Letter No. CD-197/WB/IC/2016

Mr. Kiazus Ahmad Badaruddin
Chair of the National Executive Board
Asosiasi Auditor Intern Pemerintah Indonesia (AAIPI)
Sekretariat AAIPI Dewan Pengurus Nasional AAIPI Pusat
Gedung BPKP Lt. 11
Jalan Pramuka No. 33
Jakarta 13120, Indonesia

Dear Mr. Badaruddin:

Re: PFM MDTF Grant No. TF0A3211
Strengthening Internal Audit Project
Letter Agreement

In response to the request for financial assistance made on behalf of Asosiasi Auditor Intern Pemerintah Indonesia (AAIPI) ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank"), acting as administrator of grant funds provided by donors ("Donors") under the Support to Public Financial Management and Revenue Administration in Indonesia Trust Fund, proposes to extend to the Recipient for the benefit of the Republic of Indonesia ("Member Country"), a grant in an amount not to exceed six hundred fifty five thousand three hundred and fifty United States Dollars (USD 655,350) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donors. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank's payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donors under the abovementioned trust fund, and the Recipient's right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.
Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

[Signature]
Rodrigo A. Chaves
Country Director, Indonesia

AGREED:
ASOSIASI AUDITOR INTERN PEMERINTAH INDONESIA (AAIPI)

[Signature]
Authorized Representative

Name: KIAJUS Ahmad Badaruddin
Title: Chair of the National Executive Board
Date: Sept 23, 2016

Enclosures:

(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
Article I
Standard Conditions; Definitions


1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement.

(a) “BPKP” or “Badan Pengawasan Keuangan dan Pembangunan” means the Member Country’s agency responsible for finance and development supervision, which is a non-ministerial institution under the President, mandated to be a government internal auditor under the Government Regulation 60 of 2008.

(b) “COSO” or “Committee of Sponsoring Organizations of the Treadway Commission” means a joint initiative organized by five private sector organizations in 1895 to provide thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations.

(c) “Government Regulation” means a regulation of the Member Country’s government.

(d) “Incremental Operating Costs” means the reasonable incremental operating costs under the Project incurred by the Recipient for purposes of Project management, implementation, and monitoring and evaluation, including office supplies and consumables, utilities, bank charges, communications, information and communication campaigns, mass media and printing services, vehicle rental, operation, maintenance, and insurance, office space rental, building and equipment maintenance, travel, lodging, and subsistence allowances, the incremental operating costs of the auditing services for the Project, and salaries of contractual and temporary staff, but excluding salary and salary supplements of staff of the Member Country’s civil service.

(e) “IA-CM” or “Internal Audit Capability Model” means a framework developed by the Institute of Internal Auditors Research Foundation in collaboration with the World Bank, which identifies the fundamentals needed for effective internal auditing in government and the broader public sector.

(f) “Training and Workshops” means the reasonable costs of expenditure incurred by the Recipient in facilitating and conducting domestic and overseas training and workshop activities of the Project, including costs of training or workshop materials; honoraria; interpretation and translation; equipment and venue rental; lunches; and per diem, accommodation, and transportation for those attending the training or workshop; but excluding salary and salary supplements of Member Country’s civil servants.
(g) "SPAN-CAAT" or "computer assisted audit tools and techniques (CAAT) for auditing the automated treasury and budget preparation system (sistem perbendaharaan dan anggaran negara - SPAN)" of the Member Country.

(h) "World Bank’s Safeguards Policies" means the World Bank’s operational policies and procedures set forth in the World Bank’s Operational Manual under OP/BPs 4.01, 4.04, 4.09, 4.10, 4.11, 4.12, 4.36, 4.37, 7.50 and 7.60 published at www.worldbank.org/opmanual.

**Article II**

**Project Execution**

2.01. **Project Objectives and Description.** The objective of the Project is to improve the capacity of the internal audit institution to progress towards level 3 of Internal Audit Capability Model ("IA-CM") requirements. The Project consists of the following parts:

**Part 1. Internal Audit Capacity Enhancement**

(a) Developing performance audit guidelines.
(b) Developing distance learning modules on internal audit standards, code of ethics, peer review standards and performance audit.
(c) Training for trainers of IA-CM assessors.
(d) Training for trainers for quality assurance improvement program.
(e) Capacity building to implement audit universe and risk-based planning.
(f) Implementation support on COSO framework and IA-CM at local government level.
(g) Providing internal control workshop.
(h) Providing support for an independent validation of BPKP IA-CM self-assessment and quality assurance improvement program.
(i) Organizing stakeholder learning workshop.

