Governance Reform in the Internal Audit Function at the Inspectorate General, Ministry of Public Works

Infrastructure Initiative



Governance Reform in the Internal Audit Function at the Inspectorate General, Ministry of Public Works

BASELINE STUDY

September 2012





INDONESIA INFRASTRUCTURE INITIATIVE

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Ty Morrissey

Jakarta, September 2012

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ACRONYMS

APIP Aparat Pengawasan Internal Pemerintah (Government Internal

Auditors)

BPKP Badan Pengawasan Keuangan dan Pembangunan (Finance and

Development Supervisory Board)

DG Director General

Gol Government of Indonesia

IACM Internal Audit Capability Model

IG Inspectorate General

IndII Indonesia Infrastructure Initiative

M&E Monitoring and Evaluation

MPW Ministry of Public Works

RBIA Risk Based Internal Audit

EXECUTIVE SUMMARY

IndII Activity P243-02: Governance Reform in the Internal Audit Function (IG-MPW) is a strategic, long-term and high profile engagement between the Governments of Indonesia and Australia and represents a significant step towards improving governance, oversight, accountability and transparency within the Ministry of Public Works (MPW) and to train a cadre of internal auditing professionals for long-term sustainability.

Given the levels of investment and the long-term duration of assistance, a baseline study was completed in April 2012. The baseline involved 124 auditors (51 percent male and 49 percent female). The objective of the study was to collect and analyse information relating to management efficiency and oversight; practice of internal auditing; procurement and anti-corruption functions; and their understanding and application. Specifically the baseline sought to:

- Identify current levels of understanding and capacity of audit practices
- Assess capacity to implement appropriate procurement and procurement auditing practices and adherence to agreed processes
- Assess current levels of understanding on the issue of corruption and appropriate anti-corruption measures

The survey tool was anonymous but an attendance sheet was used so as to ensure all staff were involved and that a reference point could be established for future evaluations and comparison studies. The baseline report is not an analytical evaluation report; however some analysis of the results is provided in the interpretation of the data to assist the reader understand the data and associated graphs.

The baseline study provided useful and interesting insights into what current staff think of current audit approaches, an assessment of their own understanding, and application and perceptions of management and their role as well. The overall indication is that staff have good levels of understanding of a range of audit issues but there is a gap in terms of application. This is attributable to a range of issues in terms of a lack of management guidance; general understanding of the issues; and a lack of clarity around formal laws, regulations, and decrees and how they are applied.

For the future, staff have indicated a desire for greater mentoring and supervision from Inspectors/Inspectorate General (IG). Training remains important, however it is perceived as less effective without proper guidance and supervision. On-going formal training is also popular but may not be practical for a large group. Rotations and placements into other IG Inspectorates are less popular (although there is room for interpretation on whether the staff understood this question).

A summary of the key findings from the baseline study reveals:

- An on-going reform process in terms of recruitment (both in age and academic background).
- Traditional training programs (formal class structures) need to be combined with mentoring and support, particularly to the young professionals.
- Staff have a good understanding of audit, procurement and anti-corruption but have limited opportunities to apply it.
- Major structural issues at the management levels in terms of suitable audit training and background, engagement, support, management and supervision.
- Need for Inspectors to become more involved in the planning, design, implementation, training and mentoring and management of the audit processes.
- Demand for clear job descriptions and clear lines of responsibility and accountability across management positions.

Although the baseline report is not an evaluation, there are some recommendations moving forward to enhance the activity. These include the need to:

- Complete an organisational baseline study identify enabling and external factors influencing outcomes and results covered in this current study (part of Internal Audit Capability Model (IACM) and should be addressed in the Action Plan by the Lead Consultant).
- Meet with IG to reinforce the strategic direction of the program, expectations around IG/Inspectors involvement and priority areas for training.
- Undertake a mid-impact assessment after 12-months to track progress and progression towards activity outcomes. Another study should be undertaken in 24months' time as well.

CHAPTER 1: INTRODUCTION

The M&E strategy and plan for IndII Phase II emphasises an enhanced focus on the collection, use and application of baseline data. The utilisation of this information is an important feature of the M&E cycle and plays an important role in providing evidence of change and demonstrating results against agreed outcomes.

IndII Activity P243-02: Governance Reform in Internal Audit Function (IG-MPW) is a strategic, long-term and high profile engagement between the Governments of Indonesia and Australia and represents a significant step towards improving governance, oversight, accountability and transparency within the Ministry of Public Works (MPW) and to train a cadre of internal auditing professionals for long-term sustainability.

The baseline study for the Activity was completed in April 2012 supported by the IndlI M&E Team. The Activity has been funded intermittently over a three-year period. In the current implementation phase, the focus is on strengthening management structures, enhanced internal auditing practices, procurement and anti-corruption. The IndlI M&E team decided to capture relevant information to assist with future evaluations.

The baseline study involved 124 (out if 175) auditors in MPW and was completed in one session on 24 April 2012. A data collection tool was prepared and discussed with IndII and MPW representatives and signed off and approved for use by the MPW Inspector General (IG).

The objective of the study was to collect and analyse information relating to audit management efficiency and oversight; practice of internal auditing; procurement and anti-corruption functions; and their understanding and application. Specifically, the baseline study sought to:

- Identify current levels of understanding and capacity of audit practices
- Assess capacity to implement appropriate procurement and procurement auditing practices and adherence to agreed processes
- Assess current levels of understanding on the issue of corruption and appropriate anti-corruption measures

The following sections present the baseline methodology and key findings from the survey.

CHAPTER 2: APPROACH AND METHODOLOGY

The IndII M&E team used a quantitative survey form to complete the survey. A copy of the survey is included as Annex 1.

The M&E team also decided that it would be more effective to survey all the current professional staff working within the unit rather than undertake a random sample. This approach was decided based on the fact that since the total population size was still relatively small (124 people), a sample may not be representative enough of the entire group; and finally there was a willingness to have everyone involved.

The survey was completed at the MPW office on 24 April 2012. The survey was anonymous but an attendance sheet was used to ensure that all staff members available were covered by the survey (and that the same pool of staff would be followed up for future evaluation studies to ensure consistency).

The results of the survey were aggregated and fed into a database developed by the IndII M&E team. Data entry and processing took approximately one month. An excel spreadsheet was used to store the information as the survey had been coded prior to use. The data was checked and cleaned during the entry process as well.

This report is not an analytical report and therefore efforts will not be made to analyse and interpret findings in detail. However, there is an element of analysis provided in the interpretation of the data and consultations have been held with the IndII consultants to verify findings. The analysis is supported through the use and application of graphs and data tables. The raw data is included as a separate file and is accessible through the IndII M&E Team.

The following sections provide an outline of the key findings and issues for consideration.

CHAPTER 3: KEY FINDINGS FROM THE BASELINE DATA

A total of 124 auditors (51 percent male and 49 percent female) out of a total of 175, participated in the baseline survey. A total of 80 percent of all respondents nominated themselves as fulltime civil servants with 20 percent defining themselves as key auditors and technical specialists.

