders in this leadership group, the initial top priority is to engage the senior and middle management of the IG as “owners” of the change process. To succeed, the group must be highly invested in bringing about change. This will require a commitment to the InspGen’s vision, an emphasis on vertical and horizontal communication, development and implementation of a transformation map (and associated action plans), a socialisation process that is based on showing how change improves performance, and a commitment to a well considered transformation secession process within the IG.³ This will embolden IG staff to take ownership of the change taking place in their organisation.

Making Change “Stick”⁴

The CM process must be about realising and sustaining benefits well beyond the scope or timeframe of the IndII program. Four imperatives must be considered as the reform roll-out takes place. First, the right change approach must be identified and adopted. Second, the benefits of the CM process need to be targeted, measured and secured at the organisational level, rather than being limited to the project or even the program level. Third, as previously observed, considerable weight must be placed on the communication dimension of managing change through well delivered, timely, frequent and consistent messages. Finally, sustainability is achieved through leadership and attention to each of the above dimensions.

The Right Approach⁵

There is a wide range of thought on managing change, from “directive” to “inclusive”, and it is important to make crucial decisions based on a number of variables such as urgency, complexity and predictability. It is imperative that the InspGen takes the critical step of creating and consolidating a credible **guiding coalition**⁶ of like-minded members from his senior management team – all with a passion for the change envisaged by the InspGen – with a view to later extending its membership to equally committed CM champions in the IG’s middle management.

Creating a **sense of urgency** around the need for change and confronting complacency amongst staff will enable the InspGen and his team to ignite motivation among IG staff to embrace their **new vision** and take early steps towards reform. The organisation needs to “buy into” the change envisaged through a process of open and honest discussions on where the organisation is now, rolling out and developing the InspGen’s vision for the IG (engaging all staff members in this process), and orchestrating the organisation’s readiness to embark on a reform process.

The role of the IndII team will be crucial at this juncture. The team offers the assistance needed to conduct a rigorous review process that can identify shortcomings in the organisation’s structure and practices.⁷ This review will provide a good understanding of the IG’s operations and activities, key value drivers (through an instructive gap analysis), and an appreciation of the expectations of key stakeholders involved in this audit transformation process.

There is a growing sense of urgency among the IG leadership that, as matters now stand, it will not be in a position for some time to fulfil the responsibility placed on it by GoI. The change process should build on this sense of urgency, with the IndII team helping to identify threats and opportunities that lie ahead, and assisting leadership to mobilise a “persuasion campaign”.⁸ This campaign can be directed at IG staff and other stakeholders to increase their understanding of the need for change.

The Benefits

The benefits of the CM process need to be targeted, measured and secured at the organisational level. These potential benefits were well known before reform activities commenced. They serve to inspire the IG leadership and staff alike, and to provide benchmarks for progress assessments.

Targeted deliverables centre on a strengthened IG Office, with an enhanced capacity to improve governance and accountability and reduce corruption, particularly by implementing more effective procurement auditing. The desired results or benefits will include an improved anticorruption environment through the establishment of a discrete, stringent Code of Ethics; a rigorous process of IG oversight; and improved procurement practices and oversight of procurement auditing processes. It will be imperative to monitor and evaluate progress toward the achievement of these benefits.

Communication

Considerable weight must be placed on the **communication dimensions of managing change**. Communications, consultations, and the transfer of skills and knowledge, through multiple channels⁹, will build involvement at all levels. It is critical to communicate the *reasons* for reform, focusing on the institutional context, and the *purpose and need* for change. Ideally, efforts will *show* the benefits of change rather than *simply tell* the IG staff about them. The path ahead must be consistently and effectively illustrated in a way that resonates with staff. They should be helped to understand *what the changes are* and *why they are required*. This will go a long way to easing anxieties.

Sustainability

The leadership will achieve sustainability only if attention is paid to each of the above dimensions, and to the success factors underlying them. Moreover, communicating a vision and a strategy for sustainability is at the heart of effective CM. The guiding coalition must “walk the talk”, and replicate the vision for individuals in other MPW Directorates and other IGs. This will be a forceful step toward **empowering broad-based action** among the staff, and will assist in creating a broader organisational environment in GoI that should recognise and reward risk-taking, non-traditional thinking, and innovation. This process must be linked to recognition that while difficult, time consuming and problematic, **potential obstacles that inhibit change** and destabilise the change vision must be assessed, dealt with and removed.¹⁰

Capacity building in the IG is essential to sustainability. The pre-existing institutional backdrop and human and institutional capacities of the IG will continue to play a significant role in shaping what reform efforts can achieve. While functional reviews, task alignment, quality assurance mapping, gap analysis and associated measures will form the basis of early and ongoing actions supported by the IndII team, it is clear from project activities undertaken since 2009 that capacity building will require urgent attention if the InspGen’s vision is to be realised. This is the area that could provide significant **short term wins** in the CM process, with a capacity-building program built around a series of short term achievable, affordable and well designed targets that benefit the reform process.

The approach to institutionalisation¹¹ will provide opportunities for measurable *performance improvements* and small wins along the way. These wins will feed IG staff motivation and morale, while demonstrating to the organisation that the change process can be successful. Recognising that short term wins are only the beginning of what is needed to successfully implement change in the long term; this process of performance improvement will be at the core of **credible and unrelenting steps to consolidate gains** and promote more problem-solving and change.

In seeking to **anchor the changes in the IG’s organisational culture**, these short term wins must be leveraged to continue changes to all systems, structures, and policies that either provide obstacles to or simply do not align with the InspGen’s vision to overturn traditional ways of doing business. Integral here will be the development of recruitment and promotion policies and processes that are in harmony with the InspGen’s vision, and ensuring that individuals are brought into the IG who can implement the vision.

Value, Vision and Goals

In developing and implementing change and creating public value, three elements have to be brought into coherent alignment. First, the change process has to be substantively valuable in the sense that, reform in the IG produces benefits at low cost, in terms of money and authority. Second, the process needs to be perceived as legitimate and politically sustainable. The reform process in the IG must be able to continually attract both authority and funding from GoI – the political authorising environment to which it is ultimately accountable. Finally, it must be operationally and administratively feasible in that authorised and valued activities can actually be accomplished by the IG with help from others who can be induced to contribute to the InspGen’s vision and goals. ■

NOTES

1. The InspGen MPW is Chairman of Forbes APIP (the informal association of all IGs in Indonesia). It thus becomes his responsibility as the leader to support GoI initiatives to strengthen the capacity of all IGs and to be seen to be a constructive partner in GoI anticorruption initiatives.
2. Kotter, J.P., "Leading Change: Why Transformation Efforts Fail" in *On CM*, Harvard Business Review Press, Boston, Massachusetts, 2011, p.3.
3. *Ibid*, pp.15–16.
4. *Ibid*, p.15.
5. There are a wide range of theories on how to undertake change. J.P. Kotter introduced his eight-stage process of change in his 1996 book, *Leading Change*. It is a problem-centred model. The eight stages (shown in green text above) provide the framework outlined in this article: (1) establish a sense of urgency; (2) create a guiding coalition; (3) develop a vision and strategy; (4) communicate the vision; (5) empower broad-based action; (6) generate short term wins; (7) consolidate gains and produce more change; and (8) anchor the new approach into the organisation's culture.
6. Kotter, *op.cit.*, p.7
7. Key activities include reviewing documentation, including reports by IndII consultants, seeking out all available data, holding wide ranging discussions with IG staff and other stakeholders, and implementing questionnaires and surveys.
8. Garvin, David A. and Michael A. Roberto, "Change Through Persuasion" in *On CM*, *op.cit.*, pp.17–33.
9. This could include one-on-one or small group conversations, writing, training, interactive workshops or forums, focus groups, videos, bulletin boards, and the Internet.
10. Kotter, *op.cit.*, pp.11–13.
11. This will stress hands-on training, mentoring and tutoring, supported by relevant workshops and, as necessary, study tours and attendance at professional conferences.