**Part 2. Piloting Use of Technology in Conducting Internal Audit**

(a) Developing a methodology, roles, responsibilities and key milestones associated with SPAN-CAAT.
(b) Preparing a comprehensive SPAN-CAAT technical guideline, including modules on spending authority, budget commitment, cash management, payment management, government receipt and general ledger.

**Part 3. Institutional Support and Project Management**

(a) Developing a strategic plan.
(b) Providing institutional support to the Recipient.
(c) Developing the Recipient’s membership database.
2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); and (c) this Article II.

2.03. **Institutional and Implementation Arrangements**

(a) The Recipient shall ensure that maintain until the completion of the Project, a Project team, with composition, powers, functions, staffing, facilities and other resources satisfactory to the World Bank, to be responsible for the overall Project implementation, management, supervision and coordination with relevant stakeholders.

(b) **Safeguards.** The Recipient shall ensure that the terms of reference for any consultancies related to studies, technical assistance and/or capacity building activities under this Agreement shall be satisfactory to the World Bank following its review thereof and, to that end, such terms of reference, shall duly incorporate the requirements of the World Bank’s Safeguards Policies then in force, as applied to the advice conveyed through such studies, technical assistance and/or capacity building activities.

2.04. **Donor Visibility and Visit.** (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Donor(s) to visit any part of the Member Country’s territory for purposes related to the Project.

2.05. **Documents; Records.**

In addition and without limitation to the obligations set forth in Section 2.05 of the Standard Conditions, the Recipient shall ensure that:

(a) all records evidencing expenditures under the Project are retained for seven years and six months after the Closing Date, such records to include: (i) this Agreement, all addenda thereof, and any amendments thereto; (ii) the Recipient’s financial and narrative progress reports submitted to the World Bank; (iii) the Recipient’s financial information related to the Grant, including audit reports, invoices and payroll records; (iv) the Recipient’s implementation documentation (including sub-agreements, procurement files, contracts, purchase orders); and (v) the corresponding supporting evidence referred to in Section 3.04 of the Standard Conditions; and

(b) the representatives of the World Bank are: (i) able to examine all records referred to above in paragraph (a); (ii) provided all such information concerning such records as they may from time to time reasonably request; and (iii) able to disclose such records and information to the Donor.

2.06. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators acceptable to the World Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.
(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date.

2.07. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six months after the end of such period.

2.08. **Procurement**

(a) **General.** All goods and consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:


(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014) (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods**

(i) Except as otherwise provided in sub-paragraph (ii) below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods for those contracts which are specified in the Procurement Plan: (A) Shopping; and (B) Direct Contracting.
(d) **Particular Methods of Procurement of Consultants’ Services**

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods, other than Quality- and Cost-based Selection, may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants’ Qualifications; (E) Single-source Selection of consulting firms; (F) Selection of Individual Consultants; and (J) Single-source procedures for the Selection of Individual Consultants.

(e) **Review by the World Bank of Procurement Decisions.** The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

(f) **Document Retention.** Notwithstanding the provisions of paragraphs 2(j) and 5 of Appendix 1 to the Procurement Guidelines, and paragraphs 2(k) and 5 of Appendix 1 to the Consultant Guidelines, the Recipient: (i) shall retain all documentation with respect to each contract as described in said paragraphs for at least seven years and six months after the Closing Date set forth in Section 3.03 of this Agreement; (ii) shall furnish such documentation to the World Bank at any time upon request; and (iii) hereby authorizes the World Bank to disclose such documentation to the Donor.

**Article III**

**Withdrawal of Grant Proceeds**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance 100% of Eligible Expenditures consisting of Goods, Consultants’ Services, Training and Workshops, and Incremental Operating Costs inclusive of Taxes.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of this Agreement.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is February 28, 2018.
Article IV
Recipient’s Representative; Addresses

4.01. *Recipient’s Representative.* The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Recipient’s Chair of the National Executive Board.

4.02. *Recipient’s Address.* The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Sekretariat AAIPI Dewan Pengurus Nasional AAIPI Pusat
Gedung BPKP Lt. 11
Jl. Pramuka No. 33
Jakarta Timur 13120, Indonesia

Telephone: +62-21-8591-0031 ext. 1134
Facsimile: +62-21-8591-0209

4.03. *World Bank’s Address.* The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: 1-202-477-6391