The survey was divided into three main sections:

- Knowledge of current audit practices, including a broad inquiry on the IACM
- Current levels of procurement auditing (at IG) and procurement capacity (at MPW management levels)
- Perceptions of corruption levels and anti-corruption strategies

The data also revealed a relatively new workforce with 55 percent of staff (mainly recent graduates straight out of learning institutions) having worked with the IG-MPW for less than two years. This is a very interesting finding and it did have an adverse impact on the overall findings in that it skewed a number of results towards the average field and in some cases pulled results down since respondents did not have the level, understanding, or capacity to make definitive judgements on some questions. Interestingly, 22 percent of respondents have been with IG-MPW for over 10-20 years.

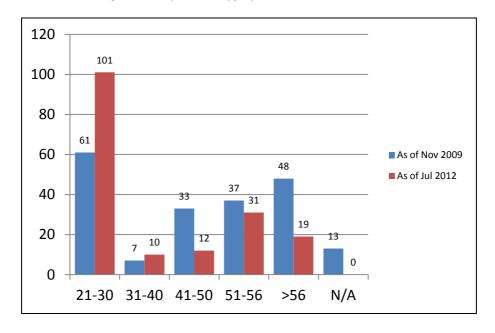


Figure 1: Composition obyge (professional staff) 2009-2012

The age aspect is important; as it has some potential impacts (including on training and mentoring) on the IG moving forward. Historically, the IG has maintained an older and

experienced workforce with the majority of them trained as engineers and effectively few with a background in finance or management. With recent reforms and focus there has been a greater push towards hiring younger graduates and professionals with a financial and IT background. This will have positive impacts moving forward in terms of developing a team of skilled and qualified auditors; however they will require assistance and guidance by appropriately qualified mentors in the next five to ten years. The focus of the program is attempting to align itself to this change in age structure and recognition that financial auditing skills at present is weaker than desirable.

3.1 KNOWLEDGE OF CURRENT INTERNAL AUDIT PRACTICES

Results from the baseline study indicated that current levels of understanding about the Internal Audit Capacity Building Model (IACM) were average. Results were anticipated to be higher due to several awareness raising sessions during the first phase of the activity. No one indicated they had a good to excellent understanding of the IACM. In discussing the findings with IndII consultants it is clear that only Inspectors and other senior staff attended the annual APIP (Government Internal Auditors) conference on IACM. The intention was for the senior staff to return to IG to discuss the BPKP Findings on IACM and generally discuss with other auditors and junior staff what IACM is and how it affects IG operations and capabilities. It is clear from the results that this has not occurred and understanding remains limited. Figure 2 outlines the results.

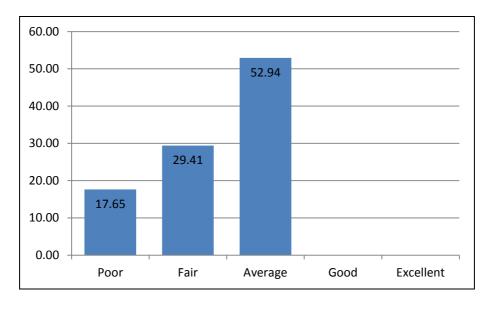


Figure 2: Current Level of Understanding - IACM

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¹ It is acknowledged that the reform to shift towards a younger professional group was initiated under an early stage of Indi assistance.

In light of the lack of discussions it was not surprising that most respondents did not have an awareness or knowledge of the IACM Model. However there may have been some confusion or lack of clarity around the question but in any event, the M&E team assumed all auditors would be familiar with the standard and have a basic level of knowledge and understanding. In addition the larger number of recent graduates who have not been made familiar with the standard may have skewed the result. The finding contradicted with the results from Figure 2 above to some degree in that those respondents indicated they had an average understanding of the standard. The results provide further evidence that the planned awareness raising by Inspectors has not been occurring.

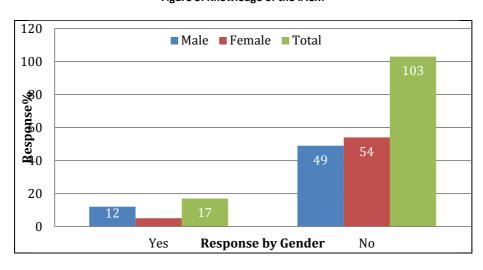


Figure 3: Knowledge of the IACM

BPKP seeks to implement *Inpres 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. To start the process, it carried out an assessment survey of the strengths and weaknesses of all GoI IGs using the Internal Audit Capability Model (IACM) developed by The Institute of Internal Auditors (IIA) -the international standard and benchmark to gauge internal audit capability. Of the total number (584) of IGs in government surveyed, 281 (48 percent) responded.

Of those who responded, 262 (93.24 percent) are still at Level 1 (no sustainable, repeatable capabilities; dependent upon individual efforts); and 19 (6.76 percent)³ are at Level 2 (sustainable and repeatable IA practices and procedures). IACM mapping provides for five progressive modules of competency; no IGs were above Level 2. Thus MPW IG has to improve by at least two more modules to be considered fully competent (Level 5 is *aspirational*). This Activity will support the IG to move from Level 2 to Level 3. The information was shared by BPKP at a conference of all internal auditors held in Bandung in November 2010. The Questionnaire was designed to gauge the knowledge of staff on IACM given management had sufficient time to 'educate'

staff on what IACM is and how it will affect the IG in this new Activity. (IACM addresses capacity and structural issues, whereas RBIA addresses *how* audits are conducted more efficiently).

Despite these results there is a general awareness of the IGs current level on the IACM scale. This also adds some confusion to the earlier findings and reveals that there may have been a misunderstanding around the question. A total of 59% of respondents are aware of the IG's current IACM score. However consultations with the IndII consultants revealed that there might have been informal discussions around the IGs level on the IACM scale, but certainly no detailed discussions or training in IACM and its applicability to IG operations. This is a contributing reason to explain the result as the information has been passed on. Figure 4 presents the results.

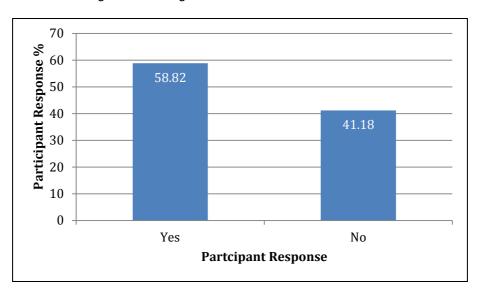


Figure 4: Knowledge of current level of IG on the IACM Scale

A key component of the training during IndII Phase I has been around training in the fundamentals of internal auditing, strengthening the audit process and improving audit practices. This has involved developing more accountable and transparent features and following Risk Based Internal Auditing (RBIA) and appropriate auditing standards for completing audits. A desired outcome of the approach is that standardised practices are adopted against recently developed guidelines. It is clear from the data that auditing staff have an above average understanding of the work processes required to conduct an audit. A total of 81 percent of respondents indicated an average-good range. Table 1 provides a breakdown of the results.