About the author:

Dr Steve Harris has been an international consultant for 12 years following careers in academia and the civil service. He has degrees in Asian Studies and has undertaken postgraduate studies in International Relations and Management. As an academic and civil servant, he worked on Asia-Pacific political, security and development issues, primarily related to Indonesia and PNG. Harris has worked with AusAID and consulted to ADB, USAID and DFID, specialising in public sector reform. He has worked in Malaysia, PNG, Indonesia, Pakistan, Nigeria, Iraq and Afghanistan. Working at both the strategic and operational levels, he has led teams in initiating, supporting and evaluating change within government and undertaking Public Administration Reform (PAR). He has specifically been engaged in capacity building in the areas of public policy, strategy development, and leadership in management, particularly but not exclusively in post-conflict environments. Dr Harris has spent the bulk of the 2000s in Afghanistan and Iraq working with both the British and US governments in public policy, public sector reform and democratisation.

IMPROVING THE EFFECTIVENESS OF THE INSPECTORATE GENERAL AT THE MINISTRY OF PUBLIC WORKS

The Internal Audit Capability Model takes a “building block” approach to establishing effective internal auditing. • By Elizabeth MacRae



The IG at the Ministry of Public Works (MPW) is currently working with IndII to improve its capacity and effectiveness.

Courtesy of Annetly Ngabito

The Government of Indonesia (GoI) is committed to improving internal auditing capabilities in the public sector. With assistance from the AusAID funded Indonesia Infrastructure Initiative (IndII), GoI is moving forward with a strategy that is designed to assess current performance levels at the Ministry of Public Works (MPW) and follow a roadmap toward sustained improvement. This article offers a detailed look at how that process is working.

Background

In 2009, The Institute of Internal Auditors' Research Foundation (IIARF) published the *Internal Audit Capability Model (IA-CM) for the Public Sector*¹. The IA-CM is a framework that identifies the fundamentals needed for effective internal auditing in government and the broader public sector. The IA-CM is intended to be used globally as a basis for implementing and institutionalising effective internal auditing in the public sector and as a roadmap for orderly improvement to strengthen capabilities within internal auditing.

The underlying structure of the IA-CM is based on that of a Capability Maturity Model² which is in turn based on quality management principles. The IA-CM is based in part on an adaptation of the Software Engineering Institute's "Software Capability Maturity Model®" and the more recent Technical Report, CMMI for Development, Version 1.2.³

Recognising the value of the IA-CM, in 2010 the Badan Pengawasan Keuangan dan Pembangunan (BPKP, GoI's internal audit institution) used the IA-CM to carry out an assessment survey of the strengths and weaknesses of all GoI Inspectorate Generals (IGs). This was one of several initiatives BPKP has undertaken and is undertaking to encourage IGs to upgrade their skills, capacity and capability. This is further to Presidential Instruction no. 4/2011, to support and ensure that IGs play a significant forward role in governance and oversight.

The IG at the MPW is currently working with IndII to improve its capacity and effectiveness. The three objectives of IndII's "Governance Reforms in Internal Audit Function" activity with MPW are: (1) to provide continuing support to the IG Office to strengthen the institution and its capacity, thereby achieving a higher BPKP performance ranking; (2) to enhance oversight and auditing processes that improve its role in governance and accountability; and (3) to reduce corruption, particularly by implementing more effective procurement auditing.

Levels of the IA-CM

The IA-CM is comprised of five progressive capability levels (see Figure 1). Each capability level describes the characteristics and capabilities of an internal audit (IA) activity at that level. The levels illustrate the stages through which an IA activity can evolve as it defines, implements, measures, controls, and improves its processes and practices. Implementing repeatable and sustainable processes at one level provides the foundation on which to progress to the next level. It is a "building block" approach to establishing effective internal auditing.

Key Points

The Government of Indonesia (GoI) is committed to improving internal auditing capabilities in the public sector. With assistance from the AusAID funded Indonesia Infrastructure Initiative (IndII), GoI is using the *Internal Audit Capability Model (IA-CM) for the Public Sector* to reform internal audit activities at the Ministry of Public Works. The IA-CM is a framework, intended for global use, that identifies the fundamentals needed for effective internal auditing in government and the broader public sector.

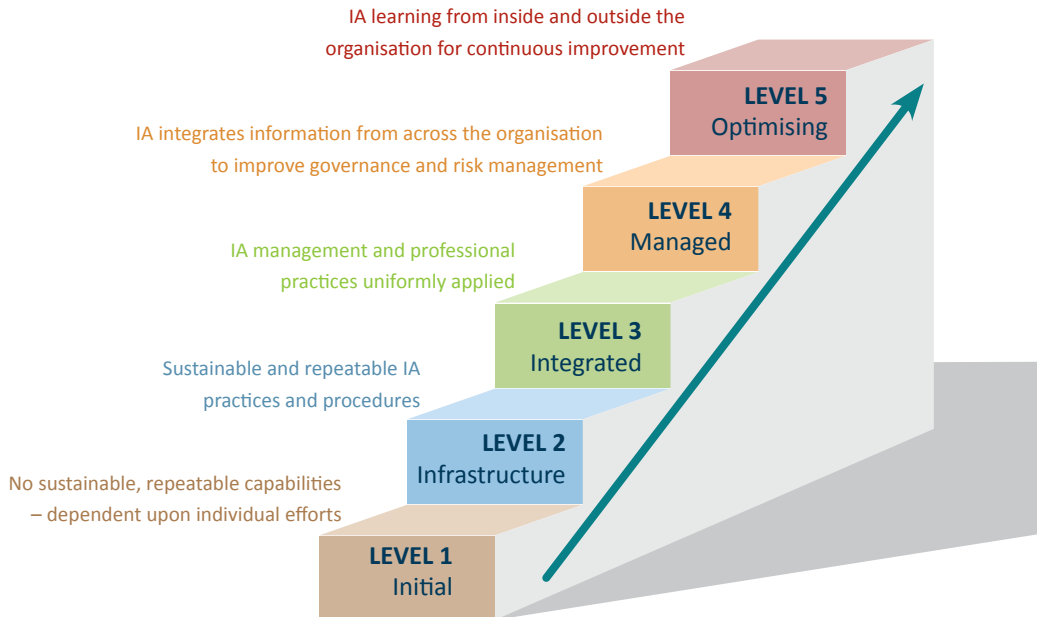
The IA-CM is comprised of five progressive capability levels, broken down into specific elements that are further associated with Key Process Areas (KPAs) on which improvement efforts can be focused. In 2010 the Badan Pengawasan Keuangan dan Pembangunan (BPKP, GoI's internal audit institution) used the IA-CM to carry out an assessment survey of the strengths and weaknesses of all GoI Inspectorate Generals (IGs). The IG at the MPW was rated Level 2.

As a first step in establishing the foundation for MPW's IG to move to a higher IA-CM rating, IndII consultants conducted an independent assessment in 2012 of the IG using the IA-CM framework, following up on the 2010 BPKP exercise. The 2012 Assessment focused principally on KPAs in Level 2. Some KPAs in Level 3 that could be institutionalized in conjunction with Level 2 were also identified. A detailed IA-CM Action Plan Based on the Preliminary IA-CM Assessment was developed as a result, which identifies the KPAs that need improvement and the outputs expected to achieve the KPA. The Action Plan also identifies the risks associated with not taking action; key activities for implementing the KPA; and environmental and organisational factors that could either facilitate or hinder KPA implementation.

The IA-CM is not intended to be prescriptive in terms of how a process should be carried out, but rather what should be done. The MPW is a large decentralised Ministry with activities undertaken in various locations throughout Indonesia. Therefore, internal auditing is more complex than the average Ministry and is not limited to financial issues, but also requires technical audit skills and capacity.

The IA-CM exercise with the MPW's IG Office is intended to help the Inspectorate develop the capabilities necessary for effective internal auditing – appropriate both for the MPW and the external regulatory environment found in the GoI. It will also help stakeholders and decision makers understand the important role and value added that the IG has in public sector governance and accountability.

Figure 1: IA-CM Levels



In 2010, BPKP assessed the MPW IG’s performance ranking at IA-CM “Level 2 – Infrastructure.”

The IA-CM also identifies six essential elements for an IA activity: (1) Services and Role of Internal Auditing, (2) People Management, (3) Professional Practices, (4) Performance Management and Accountability, (5) Organisational Relationships and Culture, and (6) Governance Structures.

Key Process Areas (KPAs) related to each of the six elements have been identified for the capability levels. These KPAs are the main building blocks that determine the capability level achieved by the IA activity. Each KPA describes a cluster of related activities that when performed collectively achieve a purpose and produce immediate outputs and longer term outcomes.

Figure 2 presents the IA-CM graphically as a matrix. The vertical axis represents the capability levels – with the capability of the IA activity increasing from bottom to top. The elements of internal auditing are presented on the horizontal axis. The KPAs for each level for each element are identified in the relevant boxes. There are 41 KPAs in the IA-CM.

The colours on the matrix depict the extent or influence that the IA activity has over the elements, with green-shaded areas being easier to achieve than yellow. When moving from left to right on the matrix, the ability of the IA activity to independently institutionalise the KPAs decreases. Similarly, the IA activity has potentially less ability to independently institutionalise the KPAs as the capability levels move upward from Levels 2 to 5. This shift occurs because the organisation and the environment will tend to increase their influence over whether the IA activity is able to institutionalise the KPAs in the higher capability levels.

Assessment and Implementation

As a first step in establishing the foundation for MPW’s IG to move to a higher IA-CM rating, IndII consultants conducted an independent assessment of the IG using the IA-CM framework. They followed up on the assessment exercise undertaken by BPKP in 2010. The 2012 IA-CM Assessment focused principally on KPAs in Level 2. Some KPAs in Level 3 that could be institutionalized in conjunction with Level 2 were also identified.

Figure 2: IA-CM Matrix

	Services and Role of IA	People Management	Professional Practices	Performance Management and Accountability	Organisational Relationships and Culture	Governance Structures
Level 5 Optimising	IA Recognised as Key Agent of Charge	Leadership Involvement with Professional Bodies Workforce Projection	Continuous Improvement in Professional Practices Strategic IA Planning	Public Reporting of IA Effectiveness	Effective and Ongoing Relationships	Independence, Power, and Authority of the IA Activity
Level 4 Managed	Overall Assurance on Governance, Risk Management and Control	IA Contributes to Management Development IA Activity Supports Professional Bodies Workforce Planning	Audit Strategy Leverages Organisation's Management of Risk	Integration of Qualitative and Quantitative Performance Measures	CAE Advises and Influences Top-level Management	Independent Oversight of the IA Activity CAE Reports to Top-level Authority
Level 3 Integrated	Advisory Services Performance/ Value-for-Money Audits	Team Building and Competency Professionally Qualified Staff Workforce Coordination	Quality Management Framework Risk-based Audit Plans	Performance Measures Cost Information IA Management Reports	Coordination with Other Review Groups Integral Component of Management Team	Management Oversight of the IA Activity Funding Mechanisms
Level 2 Infrastructure	Compliance Auditing	Individual Professional Development Skilled People Identified and Recruited	Professional Practices and Processes Framework Audit Plan Based on Management/ Stakeholder Priorities	IA Operating Budget IA Business Plan	Managing Within the IA Activity	Full Access to the Organisation's Information, Assets, and People Reporting Relationships Established
Level 1 Initial	Ad hoc and unstructured; isolated single audits or reviews of documents and transactions for accuracy and compliance; outputs dependent upon the skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management, as needed; absence of infrastructure; auditors likely part of a larger organisational unit; no established capabilities; therefore, no specific key process areas					

The assessment was conducted through document review and interviews with IG management and staff, selected MPW management, and selected stakeholders i.e. BPKP and the World Bank. In the IG, interviews were held with the Inspector General, Secretary to the Inspector General, the Inspectors, the Oversight Result Evaluation Division, the General Services' Division, the Planning and Programming Division, and selected senior and junior auditors.

A detailed IA-CM Action Plan Based on the Preliminary IA-CM Assessment was developed. The Action Plan identifies the KPAs that need improvement and the outputs expected to achieve the KPA. The Action Plan also identifies the risks associated with not taking action to address the areas needing improvement; key activities to undertake to implement the KPA; and environmental and organisational factors that could either facilitate or hinder implementation of the KPA.

The IA-CM is not intended to be prescriptive in terms of how a process should be carried out, but rather what should be done. For this reason, it is important that the IG MPW determines the most appropriate means to implement a particular process, taking into consideration the current and future capacity of the Inspectorate, the Ministry's needs and the environmental influences of the GoI.

In this respect, the MPW is a large decentralised Ministry with activities undertaken in various locations throughout Indonesia. This poses significant risks to the Ministry's operations. Therefore, internal auditing is more complex than the average Ministry and is not limited to financial issues, but also requires technical audit skills and capacity. For example, to ensure that the most appropriate auditors are recruited and relevant professional development and training is provided, an internal audit competency framework must be developed that takes into consideration the MPW's environment and the specific knowledge and skills (technical and behavioural) required. This competency framework provides a building block for developing and implementing auditor job descriptions, a recruitment policy, personal development and training plans, a systematic performance appraisal process, and a system for career progression. Each of these outputs, among others identified in the IA-CM Action Plan, is considered an institutionalising practice that must be implemented and sustainable in the IG to move to Level 3.