Table 1: Level of understanding on the workflow for conducting an audit

Criteria	Percentage	Frequency (number of same responses)
Poor	1.68	2

Criteria	Percentage	Frequency (number of same responses)
Fair	15.13	18
Average	44.54	53
Good	36.13	43
Excellent	2.52	3
Total	100.00	119

The results reveal an interesting mix of recent graduates with formal qualifications and knowledge combining with long-term civil servants and staff who may lack formal qualifications but have significant experience in the IG Operations.

Following on from the above average ability to understand the workflow for conducting an audit, auditors are clearly able to articulate the steps of the audit process. This result can also be attributed to the work of the Activity through IndII Phase I with a strong focus on training, support and articulation of key auditing steps. The respondents were not asked to name the steps (as it is assumed this knowledge has been provided through formal study and on the job training) however it is implied that auditors are aware of the key steps. Figure 5 provides a breakdown by response and gender.

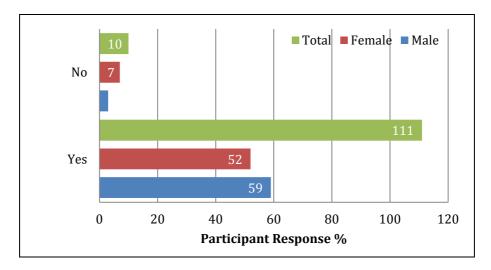


Figure 5: Able to Name Steps in the Audit Process

Underpinning this finding is that 76 percent all respondents have a copy of the Audit Standards containing the steps in the audit process. A strategy in moving forward is to

ensure that all auditors have a copy of the standard and are fully cognisant of the requirements and applicability to their work.

In applying the standards, the auditors were asked which standards and regulations they were aware of and have used in the course of their work. Figure 5, presents a list of relevant standards and regulations and the total numbers of people who have used them.

The results highlight a good understanding of MPW Decrees and the roles and functions of BPKP in supporting the work of the IG. This is understandable given the focus of training and awareness in Phase I on internal decree and the regulations of the main GoI internal auditing body. Awareness of broader, more national and international regulations and decrees are less understood. This can be attributed to not having a formal focus towards training, however assumed reasonable assumption is that auditors would have a higher understanding of other decrees and regulations related to auditing. Moving forward, further awareness raising can be included as part of on-going training and mentoring.

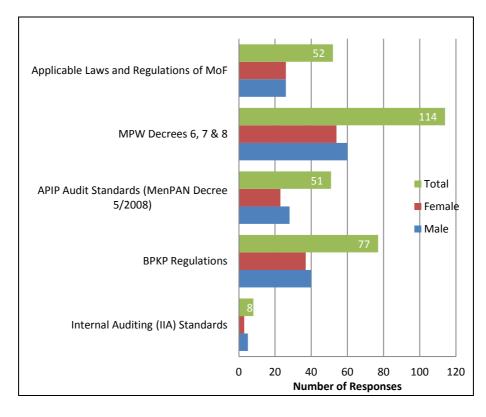


Figure 6: Awareness and Use of Audit Standards and Regulations

There is a general confidence across the sample group in applying audit standards. A total of 56 percent of respondents indicated an average level of confidence in applying the standards. This figure is expected to rise through IndII Phase II as more training and support is provided.

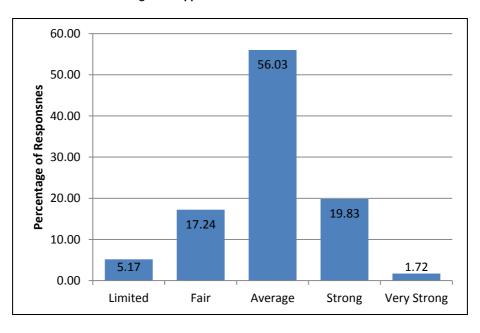


Figure 7: Application of the Audit Standards

The average application of the standards is not evenly matched with the level of training provided to participants over the past two years. According to the survey 77% of staff indicated they have received some level of training in the past two years. In theory this should have led to a greater application of the standards (Figure 6) in the day-to-day conduct of audits. The reasons for the disconnect were not elicited by the questions in this section, but it is clear based on evidence from other sources that IG Inspectors do not play a leadership role or provide sufficient guidance / mentoring or demand that auditing standards (including RBIA) are applied. The application of mentoring, training and support will be a key focus of future evaluations. Table 2 provides a breakdown of the results

Table 2: Training in the use and application of these standards

Criteria	Yes	No	Total
Male	48	15	63
Female	46	13	59
Total	94	28	122

A key feature of the support provided through IndII Phase I has been a central focus on promoting the concept of Risk-Based Internal Audit (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, unit activities to be audited are subject to different risks, and 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

Despite the focus of work on applying RBIA to the IG the general level of understanding appears to be less than what should ideally be expected. There appear to be several reasons for this, including:

- Large intake of recent graduates in the past 12-months, who have not been trained/exposed to RBIA
- Turnover of staff and retirement of senior civil servants (three out of five are new Inspectors who have not received RBIA training)
- General lack of institutionalisation in the approach to training (i.e. standardised training for all staffs and limited longer-term career planning)

Whatever the reason(s), there is an expectation from the M&E team that the results for understanding of RBIA should be higher than average. The IndII audit team clarified that, the RBIA program was in effect through Stages 1 and 2 (with IndII consultant oversight) but with the turnover at the Inspectors levels (and as Ses Itjen), the focus was dropped. The concept was introduced but due to a range of management decisions and priorities it was not effectively followed up and institutionalised. Therefore not all auditors had an opportunity to participate in the training. This lack of follow through underpins the need for fundamental changes in management structure and operations strategy, which will be addressed under Pillar 1 of the new program (IACM). In particular Human Resources support is at a very elementary level and not up to the requirements of a unit with staff totalling more than 200, of whom 175 are professional that requires longer-term planning in recruitment, training, and career development.

At present only 42 percent of participants indicate an average understanding. Another 40 percent only rate themselves as having a Fair-Limited understanding of RBIA. The IACM exercise will be very important in progressing the process forward since fundamental changes in management is needed to address these issues.