Figure 3: Institutionalising a KPA

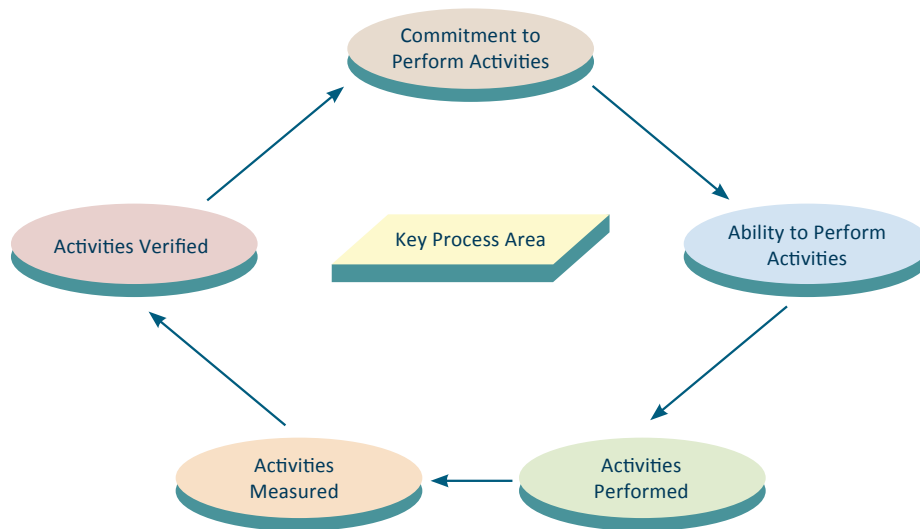


Figure 3, Institutionalising a KPA, identifies the five common features that need to be present to institutionalise and ensure the sustainability of the KPA.

Commitment to perform is the commitment to implement the KPAs associated with reaching a particular capability level. It can include developing *policies* – policy statements generally refer to establishing, maintaining, and following a documented organisational policy for supporting the essential activities of a particular KPA. This emphasises the importance of organisational commitment. Also included in this common feature is *sponsorship* through support by senior management. Clearly, senior management support is an important element in developing strong internal audit capabilities.

Ability to perform relates to the ability to carry out the essential activities competently. It could reflect the need for appropriate *resources* (for example, human resources, dollars, time, and access to specialised skills and appropriate tools, including technology-based tools). It may also address having a *plan* in place to carry out the activity, assigning responsibility to carry out the plan, and providing appropriate *training and development*.

The **activities performed** feature describes implementation activities.

The key practices undertaken for the common features of measurement and verification are generally the same for each KPA. For example, **measurement** refers to *ongoing measurement and analysis* of activities and progress in achieving the KPA's purpose. **Verification** includes *continuous verification* to ensure that activities have been carried out in accordance with established policies and procedures. This could include independent review, management review, or senior management oversight.

Through the presence of such common features, a climate is provided that contributes to and supports a foundation for reaching an internal audit capability level appropriate to the organisation.

Considerations and Principles

Professional judgement is imperative when using the IA-CM. When conducting the research to develop the IA-CM, it was noted that a less mature IA activity might assess itself at a higher capability level – possibly due in part to participants not being fully aware of internal audit professional practices and expectations.

The importance of environmental and organisational influences cannot be over emphasised. The IA-CM recognises how the external regulatory environment and the public sector organisation itself may impact on the capability of the IA activity. For example, organisational factors such as corporate governance, culture, internal control systems, human resource capacities, and the demand and need for the IA activity must be considered when assessing whether and how a particular KPA is implemented. Environmental factors such as the existence of an effective legal and legislative framework, established financial management and control processes, and a strong human resource component also have to be considered. In using the IA-CM, it is important to determine “what makes sense” and is reasonable considering the organisation and environment.

The IA-CM is **underpinned by the mandatory guidance** (Definition of Internal Auditing, Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing [Standards]*) included in The IIA's International Professional Practices Framework. An IA activity at capability Level 3 will generally conform to the *Standards*. While capability levels in the IA-CM provide a road map for continuous improvement, an IA activity may choose to remain at Level 3. However, it is important that it not become complacent at Level 3. The IA activity needs to ensure that the KPAs, up to and including those at Level 3, remain implemented.

Furthermore, an **IA activity may choose to stay at any particular level**. That level may be the most appropriate for the IA activity in that organisation and environment at that point in time. The IA activity may choose to improve the efficiency and quality of implementation of the KPAs in a particular level rather than necessarily striving for and evolving to a higher level.

In conclusion, the IA-CM exercise with the MPW's IG Office is intended to help the Inspectorate develop the capabilities necessary for effective internal auditing – appropriate both for the MPW and the external regulatory environment found in the GoI. It will also help stakeholders and decision makers understand the important role and value added that the IG has in public sector governance and accountability. ■

NOTES

1. *Internal Audit Capability Model (IA-CM) For the Public Sector*. The Institute of Internal Auditors' Research Foundation. September 2009.
2. The **Capability Maturity Model (CMM)** (a registered service mark of Carnegie Mellon University) is a development model created after study of data collected from organisations that contracted with the U.S. Department of Defense, who funded the research. This model became the foundation from which Carnegie Mellon created the Software Engineering Institute. The term "maturity" relates to the degree of formality and optimisation of processes, from ad hoc practices, to formally defined steps, to managed result metrics, to active optimisation of the processes. (Source: http://en.wikipedia.org/wiki/Capability_Maturity_Model)
3. CMMI is a registered service mark of Carnegie Mellon University.

About the author:

Elizabeth (Libby) MacRae is the lead specialist in implementing the Internal Audit Capability Model (IA-CM) for the Indll Activity: Governance Reform in Internal Audit Function (IG-MPW). She is the principal author of The Institute of Internal Auditors Research Foundation's 2009 publication *Internal Audit Capability Model (IA-CM) For the Public Sector*. She was the lead researcher developing the model on behalf of the Foundation, in collaboration with the World Bank.

Ms. MacRae's career with the Government of Canada spanned over 30 years. She was the Chief Audit Executive at three government departments (House of Commons, Canadian International Development Agency and Natural Resources Canada). She was also a Senior Research Associate with the CCAF (formerly the Canadian Comprehensive Auditing Foundation) where she was responsible for a multi-focused research project in the area of Accountability and Audit.

She has been a member of The Institute of Internal Auditors (The IIA) for over 20 years during which time she was President of the local IIA Ottawa Chapter, a member of the international Professional Issues Committee from 1996–2004, and a member of the International Internal Audit Standards Board from 2004–2011. She is currently a member of The IIA's Public Sector Committee and a member of the Audit Advisory Committee of UN Women.

Ms. MacRae has a Bachelor of Sociology from Carleton University and is a Certified Government Auditing Professional.

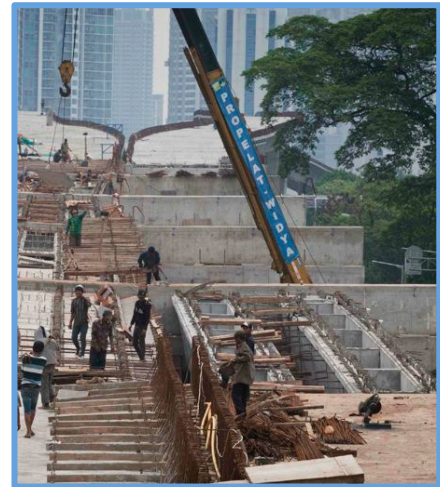
FROM POLICING PROJECTS TO MANAGING RISK: STRENGTHENING AUDIT PRACTICE AT THE MINISTRY OF PUBLIC WORKS

A mentoring and training program is increasing the capacity of staff at the Inspectorate General of the Ministry of Public Works to assess, manage, and communicate about risk.

• By Arun Hemraj and Franky Setiawan

When massive amounts of funds are devoted to infrastructure development, the best approach to governance is to focus on preventing corruption and waste rather than identifying it after the fact.

Photo by Rahmad Gunawan



Good governance at the Ministry of Public Works (MPW) has never been more important. Funding for infrastructure projects involving roads and bridges, water resources and housing is growing rapidly. In fact, the MPW budget for 2012 was the highest of all ministries and has tripled in the last six years: from Rp 20 trillion (A\$ 2 billion) in 2006 to Rp 75 trillion (A\$ 7.5 billion) today. This rate of growth is expected to continue for the foreseeable future.

The overall budget of the Indonesian Government has slightly more than doubled between 2006 and 2012. Especially in light of these funding increases, the Government and its partners (including the donor community) have acknowledged the importance of strengthening the auditing practices of all the Inspectorates General (IGs), which are the Government's internal audit institutions.

Given MPW's significance within the budgetary allocation process, the World Bank focused its attention on MPW by including as one of the triggers for the release of Infrastructure Development Policy Loan 4 funds the following condition: *Adoption of an Action Plan to strengthen staff capacity at the Inspectorate General of the Ministry of Public Works and introduce modern risk-based methodology and practices to provide assurance on the Ministry of Public Works' internal control systems and compliance.*

The Action Plan developed to meet this requirement includes a number of themes, including developing a risk-based approach to audit, strengthening quality assurance, improving communication and reporting of audit results, focusing on professional development needs of the staff, and updating audit manuals. The IG strongly embraced this reform agenda to help the Ministry achieve better outcomes in terms of value for money, quality of infrastructure development, and improved activity safeguards.

During its Phase 1 activities, the AusAID funded Indonesia Infrastructure Initiative (IndII) helped the IG to work toward these goals through a mixture of targeted workshops and training programs on audit fundamentals, “soft skills” courses in people skills and management, and by introducing the modern Risk Based Internal Audit (RBIA) approach.

RBIA conceives of the role of internal auditors very differently from traditional auditing methods. It acknowledges that auditing resources are finite, that activities being audited vary in importance, and that scarce internal audit resources should be directed to managing those risks that present serious threats to Ministry activities. RBIA focuses on prevention, rather than after the fact reports that simply explain what went wrong. Auditors thus move from the role of “policemen” to assisting management to become better risk managers intent on improving the quality, effectiveness and efficiency of infrastructure investments. The auditors learn to identify areas of high risk and focus their efforts on more effectively containing corruption and waste. For example, an output of RBIA would be to advise management on potential consequences if risks are not properly managed or mitigated and to make recommendations on how to improve controls.

While the RBIA principles have been socialised amongst IG staff, significant continuing support is required for the practical application of RBIA concepts in the Inspectorate. The present IG staff configuration does not include enough audit oriented experienced staff who can train and mentor others.

Supporting the development of these staff is an effective and sustainable means of contributing to infrastructure development. To accelerate the building of capacity in auditing skills, during Phase 2 of IndII we are acting as full-time mentors on selected audits, working shoulder-to-shoulder with staff in the field. Our efforts involve a combination of hands-on planning and organisation of audits, training, mentoring and tutoring, supported by relevant workshops and formal training.

Mentoring of staff covers all aspects of audits from inception to completion: planning, risk identification and evaluation, assessing a management approach to mitigating risks through controls, audit work programs, working papers, reporting and follow up on recommendations. In the process we will assist in revising manuals and guidelines – for example, by making them less prescriptive in order to encourage auditors to apply their professional judgement rather than simply ticking off boxes and checklists.

The on-the-job training for auditors encourages them to act as advisors/consultants to management. It steers them away from the traditional, mostly negative focus on findings. In addition to providing value-added services, this aspect of mentoring helps to improve communication and reporting of audit results.

It is our goal that these mentoring and training efforts will provide a foundation for the MPW to build on. (For example, an M&E baseline study conducted in April 2012 identified the value of combining mentoring efforts with the institutionalisation of large-scale training, such as a Continuous Professional Education (CPE) program to upgrade fundamental audit skills for all levels of staff, including senior management and encourage updates in technical matters generally. CPE is mandated by the Institute of Internal Auditors (IIA), the international standard setting body for internal auditors, which recommends a minimum of 40 hours of CPE for professional audit staff to keep up-to-date with changes in the profession. Such CPE is usually a

combination of workshops conducted by outside training and professional entities, including those from IIA Indonesia, professional audit seminars and keeping abreast with reading professional literature). Through improved governance, the MPW will be able to harness its growing budget to better achieve Government of Indonesia objectives. ■

About the authors:

Arun Hemraj has significant experience in the management of finance and audit functions both in the private sector and in Commonwealth Government agencies. He started his career in PwC and has worked in their offices in Auckland, Sydney and Fiji in their Audit and Corporate Services Divisions. Arun subsequently held senior finance positions in multinational corporations and Commonwealth Government agencies, including the Australian Government's official export credit agency, Export Finance and Insurance Corporation. In his roles with these institutions, Arun's responsibilities included process redesign initiatives, formulating internal audit strategies, implementing risk management frameworks, and developing ERP (Enterprise Resource Planning) and treasury systems and internal controls. Arun has been actively involved in audit and finance committees which have responsibility for the oversight of integrity and efficiency of the audit process, as well as the system of internal controls and financial reporting.

Arun graduated with a Commerce degree from Auckland University in New Zealand and is a member of the Institute of Chartered Accountants in Australia.

Franky Setiawan is an independent National Consultant for Indll's Governance Reform in Internal Audit Function at the Inspectorate General of the Ministry of Public Works, specialising in audit and accountancy. His involvement with the Indll project started in 2010 in connection with the introduction of Risk-Based Internal Auditing within the IG's office.

He is a graduate of the University of Indonesia and University of Gadjah Mada in the Accounting department, and has spent the majority of his career in audit and accounting. He has also worked as a manager with the local affiliate of BDO International.

Previously he was involved in the development of professional standards for auditing and accountancy through the *Institut Akuntan Publik Indonesia* (IAPI) as Chief Technical Officer, and as Executive Director of the IAPI public accounting division.

He has also been involved in several teams working to develop professional audit and accounting studies and guidelines on topics such as auditing and accounting for Syariah banking, social security accounting, small business auditing and more.

THE CASE FOR CORPORATE GOVERNANCE

Government procurement activities are often perceived as a source of inefficiency and even corruption. But good corporate governance – including instituting best practices, building capacity, and ensuring that auditors, procurement specialists and suppliers work toward common goals – can lead to efficient infrastructure development, an improved investment climate, and a turn-around in perceptions. • **By Robert Thompson**



Public procurements should deliver best value for money.