To understand the results, the M&E sought further clarification from the consulting team. It appears that understanding is limited for the following reasons:

 A resistance of senior staff and Inspectors to attend formalised training (thus not setting an example for other staff; or having the ability to insist on implementing new standards such as RBIA)

- A lack of a training program which includes reinforcements of audit technical knowledge periodically (there have been no repeat programs (except those conducted by IndII in Phase 1)
- A reluctance to ensure all new staff (including Inspectors) attend the basic internal auditing training provided though BKPK (which is a requirement)
- Inattention to instituting a regularised, planned training program for all new staff (45 percent of staff have been with the IG for less than 2 years
- A formalised and rigid management structure that does not accommodate structured training

In light of these findings, it appears necessary to adjust the training program in Phase II to accommodate the increased intake of new graduates or to identify key auditors who would benefit most from direct and targeted training at this level. Any further decisions should only be considered following consultation with the IG and his team. The change in focus needs also to be complemented by a renewed effort to have Inspectors fully involved and to support on-going training and mentoring.

Further consultations are required to discuss the general inertia and structural issues at the senior management level that currently inhibit understanding and application of audit standards. This process will require sensitivity and strong consultation and engagement. The answer to all these impediments lies in the successful implementation of the IACM exercise that addresses both structure and sustained longer-term planning of training. IACM is part of this activity.

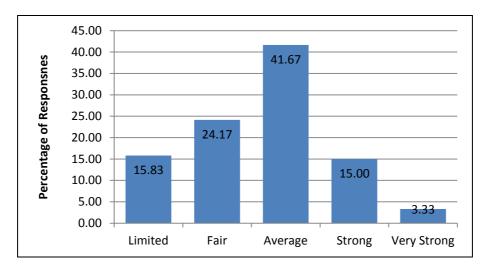


Figure 8: Level of Understanding of RBIA

In light of the results presented in Figure 8, Table 3 highlights that 72 percent of respondents have applied RBIA in their work. This result, prima farcie, appears to be in direct conflict with the results above. It is unclear at this stage if respondents believe their understanding is low due to the quality, frequency or applicability of training or if they underestimate so as to increase the likelihood of more resources and training.

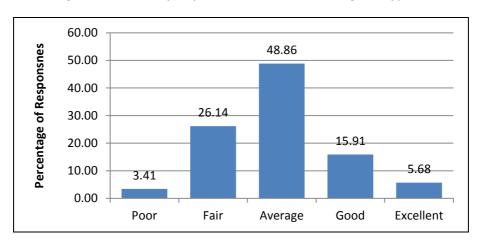
Training has been provided; however it is clear that many staff that initially participated are no longer with the IG-MPW or are recent new graduates who have not actually participated in any formal training through IG-MPW.

Table 3: Application of RBIA to work functions

Criteria	Yes	No	Total
Male	52	11	63
Female	36	23	59
Total	88	34	122

The heightened application unfortunately has not translated into perceptions of improved audits. A total of 75 percent of auditors still only rate audits being conducted at a fair-average range (Figure 9). Timing is an issue and a long-term view is required to assess progress, understanding and application. Application is a challenge given the range of audits (technical/financial), new staff and structure has changed – sectoral expertise rather than a regional focus. There is greater scope for improvement based on the level of investment and training.

Figure 9: What is the quality of Audit after the RBIA training and support?



In trying to explain why RBIA has not been applied as highly as expected, the IndII M&E team attempted to identify the major barriers to implementation by asking the survey participants a direct question.

The major barriers to using RBIA as an audit are not entirely surprising; however two features do stand out that require comment. The results indicate that a resistance by superiors and team leaders to implement (11 percent) and no requirement by management to implement (15 percent) act as impediments. These responses represent nearly one-quarter of the total response rate.

In seeking further clarification, the M&E team believes that a major cause of lack of implementation is a direct result of the inability to institutionalise the training program and to have the Inspector level accept management responsibility for driving the program forward. Support to date appears to lie with a few individuals who are willing to see the program succeed. However the evidence presented here from the surveys reveal management barriers to implementation, a general lack of willingness and support and an inability to plan effectively for audits.

The institutional baseline study proposed will present more data and information related to the institutional framework and management structures that exist. Evidence from the results in this survey reveals that auditors believe they are not supported by their management and there is inconsistency in the approach. A possible revision to management systems and structures may be required (this will be addressed under Pillar 1 (IACM). Figure 10 presents a breakdown of the results.

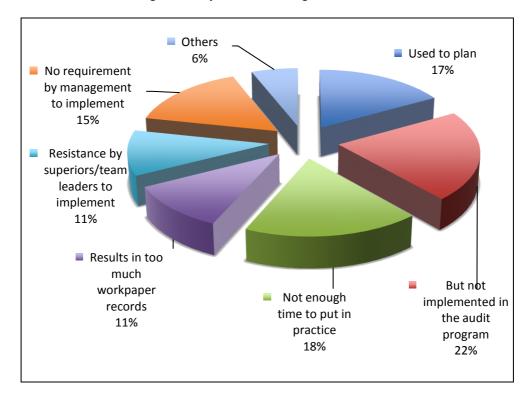


Figure 10: Major barriers to using RBIA in an Audit

The timeliness issue (18 percent) is expected given that part of the capacity development process is to highlight the need to more preparation and implementation time for audits and to ensure audits are planned and scheduled well in advance. This point highlights a need for on-going training and support to ensure a fewer number of quality audits are completed rather than the on-going 'scattered' approach whereby audits are completed but are insufficient in terms of rigour and approach.

Overall it is clear that the RBIA process has not been fully institutionalised by the IG-MPW and additional work and support is required to identify a suitable training program and methodology that meets the requirements and expectations of the IG. Barriers remain in the implementation of effective audit. As a comparison it is not surprising that the IG is struggling in its RBIA implementation. It took the Ministry of Finance (MoF) more than three years to be comfortable that RBIA was institutionalised. For the MoF, RBIA was delivered in a more structured manner and staff generally was of higher professional and academic standards when compared to other Ministries. Also, MoF is more "homogeneous" as it deals totally in finance whereas IG MPW has to audit but financial as well as 'technical' matters.

3.2 PROCUREMENT CAPACITY

Procurement is a new focus of the current phase of the Activity. Procurement was included at the request of the IG (and also as a reaction to a request from KPK for IGs to be more involved in Procurement auditing and oversight — a shift from simply prosecutions by KPK) to strengthen the process of procurement generally and to introduce better and more focused procurement auditing and related oversight.

The focus of the procurement component under the current phase of the Activity is to strengthen both procurement processes at the operating levels in MPW and the procurement auditing (more and better) at IG. Currently, the IG uses Perpres 54 as the guideline in conducting procurement auditing. Prepares 54 does not conform to international procurement standards. There is growing recognition of this within LKPP, which sets the standard on procurements in GoI. The process of upgrading PP 54 to international standards has commenced but is a time consuming process — both politically and in getting the required law out. Accordingly, there will remain an inherent 'grey' area in the application of good procurement practice and good procurement auditing (because IGs traditionally only do what is required by the laws, rather than embracing more modern techniques).

Under a separate exercise, LKPP and BPKP retained the Team Leader and the national procurement specialist under this Activity, to upgrade the Procurement Auditing Guidelines to international standards. These Guidelines have been accepted in principle by LKPP and BPKP and it is envisaged that in time these Guidelines will be recognised as a national standard. The Guidelines will be Pilot Tested in this Activity with the aim of upgrading procurement auditing skills.

Figure 10 is an initial assessment of current levels of understanding of procurement rules and regulations and laws. At present 52 percent of respondents indicated they had an 'average' level of understanding with a further 28 percent indicating a good level. It can be assumed that most of the respondents have an understanding of *Perpres 54* and its application.

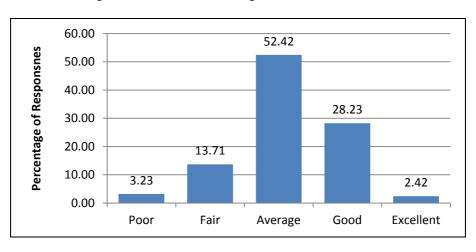


Figure 11: Current Understanding of Procurement Processes

There is also an awareness of the key stages of procurement that provides a solid base for further support. Table 4 presents the data.

Criteria Percentage **Frequency** From tender announcement - asset hand over 30% 36 From needs assessment - asset hand over 36% 45 From needs assessment - end of asset's life 28% 34 None of the options 6% 8 Total 100% 123

Table 4: Level of understanding of stages

As already indicated a key feature for further training is support to increase the awareness and application of international procurement standards. The baseline reveals findings endorsing the need for training with only 0.03 percent of respondents indicating their awareness of international standards (this is not unusual as presently LKPP itself has not updated Perpres 54 to international standards).

The focus moving forward will be not only on to increase awareness and understanding but also to step up both the number and the quality of procurement audits conducted with usage of RBIA principles and international standards. This will be routinely monitored and evaluated over the life of the Activity.

Table 5: Awareness of International Benchmarks

Criteria	Yes	No	Total
Male	4	58	62
Female	0	58	58
Total	4	116	120

Respondents' perceptions of their own capacity in procurement is consistently average without much deviation offair or strong. It is anticipated that results will improve as the training program is delivered. Evidence of application to audits will also be assessed.

70 61 60 **Percentage of Respondents** 50 40 27 27 30 20 10 Limited Fair Average Strong Very Strong

Figure 12: Perception of Procurement Capacity in MPW (at Management levels)

3.3 ANTICORRUPTION

The third element of the study centred on corruption issues. Corruption and perceptions of corruption are major issues within GoI in matters relating to procurements, and in this regard MPW is no exception due to the huge amounts involved (MPW Budget is \$A6.7 billion), the nature and type of work under its portfolio and its diversified responsibilities. Anti-corruption measures are an integral part of the IG's effort to reduce the incidence of corrupt practices and to strengthen audit practices to ensure anti-corruption measures and policies are in place, clearly understood and consistently applied.

MPW has established a *Free from Corruption Zone* Decree that is currently applied to all functions. A total of 55 per cent of respondents indicated an average understanding of the decree. Figure 13 provides a breakdown of all the results.

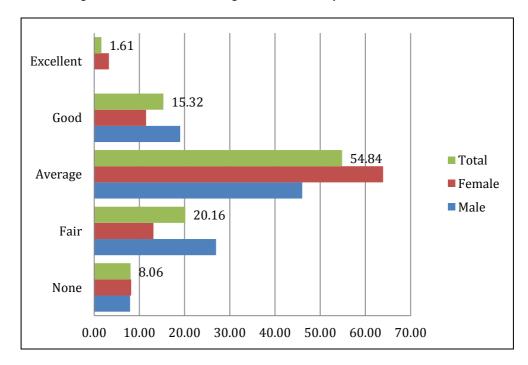


Figure 13: Current understanding of Free from Corruption Zone - MPW Decree

Perceptions of the decree being implemented by senior echelons in the IG are a little underwhelming. For such an important decree and the level of importance placed upon it by the IG, there is an expectation that it is widely used and applied.

Figures 14 and 15 provide evidence from respondents on their perceptions of how the Decree is being applied at the IG and DG (i.e. the MPW Management) levels. Whilst the IG scores are generally average (52 percent) trending to fair (22 percent), perception of the DG's are more significantly weak.

While there is no one individual reason to explain the situation it does highlight and support a consistent theme of a perception that senior leadership and echelons do not adequately support or follow the Decrees, standards and processes. In discussing results with IndII consultants it is clear that this situation is not limited to the IG but is agency wide. This is a management issue that needs to be discussed, as it appears to inhibit understanding and slow progress towards IG-MPW and IndII outcomes.

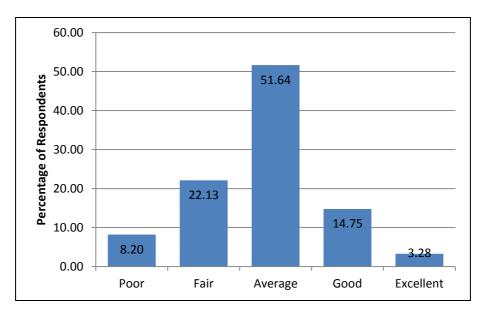
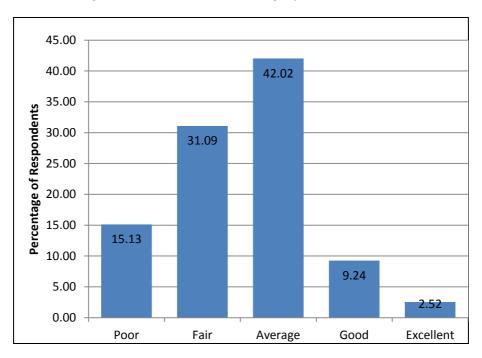


Figure 14: How well is the decree being implemented - IG level





Qualitative results from the survey responding to ways the IG, Inspectors and other management figures generally could enhance procurement capacity building were quite insightful. A summary of the key themes and issues that emerged are presented below:

- Inspectors are not, but should get involved in the audit process in a more constructive and consistent manner.
- Inspectors should monitor the audit process more closely and also address incidences of corruption and nepotism and coordinate punishments accordingly.
- Management should be more approachable and consultative and allow auditors to ask questions and seek input.
- More evaluations and reviews (of audit results and practices) should be completed by the IG/DG (including Inspectors).

The findings are not meant to apportion blame or identify individuals. The results were read as general comments for 'management' to consider and apply. The IndII M&E team are of the view that the findings are consistent with the statistical data presented throughout this report and support the analysis provided.

Aside from the perceptions of senior management, there is a strong awareness of the Code of Ethics document for IG-MPW. It is noted that there is a general Code of Ethics for MPW but is not widely utilised or presented at formal training events. Close to all respondents are aware of the IG-MPW Code's existence (95 percent) and have read it (90 percent).

Table 6: Aware that the IG-MPW has a Code of Ethics?

Criteria	Yes	No	Total
Male	61	2	63
Female	57	4	61
Total	118	6	124

Table 7: Have you read the IG-MPW Code of Ethics?