Courtesy of nSeika on flickr

Speaking informally, auditors and officials from KPK (Komisi Pemberantasan Korupsi, the Indonesian Corruption Eradication Commission) estimate that anywhere from 70–85 percent of their prosecutions relate to procurement.¹ The public has a similar perception. This is an unsustainable situation, especially when coupled with the fact that over 50 percent of challenges by contractors to government bid processes are upheld. Media coverage detailing stories of bad practices and waste have led to a high degree of scepticism that public procurements deliver the best value for money. But Indonesia is working to turn this situation around. As it does so, it will experience many benefits.

Recent legislation relating to governance has increased the degree to which the Inspectorate Generals (IGs) of various ministries are accountable, a trend that is likely to continue. IGs will have to adopt and implement a fundamentally different approach to their activities in order to meet requirements, and change both the perceptions and realities of procurement. Embracing the principles of good corporate governance will be a substantial step forward to achieving this change.

The AusAID funded Indonesia Infrastructure Initiative (IndII) has been working with the IG of the Ministry of Public Works (MPW) over the last two years. Encouraging changes and performance improvements have been made, but they have not yet been fully institutionalised. New efforts by the Ministry of Public Works and IndII's Internal Audit Governance reform program (see "Governance Reform in Internal Audit Function: An Overview" on page 6) will support the Ministry in achieving this. This will also provide a lasting legacy of a stronger and more professional Internal Audit function, which is aligned to international standards, better value-for-money procurements, and an enhanced anticorruption environment.

The project brings together all involved parties from BPKP (Badan Pengawasan Keuangan dan Pembangunan, the Indonesian Government's internal audit institution), LKPP (Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah, the Government Goods and Services Procurement Policy Agency), MenPAN (Kementerian Pendayagunaan Aparatur Negara dan Reformasi Birokrasi, the Ministry of Administrative and Bureaucratic Reform), and the national development planning agency Bappenas to ensure that all parties who play a role in delivering value for money are involved in providing a holistic solution to the problem.

Key Points

Auditors and officials from the Indonesian Corruption Eradication Commission indicate that government procurement procedures are often at the heart of prosecutions. Media coverage and public perceptions echo this belief. Recent legislation relating to governance is spurring the Inspectorate Generals (IGs) of various ministries to adopt new approaches that will improve accountability and make the procurement process more efficient and effective.

The AusAID funded Indonesia Infrastructure Initiative (IndII) is working with the IG of the Ministry of Public Works (MPW) to institutionalise changes that will lead to a stronger and more professional internal audit function aligned to international standards; that offer better value-for-money procurements; and promote an anticorruption environment. Expected benefits include better organisational performance and making the Indonesian market more attractive to new investment.

Success will be achieved only if both the government and its contractors share the objective of operating with integrity and delivering value. In an imperfect world, independent reviews will ensure that not only are contracts fulfilled, but that the overall environment is transparent and objective. Suppliers and procurement entities that act fairly have nothing to fear from audits.

Good procurement and audit practice, with the right level of communication between the procuring entity and the audit team at the planning stage, will ensure that procurement specialists and auditors understand each other's objectives from the start. The role of internal audit will move from the examination of faulty compliance to the attainment of outputs and performance measures.

IndII's program is designed to build the capacity and competency of both suppliers and procurement entities, through training, coaching, and mentoring. Ideally, it will help the IG to achieve its vision of efficient and effective infrastructure procurement, as well as improve the image of government procurement among the public and the media.

Improved corporate governance will bring many benefits. It will lead to better organisational performance and make the Indonesian market more attractive to new investment. The introduction and consistent application of risk-based methodology and practices will provide a clear assurance to everyone that the Ministry's internal control systems do ensure full performance by the contractor and the achievement of best value-for-money outcomes.

However, there are always at least two parties involved in any procurement, the government and the contractor. Success will only be achieved if they both have the same objectives. So it is not just government that has to embrace corporate governance, but suppliers and contractors also have a responsibility to safeguard their staff and customers/clients, deliver value for money, and behave with integrity when fulfilling their contractual obligations.

No Perfect World

In an ideal world, where corporate governance was the norm, the role of audit would be simple. All actions would be transparent, decisions would be fair and impartial, individuals would naturally be honest and ethical, and actions could always be fully justified.

However this situation rarely exists in the real world. Therefore we need to have a robust and independent review of the actions taken by government and contractors to ensure that the terms of every contract are fulfilled. More broadly, such review is intended to achieve a better environment for all citizens and users of government services. Each review should be able to conclude that, "Yes, the road procurement contract was managed well", or "The bridge was not to standard, so the deficiencies were remedied and the right level of compensation was obtained."

Suppliers and procurement entities should feel confident that if they act fairly toward all their stakeholders, make objective decisions, and are transparent in contract award practices, they will be able to fully justify their actions. If they can do this, they have nothing to fear from the audit of any public procurement.

Good procurement and audit practice, with the right level of communication between the procuring entity and the audit team at the planning stage, will ensure that procurement specialists and auditors understand each other's objectives from the start. Evidence of all processes and procedures, including evaluation, supplier selection, and assessment of the total cost of ownership, will be presented in a way that clearly demonstrates the attainment of value for money with every procurement. This approach is a shift away from auditors' current practice, which focuses on finding faults in the processes and technical aspects of procurement activities. Instead, it emphasises prevention, by providing greater assistance, facilitation and education, not only with respect to procurements but also across the wider audit universe of the Ministry. This change is fundamental to creating an environment where good corporate government flourishes.

Indonesia continues to benefit from substantial international donor funds that assist the Indonesian Government as it guides the nation toward economic growth. By instituting and consistently applying best practices and meeting legal obligations, the government and its suppliers and contractors can demonstrate that they are able to maximise the commercial, economic and social returns on the investments made. They can ensure that suppliers consistently deliver on time, within budget and most importantly to the right quality standard.

When this vision of procurement services is fulfilled, the role of internal audit becomes focused not on examining faulty compliance but instead on the attainment of outputs and performance measures. This goes hand in hand with an improved image of government procurement.

IndII's program is designed to build the capacity and competency of both suppliers and procurement entities through training, coaching, and mentoring. Ideally, it will help the IG to achieve its vision of efficient and effective infrastructure procurement. ■

NOTES

Officially, according to the KPK annual report, the number for the period 2004–2011 is 41 percent. However, another 35 percent of the prosecutions are for “bribery”, and it is widely believed that most of these cases are also related to procurement.

About the author:

Robert Thompson has worked as a specialist procurement consultant and has over 30 years international experience in strategic and operational procurement with extensive expertise in the Construction, Oil and Gas, Utilities, Waste Management, Health, Logistics, Environmental and Educational fields. He has worked in several countries on the design and implementation of public sector procurement reform programs and systems, with a focus on the legal and institutional framework and the strengthening of national procurement capacity and competency.

Robert has worked in many countries, including Afghanistan, Indonesia, Papua New Guinea, Azerbaijan, Kazakhstan, China, Brazil, Sudan, and Angola as well as many European countries, both with public sector and private sector organisations, including the World Bank and AusAID.

Robert holds a BA Hons degree in Business Administration from Coventry University and a Diploma from the Chartered Institute of Purchasing and Supply.

MANAGING THE CHALLENGES OF CORRUPTION IN INFRASTRUCTURE GOVERNANCE

To stop corrupt activities, “points of leakage” should be identified early and reporting requirements should be clear and meaningful. All parties should be trained, supported, and contractually obligated to prevent corruption, and role models at the top should lead the way. • By Elizabeth Goodbody



Worldwide, infrastructure development is dogged by corruption fears. Suspicions of impropriety quickly surfaced after this building collapsed in Cork, Ireland.

Courtesy of Brian Clayton

Corruption is neither new nor easy to deal with in infrastructure development and maintenance activities. Like other countries, Indonesia has its own challenges when dealing with corruption in this area. This article will consider corruption in infrastructure from a number of perspectives:

- Funding of infrastructure projects and the need to identify “points of leakage”.
- Managing a diverse set of parties involved in infrastructure development.
- How to engender a “corporate culture” that is corruption averse.
- The time needed to move toward an environment that has zero tolerance for corruption.

Points of Leakage

One of the many challenges that both organisations and countries face regarding corruption on infrastructure projects is in understanding exactly where the “points of leakage” exist for the funding involved. Funding can come through at a government level from budget allocations or through special aid funding to support development in urban or rural areas. Funding can also come through Public Private Partnerships (PPPs) and through similar mechanisms where there are both public sector and private sector organisations involved in the raising and expenditure of funds.

Unless the form of the funding and the number of parties through whom the funding is allocated are identified at a very early stage, it is often too late to close the points of leakage that corrupt practices cause.

Ideally, measures can be applied to identify the parties involved as well as the points where “leakage” can occur. Such measures involve:

Identifying the basis of the infrastructure funding (such as a government allocation through a budget process, aid funding, or a PPP). This enables the oversight party to truly understand the rationale, objectives, and deliverables.

Defining appropriate and measurable targets for achieving the established objectives. Incentives for early completion and penalties for poor quality workmanship or loss of equipment/materials should be set. Unless actors who can benefit from corrupt behaviour have “skin in the game” (a significant equity stake in the investment), everyone will gain from achieving the objectives. In practice, this means that government agencies or private sector organisations who fail to put effective measures in place to prevent corruption will lose future grants, be barred from future projects, or pay heavy penalties for losses incurred.

Key Points

Corruption is neither new nor easy to deal with in infrastructure development and maintenance activities. Funding can come from government budget allocations, development aid, or Public Private Partnerships (PPPs) and other mechanisms involving both the public and private sectors. It can thus be a challenge to understand where the “points of leakage” exist. Unless these points are identified early, it is often difficult to prevent corrupt activities.

Measures that can help to stop corruption include: *identifying the basis of the infrastructure funding* (so that the oversight party truly understands the rationale, objectives, and deliverables); *defining appropriate and measurable targets for achieving the established objectives*; *thoroughly understanding the points at which funding will be released* (such as dates, completion of a stage of work, or other achievements); *conducting appropriate monitoring and review of projects*; and *acknowledging the expense of effective monitoring and review*.

Problems can arise where the key party is not aware that other subcontractors or third parties are also involved in project delivery. Government may contract with a primary contractor and leave all the logistical and operational arrangements with that party, including dealing with and paying the subcontractors. It is crucial that all parties to infrastructure projects are fully identified and that the same set of anticorruption standards is part of the contracts signed by all parties, with penalties for noncompliance.

Additional steps to control corruption include training and awareness regarding expectations and penalties for noncompliance, along with support to people who want to act ethically. There is no point in having token measures in place, as people will observe whether or not the steps they take to combat corruption are taken seriously.

Further, structured and easy-to-understand reporting arrangements that are not too time-consuming, but that provide real evidence of the work done, must be provided.

Thoroughly understanding the points at which funding will be released. These points can be dates, completion of a stage of work, or other achievements. This means identifying and soliciting genuine evidence that the point has been reached. We have seen requirements that do nothing more than ask for photos showing completed work on roads, sewage systems, and draining schemes; photos that could have been taken anywhere. Similarly, interim reporting requirements may solicit information that is almost meaningless. Real site visits from truly independent parties, with live footage of what people are working on, can be much more meaningful.

Conducting appropriate monitoring and review of projects. This means both knowing relevant points at which to monitor and having the appropriate parties involved in the review.

Acknowledging the expense of effective monitoring and review. This needs to be acknowledged even before any funding is allocated. Otherwise, the really effective measures may be applied and the points of leakage never tackled properly.

Managing Diverse Parties

There can be a wide variety of parties involved in infrastructure projects and Indonesia is no exception. Frequently, problems arise when the key party, i.e. the primary contractor, is not aware that other subcontractors or third parties are also involved in delivery of the projects. In some cases, government may contract with a primary contractor and leave all the logistical and operational arrangements with that party, including dealing with and paying the subcontractors.

There are times when no one is really taking responsibility for the additional parties involved in the contract, or fully determining the extent to which their costs and claims are fully supportable (in other words, ensuring that their claims do not include excess charges to cover kickbacks or other corrupt payments). It is crucial that *all* parties to infrastructure projects are fully identified and that the same set of anticorruption standards is part of the contracts signed by all parties, with penalties for noncompliance.

Additional steps to control corruption include ***training and awareness raising*** to be sure all parties understand expectations and penalties for non-compliance. These expectations and penalties must be made clear at the very start, along with the support that will be given to people who want to act ethically.

There is no point in having token measures in place. People will observe whether or not the steps they take to combat corruption are taken seriously. For example, if someone reports on corruption, it must be clear that that person is fully supported at a senior level and it is not a “shoot the messenger” situation.

Further, ***structured and easy to understand reporting arrangements*** must be provided. These should not be too time-consuming but should provide real evidence of the work done and the standard to which it has been completed.

A Corruption-Averse Culture

One hears all the time about the importance of the “tone from the top”. This cannot be overstated in the context of engendering a corporate culture that is corruption averse. A role model at the top, or better still a number of senior people throughout the organisation who embody a “zero corruption” culture is key to successful anticorruption programs.

The other side is equally important. If people see that senior officials are acting corruptly, it is hard for them to seek support for anticorruption measures. Infrastructure development has so many “points of leakage” that unless the issue is tackled holistically, across the entire spectrum of people involved and all activities undertaken, it will take longer to achieve a corruption-free environment and it will involve higher cost and fewer successful project outcomes.

Change Takes Time

In Indonesia 10 years ago, it was noted that if steps were taken on Day 1 to identify points of leakage and strengthen anticorruption measures, it could still take a full generation to eradicate corruption from the system. The efforts now being made still have a long way to go. Points of leakage still exist, although people have taken a number of steps to address these and strengthen project oversight and control.

Good intentions supported by smart frameworks and control mechanisms can really help. Commitment from the top is essential so that ethically minded people know they have full support for a zero-corruption-tolerance environment.

In other words, there is still work to do. From small beginnings, large endeavors grow. There is always hope, and thanks to the commitment of many people and the measures now being applied, the coming years can see a real improvement in reduction in corruption in infrastructure projects in Indonesia. Working hand in hand with organisations across the public and private sectors and more effective anticorruption programs will result in a reduction in corruption and all the benefits that accompany it. ■

About the author:

Elizabeth Goodbody is a Director at PricewaterhouseCoopers (PwC). Based in Sydney, she has been with PwC for over 30 years. She now has direct responsibility for providing anti-money laundering (AML) assistance to clients across the financial services and other sectors, including “gatekeeper” sectors such as Real Estate, Accountants, Lawyers, bullion/precious metal dealers and others. Previously, Elizabeth was seconded to Indonesia for almost five years to establish and run PwC’s Dispute Analysis and Investigations practice in Jakarta. A specialist in anti-money laundering, fraud prevention and anticorruption strategies, dispute resolution, forensic investigation, flow of funds and asset tracing, expert witness testimony, receiverships and liquidations, she has experience working in Australia, US, Canada, UK, Philippines, Ireland, Thailand and Indonesia.