Criteria	Yes	No	Total
Male	54	6	60
Female	51	6	57
Total	105	12	117

Perceptions of implementation of the standards trend in a positive direction. There is scope for improvement and this is expected as training and support is provided around corruption measures. Figure 16 provides an overview of results from the study.

70.00 57.94 60.00 **Percentage of Respondents** 50.00 40.0030.00 21.50 20.00 14.02 10.00 3.74 2.80 0.00 Poor Fair Average Good Excellent

Figure 16: How is the Code of Ethics being implemented?

In consulting with the IG in the design of the baseline study it is evident that Conflict of interest situations are a real and current issue facing staff. The results, as indicated in Figure 17, reveal that 52 per cent of all people surveyed (65 people) do not know the formal steps to address conflict of interest events.

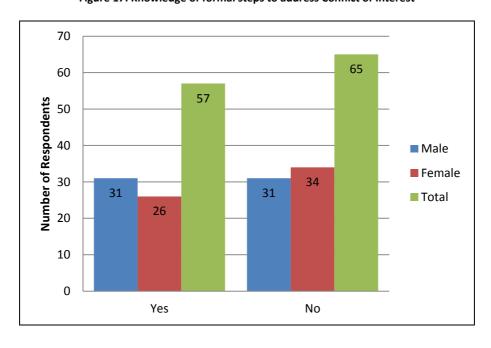


Figure 17: Knowledge of formal steps to address Conflict of Interest

CHAPTER 4: FUTURE DIRECTIONS

In developing the baseline and establishing a range of results for future comparison it was pertinent to ask respondents to identify future priorities based on their own needs and expectations and what support they require to develop professionally in their roles as part of this activity. The following graphs provide some indication of the priority placed upon key support areas. Respondents were asked to rank capacity building initiatives by indicating what priority they placed upon each choice.

The results revealed some interesting insights. Obviously formal training and study were ranked highly. Of note was the positive response towards more mentoring, as this hadn't been discussed with staff during earlier consultations. This can be directly attributable to a younger group of people now working in the Unit but also highlights a need for the IG to recognise that a change in strategy is required to support the professional development of young auditors.

The option involving the rotation of staff within the five units of IG operations (headed by five Inspectors) was expected to generate some interest as a viable supplement to formal training. The results indicated a fairly flat response when it was anticipated that results would be higher (thus raising a question on whether the staff understand the intent of the question). It may be a result of the structure of the question or a general unwillingness (by the younger respondents) to transfer or rotate at an early stage of their career.

Ultimately the decision around finding and supporting initiatives will rest with the IG. The information and data presented in the following tables will hopefully highlight key areas and priorities that are of importance to all staff.

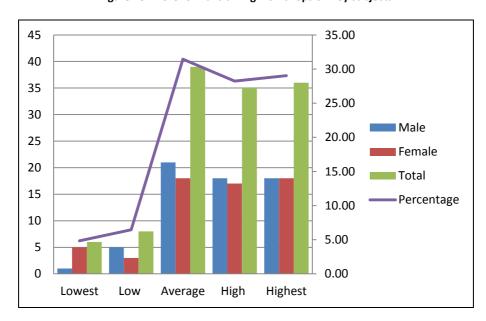
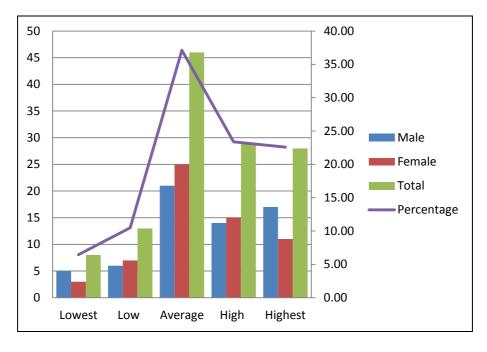


Figure 18: More formal training workshops on key subjects

50 45.00 45 40.00 40 35.00 35 30.00 Male 30 25.00 Female 25 20.00 Total 20 15.00 Percentage 15 10.00 10 5 5.00 0 0.00 Highest Lowest Low Average High

Figure 19: More Mentoring and Direct Supervision





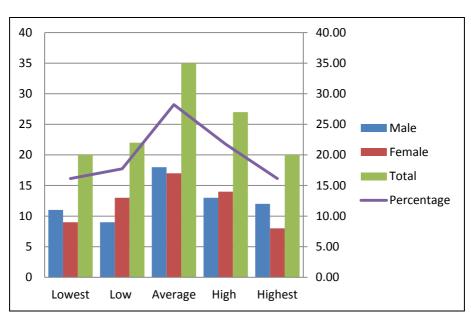
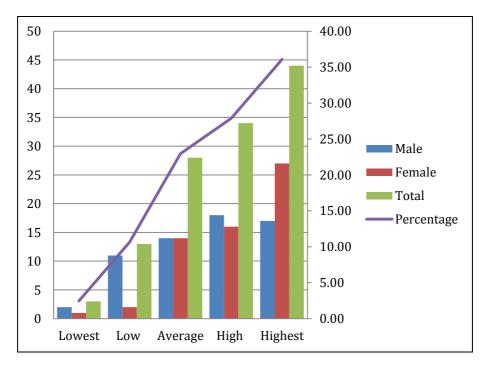


Figure 21: Rotations within the IGs





Qualitative feedback from the survey indicates a number of suggestions on how to strengthen audit and procurement functions moving forward. Key themes that have emerged include:

- Greater opportunities to share knowledge through more staff meetings, supported by IT web page, routine training and capacity building.
- More focus on the understanding, implementation, and management of ethical and international standards relevant to the sector.
- Increase the level and frequency of field supervision by 'hands-on' training and mentoring to build experience and complement theoretical understanding. (In Phase 2, there is a budget for a full-time complement of one international and two national consultants to do this for both general auditing and procurement auditing practices).
- Strengthen Information Technology capacity and equipment to support audit and technical knowledge functions.
- Have the Inspectors become more involved in the planning, design, implementation, and management of the audit and procurement process.

The findings presented above were not individual perceptions but rather the key issues that were mentioned on a consistent basis. They do not reflect a particular individual or perception.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 CONCLUSIONS

The baseline study was a very useful process as it was the first attempt to capture 'at a point in time' the current levels of understanding, awareness and application of a number of key IG functions. The focus on audit, procurement, and anti-corruption underpin the strategic direction of the IndII funded activity for the next two years. The results reinforce the structure and focus of the activity outlined in the design and provides supporting evidence highlighting the need for on-going assistance in key strategic areas. The information and raw data will be used as a 'base' for future impact studies.

In reviewing the data and analysing results, some key conclusions can be drawn:

- The IG is going through a reform process in terms of its recruitment with a greater focus on young professionals with degrees in finance (which addresses a mandate that the IG did not fulfill in the past).
- Traditional large-scale/large group training programs and approaches must be combined with mentoring and supervision to support all staff but more particularly this younger team.
- People generally have a good understanding of audit, procurement and anticorruption measures; however levels of application and use are lower (due to impediments at the management structural levels).
- Limited understanding of laws and decrees that govern IG MPW responsibilities and knowledge of relevant international standards.
- Good understanding of ethics and anti-corruption measures but limited ability to apply.
- Evidence suggests major structural issues at the IG operations and oversight levels in terms of engagement, support, management and supervision (hence the importance of the IACM exercise).
- Management is the greatest barrier and inhibitor to the effective implementation
 of the audit program. A serious issue is the disconnect in the quality of Inspector
 recruitment which does not align with professional audit requirements and
 capability.
- There is a real need for senior management, particularly Inspectors to become leaders who are more involved in the planning, design, implementation and management of audit process (mentoring role), and running the department.
- There needs to be clearer job descriptions and responsibility/accountability at the Inspector as well as DG and IG levels; also a clarification of the roles and authority of DG and the delegation and accountability between the IG and DG.

The introduction of a combined training and mentoring program (as part of this activity) is a positive mix moving forward. Traditional training approaches such as formal/class style sessions are not effective in isolation and need to be supported by a mentor or manager approach.

The training to date has been well received and has obviously established a base to support audit functions. However with the transition in recruitment and the engagement of a much younger group of auditors, there is a need to redefine the training program and to tailor it to a younger group, which involves shorter sessions, field based and practical examples, and a concentration on mentoring and case studies. Training at all levels needs to be institutionalised and discipline introduced at the Management levels to implement what is being taught (Management cannot discipline implementation if they themselves do not learn the required professional dictum).

For the activity as a whole all training should be more practically focused. The results from the survey do indicate a good understanding of concepts but often do not correspond into good practice (this is as much a Management issue – see comments above). This can be addressed through a targeted and relevant training program on key aspects of the audit process.

In terms of management there are a number of issues that need to be resolved. From the evidence it is clear that staff have a generally good understanding of audit, procurement and anti-corruption. However the quantitative and qualitative results suggest that management is not engaged sufficiently or do not lead by example. More concerning is that management appear to show no interest in the application of RBIA and either resist or do not require staff to use the method.

In suggesting ways to improve IG operations, staff indicated in the interviews the following three key issues: a greater focus of management to share knowledge and experience; increasing the role of the Inspectors in the audit process; and more regular monitoring and support from senior staff. It is recommended that the IndII Audit Team and the IG discuss strategies on how best to promote better and more proactive engagement by Inspectors (and management) with staff. Both the IACM exercise supported by Change Management strategies (which are included in IndII support on this activity) will play an important role.

Procurement capacity remains quite weak but, like training, requires suitable practical examples to support technical understanding and knowledge. The application of international standards is a critical component of the approach and will form a focus of training and support.

Anti-corruption measures are understood and there is a demand to apply to MPW work. This is another example where the interest and understanding is there but the application is not as strong. It is evident that management is not setting a clear example and demonstrating effective leadership in this regard and this is an element to be addressed in coming implementation period.

5.2 RECOMMENDATIONS

Although this is a baseline study representing data and information at a given point in time, it does present an opportunity to recommend some strategic courses of action for consideration. In progressing the Audit and Procurement Activity forward the following recommendations are made:

- Complete organisational baseline study identify enabling and external factors influencing outcomes and results covered in this current study (part of IACM and should be addressed in the Action Plan by the Lead Consultant).
- Meet with IG to reinforce the strategic direction of the program, expectations around IG/Inspectors involvement and priority areas for training.
- Undertake a mid-impact assessment after 12-months to track progress and progression towards activity outcomes. Another study should be undertaken in 24months' time as well.

ANNEXES

ANNEXE 1: MPW INTERNAL AUDIT CAPACITY BUILDING PROGRAM - BASELINE QUESTIONNAIRE

INTERNAL AUDIT CAPACITY BUILDING
PROGRAM
BASELINE SURVEY

CONFIDENTIAL

QUESTIONNAIRE FOR INTERNAL AUDIT CAPACITY BUILDING PROGRAM

KNOWLEDGE, ATTITUDE AND PRACTICE (KAP) SURVEY FOR TRAINING PARTICIPANT

CONSENT STATEMENT

Dear Respondent,

The Activity Supporting Governance Reforms in Internal Audit Function is an initiative funded under the Indonesia Infrastructure Initiative (IndII) with funding support from the Australian Government through the Australian Agency for International Development (AusAID). This Activity is expected to be in place for at least two years.

The purpose of the Activity is to strengthen audit functions and responses that lead to better audit outcomes and overall productivity of the Inspectorate General. The Activity will support improvements at both the institutional level (i.e. IG Operations and Management) as well as training and capacity programs for individual auditors to help them fulfil their roles more productively. The Activity will also have a program of assistance to MPW DGs to upgrade their internal control processes and procedures generally but with a focus in selected areas such as Procurements and Probity, and Anti-Corruption Environment.

The task of Monitoring and Evaluations (M&E) is to assess the impact and changes AusAID assistance has made to IG Operations and productivity. M&E also is a good tool to guide improvements in specific areas of the Activity as it progresses, especially in training and development.

To assist in the *measurement* of future impacts and changes it is important to collect some initial baseline data so future comparisons can be made.

The attached document is a simple survey that asks a series of questions related to key areas that will be covered in future training. As a participant in future training programs it is important that we get a sense of your current understanding and knowledge of key subject areas, and also your ideas where training can be improved by better targeting and focus. Please provide an answer for all questions (unless otherwise instructed in the questionnaire).

It is critical that you understand that this is NOT A TEST OR EXAM. You are NOT being assessed on your personal ability or education level. The surveys are anonymous and all results will be aggregated together and the information will be confidential to IndII M&E only. IG Management will NOT have access to individual names or answers. Your career will not be affected because of the answers you provide.

We invite you to complete the survey and provide honest and insightful comments. The results will also help us in designing a better focused and targeted training and capacity building program over the next few years.

We greatly appreciate your participation and support.