Elizabeth is responsible for many thought leadership projects on anti-money laundering and fraud control, including facilitating communications and open discussions between, and for, the banking and insurance industries, international donor agencies, government, the central bank and other non bank financial institutions in the Asia Pacific region. She is a regular speaker on AML, fraud, corruption and foreign bribery prevention and detection at various national and international training sessions, seminars and conferences.

INDII PLANS INFRASTRUCTURE RESEARCH GRANT PROGRAM

Partnerships between local and international institutions, and strong support from the Government of Indonesia, are the central tenets of a new grants program that will address Indonesian infrastructure challenges.

Research partnerships between local and international institutions are the key to a new grant program being planned by the AusAID funded Indonesia Infrastructure Initiative (IndII). The new program is intended to tackle challenges that the Indonesian government faces in the infrastructure sector. Entitled the Australia-Indonesia Infrastructure Research Awards (AIIRA), the program will fund research by Indonesian academic and civil society organisations working in partnership with International academic institutions or civil society groups such as think tanks, business associations, or other non-governmental organisations.

Starting in 2013 and running until June 2015, a two-stage competitive process will be used to select grantees during several rounds. The awards will be made for research proposals that examine challenges faced by an Indonesian Government agency and identify potential solutions. Therefore, IndII only intends to fund proposals that demonstrate strong support from a government agency, or set of agencies, at the national or sub-national level. According to program designers, this is critical to maximise the benefits and sustainability of program outcomes.

The international partnerships are intended to enhance the skills and experience of Indonesian academic and civil society organisations involved in the nation's infrastructure policy, planning and delivery. The grants will offer Indonesian institutions the opportunity to learn by doing, as they create high-quality demonstration research products together with their international partners.

The AIIRA program is expected to focus on the water, sanitation and transport sectors.

Applicants who are selected during the first stage of AIIRA's two-step program will receive seed funding to support them to develop a full proposal for AIIRA consideration. Funding at this stage will primarily cover travel, meeting and communication costs for the partnered applicants. The second stage will fund the best of these short-listed applications to undertake, complete and communicate the approved infrastructure research. Peer reviewers and an Expert Panel convened by IndII will review the research proposals and make the awards.

Participation in the program will be open to partnerships of Indonesian and International academic institutions and civil society groups. The international partner organisations can be located in any country. Assessment criteria will include the relevance of the proposed research, institutional credentials, governance considerations, and value for money.

In early 2013, IndII will publish detailed information about the program on its website (www.indii.co.id), including application forms for the first stage of AIIRA applications. The deadline for those applications is expected to be in the first or second quarter of 2013. ■

THE EXPERT VIEW

Question: *What can Inspectorate Generals do to play a more effective role in the governance and accountability of the ministries?*

▶ **Dr. Binsar H. Simanjuntak**

*Deputy Supervisor of Economic Government Agencies
(the Indonesian State Finance and Development Surveillance Committee)*

“First of all, IGs need to understand their role as an instrument to assist the leadership in achieving its goals. IGs must understand that they have a strategic role in decision-making and through quality monitoring and evaluation, not merely as an accessory. Second, they must develop high quality, competent, and professional human resources to perform their tasks. Staff members must understand the substance of their work and be able to offer opinions and insights on the implementation of ongoing tasks. They must also demonstrate the attitude of a professional auditor who is not only involved during the final stage of the work but who also assists from the beginning, in developing the overall strategy and keeping continuous track of the processes to prevent undesired matters from arising. They must ensure that all plans operate as they should, including making sure that the procurement of goods and services is conducted transparently, accountably, effectively, and efficiently. They should prevent overcharging, inconsistencies in specifications, or preferential treatment for a specific vendor.

The Inspector General must be involved, although not as part of the tender committee but as an observer/overseer/monitoring party. BPKP will encourage this to happen. We have started directing our colleagues within the IGs to become capable of conducting probity audits and providing probity advice. Inspectors General should also act professionally and independently so as to be amicable but objective. They must be able to provide the most updated input to enable the minister to anticipate matters that need improvement in order to achieve objectives. In this way the Inspectors General play a role in developing systems at their respective ministries.

Presently we are preparing to establish a professional association of intra-government auditors. The purpose of the association is to develop audit standards, codes of conduct, and peer review as part of improving professionalism, so that we can agree on the audit standard and code of conduct that serves as the umbrella, and so that later this can help auditors at the IGs to perform their tasks professionally. Inspectorate Generals must have the spirit/enthusiasm to provide the best recommendations and should be one step ahead in anticipating problems at their respective ministries.”

Outcomes:

ESTABLISHING A NEW OUTPUT-BASED GRANT PROGRAM



The Government of Indonesia, in cooperation with AusAID, has developed a pilot program in Nusa Tenggara Barat (NTB) to address the deteriorating condition of local roads. PRIM (Provincial Road Improvement and Maintenance) is an output-based grant mechanism designed to encourage improved road development, better budgeting and delivery of maintenance, and greater public scrutiny of outcomes. The AusAID funded Indonesia Infrastructure Initiative (IndII) is supporting this initiative with technical support in project design, development of supporting documentation such as manuals, and verification of outputs.

To move PRIM forward, a meeting was held with Bappeda NTB in November 2012. The objectives were to socialise the grant reimbursement scheme, to establish a Project Implementation Unit (PIU) in NTB, and to gain insight into the ability of the Local Government (LG) to pre-finance maintenance works. As a result of this meeting, the Governor of NTB signed a letter confirming their willingness to host the pilot program and establish the PIU. The letter agreed that NTB will provide 60 percent of the grant funds and AusAID will provide 40 percent. The LG will pre-finance PRIM up to an amount of 250 billion for the period of 2013–2015.

To read more about this and other IndII activities, view the Activity Updates on our website at: http://www.indii.co.id/publications.php?id_cat=57.

IN OUR NEXT ISSUE: LOCAL ROADS

Indonesia's provincial and district roads account for 91 percent of the nation's primary road network, but their condition has deteriorated substantially since decentralisation. One recent study found that the backlog of works needed to bring them up to acceptable standards would cost three to five times the amount currently budgeted. The reasons for their poor state include inadequate budgets; inefficient resource allocation among maintenance, rehabilitation and new road projects; poor quality implementation of road works; and lack of incentive and accountability for network performance.

Poor local road conditions undermine Indonesia's economic and social development. The national government is keen to address the problem, and the current Directorate General of Highways strategic five-year plan includes support for better management of local roads as one of its key objectives. Many lessons on how to do this can be taken from recent local and international experiences. The April 2013 edition of *Prakarsa* will examine how the challenges of Indonesia's local road network are being addressed, including a look at the new grant initiative PRIM (Provincial Roads Improvement and Management).