If you have any additional comments or questions please do not hesitate to contact the IndII M&E Specialist:

Ty Morrissey | Monitoring and Evaluation Specialist **Indonesia Infrastructure Initiative (IndII) Facility** Ratu Plaza Office Tower, 20th Floor

Jl. Jenderal Sudirman No.9, Jakarta 10270, Indonesia

Mobile: (+62) 0821 11 497 930 Mobile Aust: (+61) 0411 11 3529 Email: morrissey@iimetro.com.au

Website: www.indii.co.id

Indll M&E Team

April 2012

Instruction: Please circle the appropriate answer or fill in the blank for the following questions:

NERAL DETAILS							
What is your gender? 1. Male 2. Female							
What is your current employment grade?							
As civil servant (Probation)							
2. As civil servant (Fulltime)							
As auditor or technical functional							
How long have you worked for the Inspectorate General?							
Do you know what the Internal Audit Capability Model (IACM) is?							
1. Yes → Proceed to A.05							
2. No → Proceed to Section B							
a. What is your current level of understanding of IACM?							
1 2 3 4 5							
Poor Excellent							
b. Do you know the current level of the IG-MPW on IACM scale?							
1. Yes, specify the level							
2. No							

B. STRENGTHENING AUDIT CAPACITY									
B.01	What is your lev	el of understa	nding on th	e workflow	for conducting	g an audit?			
	1	2	3	4	5				
	Poor				Excellent				

B.02	1. 2.	ou able to name to Yes, specifyNo Audit Standard is						
B.04	Do you	u have a copy of	the Audit St	andard?				
	1.	Yes		2. No				
B.05	Have y	ou read the Aud	it Standard?)				
	1.	Yes		2. No				
B.06	Which have u	of the following sed?	Audit Stand	ards and Regula	ations are	you awa	are of	or
	a.	The Institute of Standards (the I Practice Framev	nternationa		1.	Yes	2.	No
	b.	BPKP Regulation	ıs		1.	Yes	2.	No
	C.	APIP Audit Stand 5/2008)	1.	Yes	2.	No		
	d.	MPW Decrees 6	,7&8		1.	Yes	2.	No
	e.	Applicable laws	and regulat	ions of MoF	1.	Yes	2.	No
B.07		e Standards and ence in applying		you have nomi	nated, wh	nat is you	ır leve	l of
		1	2	3	4	5		
		Limited	I			Very	y Stroi	ng

B.08	Have you received training past?	g in the use	and applicati	on of the	se standards in the						
	1. Yes										
	2. No → Proceed to	o B.10									
B.09	What training and support have you received? (Please specify)										
	Topic of training	Year		Organised/provided by							
B.10	How well do you understa	and Risk Base	ed Internal A	udit (RBI	A)?						
	1	2	3	4	5						
	Poor				Excellent						
B.11	Have you applied RBIA in	conducting a	an audit?								
	1. Yes										
	2. No → Proceed to	B.13									
B.12	If yes, how effective is RB	IA in doing a	better audit	?							
	1	2	3	4	5						
	Poor				Excellent						
	PLEASE PROCEED TO SECT	TION C									

B.13	If no,	what are the major barriers to implementing	g RBIA in the aud	lit?
	a.	Used to Plan,	1. Yes	2. No
	b.	but not implemented in the audit program	1. Yes	2. No
	c.	Not enough time to put in practice?	1. Yes	2. No
	d.	Results in too much workpaper records?	1. Yes	2. No
	e.	Resistance by superiors/Team Leaders to implement?	1. Yes	2. No
	f.	No requirement by management to implement?	1. Yes	2. No
	g.	Others, specify	1. Yes	2. No
		'		

	OCUREMENT CAPACITY – PROCUREMENT PRACTICES and PROCESSES (not urement Auditing)								
C.01	How well do you understand procurement processes?								
	1 2 3 4 5								
	Poor Excellent								
C.02	What is your level of understanding about procurement? Circle the number that is most appropriate for you								
	From tender announcement – asset hand over								
	2. From needs assessment – asset hand over								
3. From needs assessment – end of asset's life									
	4. None of the above.								
C.03	Are you aware of international benchmarks in procurement?								
	1. Yes → proceed to C.04								
	2. No → Proceed to C.05								

C.04	If yes,	can you please	name three	international	benchma	arks th	at you a	apply?
	1.							
	2.							
	3.							
C.05		n <i>Procurement</i> St rement audits?	andards or	Regulations d	o you use	e wher	n you do)
	a.	Presidential De	cree 54/20:	10	1.	Yes	2.	No
	b.	MPW Decree 0	7/2010		1.	Yes	2.	No
C.1. PF	ROCUR	EMENT AUDITIN	G					
C.1.1	How	well do you unde	rstand prod	curement audi	ting?			
		1	2	3	4		5	
		Poor					Excelle	ent
C.1.2		n <i>Auditing</i> Standarent audits?	ards or Reg	ulations do yo	u use wh	en you	ı do	
	a.	Procurement A Goods and Serv			1.	Yes	2.	No
	b.	MPW Decree 6 Auditing Select	-		1.	Yes	2.	No
C.1.3	In ger	neral, how strong	s is the proc	curement capa	city with	in DGs	operat	ions?
		1	2	3	4		5	
		Limite	d				Very	strong
C.1.4	_	ou suggest areas ity building?	where IG c	an assist DG o	peration	s in pro	ocurem	ent

D. AN	TICORRU	JPTION									
D.01	What is your current understanding of the "Free from Corruption Zone" (Permen PU 21/2008)?										
			1	2	3	4	5				
			None				Excellent				
D.02	How well is MPW Decree 21/2008 Free from Corruption Zone being implemented?										
	a.	In IG									
			1	2	3	4	5				
			Poor				Excellent				
	b.	In DG:	S								
			1	2	3	4	5				
			Poor				Excellent				
D.03	What i		current und	lerstandir	ng of "Good	Governance	" (Permen PU				
			1	2	3	4	5				
			None				Excellent				
D.04	How w	ell is M	PW Decree	44/2007	being imple	mented?					
	a.	In IG									
			1	2	3	4	5				
			Poor				Excellent				
	b.	In DG	S								
			1	2	3	4	5				
			Poor				Excellent				

D.05	Do you know that the IG-MPW has a Code of Ethics (MPW Decree 04/2006) for Auditors?
	1. Yes →Proceed to D.06
	2. No → Proceed to D.09
D.06	If yes, have you read it and or applied it?
	1. Yes →Proceed to D.07
	2. No → Proceed to D.08
D.07	How well is Code of Ethics being implemented?
	1 2 3 4 5
	Poor Excellent
D.08	Have you ever been in a situation that might breach Code of Ethics, conflict of interest?
	1. Yes, specify how did you handle this situation
	Proceed to D.09
	2. No →Proceed to D.09
D.09	If no, are you interested to read a copy of the code of Ethics?
	1. Yes
	2. No
D.10	Do you know the formal steps required to follow if you face questions of independence/conflict of interest?
	1. Yes
	2. No
D.11	Have you ever heard of the program to control illegal gratuity?
	1. Yes
	2. No

E.1	Please indicate what level of priority you place capacity building initiatives(using number 1 as least	•		_		
	More formal training workshops on key subjects	1	2	3	4	5
	More mentoring and direct supervision from senior staffs and Inspectors (including consultants)	1	2	3	4	5
	Establishment of formal procurement and anti-corruption units	1	2	3	4	5
	Rotations within units in IG; units in the Ministry or to other IGs within Gol	1	2	3	4	5
	Formal study (university) in areas relating to audit and procurement	1	2	3	4	5
	Other, specify	1	2	3	4	5
E.2	Any other comments on how to improve auditing	ng and	d procu	remen	t in MP	w?

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