

The Auditor-General
Audit Report No.39 2012–13
Performance Audit

AusAID's Management of Infrastructure Aid to Indonesia

Australian Agency for International Development (AusAID)

Australian National Audit Office

© Commonwealth of Australia 2013

ISSN 1036-7632

ISBN 0 642 81343 4 (Print)

ISBN 0 642 81344 2 (On-line)

Except for the content in this document supplied by third parties, the Australian National Audit Office logo, the Commonwealth Coat of Arms, and any material protected by a trade mark, this document is licensed by the Australian National Audit Office for use under the terms of a Creative Commons Attribution-NonCommercial-NoDerivatives 3.0 Australia licence. To view a copy of this licence, visit

<http://creativecommons.org/licenses/by-nc-nd/3.0/au/>

You are free to copy and communicate the document in its current form for non-commercial purposes, as long as you attribute the document to the Australian National Audit Office and abide by the other licence terms. You may not alter or adapt the work in any way.

Permission to use material for which the copyright is owned by a third party must be sought from the relevant copyright owner. As far as practicable, such material will be clearly labelled.

For terms of use of the Commonwealth Coat of Arms, visit It's an Honour at <http://www.itsanhonour.gov.au/coat-arms/index.cfm>.

Requests and inquiries concerning reproduction and rights should be addressed to:

Executive Director
Corporate Management Branch
Australian National Audit Office
19 National Circuit
BARTON ACT 2600

Or via email:

webmaster@anao.gov.au





Canberra ACT
28 May 2013

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Australian Agency for International Development (AusAID) with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament. The report is titled *AusAID's Management of Infrastructure Aid to Indonesia*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee'.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

For further information contact:
The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone: (02) 6203 7505
Fax: (02) 6203 7519
Email: webmaster@anao.gov.au

ANAO audit reports and information about the ANAO are available at our internet address:

<http://www.anao.gov.au>

Audit Team

Robert Holbert
Anna Peterson
Tom Clarke

Contents

Abbreviations.....	7
Glossary	10
Summary and Recommendations	13
Summary	14
Introduction	14
Audit objective, criteria and scope	17
Overall conclusion.....	18
Summary of agency response	25
Recommendations	26
Audit Findings	29
1. Background and context	30
Australia’s foreign aid program	30
Aid to Indonesia	32
Audit objective, criteria and scope	35
Report structure	37
2. Policy Alignment and Coordination	38
Introduction	38
The Australian aid program.....	39
The Indonesian country program	45
Conclusion	56
3. The Eastern Indonesia National Roads Improvement Project.....	58
Introduction	58
Current status.....	60
Planning and delivery.....	61
Issues in administration.....	66
Conclusion	93
4. The Indonesia Infrastructure Initiative.....	96
Introduction	96
Current status.....	97
Planning and delivery.....	99
Issues in administration.....	104
Conclusion	115
5. Evaluation and Management of Risk	118
Introduction	118
Monitoring and evaluation.....	119
Risk management	121
Risks to meeting anticipated program expansion	135
Conclusion	137

Appendices	141
Appendix 1: Agency response.....	142
Appendix 2: EINRIP – list of packages.....	152
Appendix 3: IndII approved activities.....	154
Index.....	160
Series Titles.....	162
Current Better Practice Guides	167

Tables

Table 1.1	Structure of the Report	37
Table 2.1	Key Pillars of the Australia Indonesia Partnership Country Strategy 2008–13	48
Table 3.1	EINRIP implementing responsibilities	64
Table 3.2	Outcome of recent TFAC audits.....	76

Figures

Figure 1.1	ODA (current prices) and as a percentage of Gross National Income (GNI)	31
Figure 1.2	Australian ODA to Indonesia, current prices (\$m).....	33
Figure 2.1	Framework for the Australian aid program	40
Figure 2.2	The Millennium Development Goals, Eight Goals for 2015	41
Figure 2.3	The composition of Australian ODA 2012–13	43
Figure 2.4	Changes in staffing, ODA (constant prices) and the ratio of ODA (constant prices) to staff	44
Figure 2.5	ODA to Indonesia in 2012–13 by sector (total \$541.6 million)	49
Figure 2.6	Disposition of personnel engaged in delivering Australian aid to Indonesia as at 1 July 2012 (total 5400)	53
Figure 2.7	Composition of infrastructure aid, 2012–13.....	54
Figure 3.1	EINRIP Project Locations	59
Figure 3.2	EINRIP – delays in project disbursement.....	71
Figure 3.3	Example of publicly accessible notice board.....	80
Figure 3.4	Project Notice Board – ACAP compliant	81
Figure 3.5	EINRIP Complaints Website.....	83
Figure 4.1	IndII monthly expenditure	109
Figure 5.1	Performance Management and Evaluation Framework.....	119
Figure 5.2	Planning pipeline versus possible expenditure growth scenario.....	136

Abbreviations

ACAP	Anti-Corruption Action Plan
ADB	Asian Development Bank
ACIAR	Australian Centre for International Agricultural Research
AIIG	Australia–Indonesia Infrastructure Grants
AIPRD	Australia Indonesia Partnership for Reconstruction and Development
AusAID	Australian Agency for International Development
BAPPENAS	Badan Perencanaan Pembangunan Nasional (the GoI’s National Development Planning Agency, with responsibility for donor coordination)
Bina Marga	Directorat Jenderal Bina Marga (the GoI’s Directorate General of Highways, also known as DGH)
BPK	Badan Pemeriksa Keuangan (the independent audit agency of the Republic of Indonesia)
BPKP	Badan Pengawasan Keuangan dan Pembangunan (the GoI’s internal audit agency)
CAPF	Comprehensive Aid Policy Framework
DAC	The Development Assistance Committee of the OECD.
DFAT	Department of Foreign Affairs and Trade
DFID	The United Kingdom’s Department for International Development
DGH	Directorate General of Highways (also known as Bina Marga)
EAM	Extension Assessment Mission

EII	Economic Infrastructure Initiative
EINRIP	Eastern Indonesia National Roads Improvement Project
EMU	EINRIP Monitoring Unit
ESS	Environmental and Social Safeguards
FED	Final Engineering Design
FIDIC	<i>Fédération Internationale des Ingénieurs-Conseils</i> (International Federation of Consulting Engineers)
FRPD	Facility Review and Planning Document
GADC	General Agreement on Development Cooperation between the Government of Australia and the Government of the Republic of Indonesia
GNI	Gross National Income
GoI	Government of Indonesia
IAT	Impact Assessment Team
ICAI	The United Kingdom's Independent Commission for Aid Impact
ICR	Independent Completion Report
IFGI	Infrastructure for Growth Initiative
IndII	Indonesia Infrastructure Initiative
INIS	Indonesia Infrastructure Support Trust Fund (World Bank trust fund which supports activities in roads, public-private partnerships and low-income housing.)
IPR	Independent Progress Review
MDGs	Millennium Development Goals

NOL	No objection letter
NRIP	National Roads Improvement Project
ODA	Official Development Assistance
ODE	Office of Development Effectiveness
OECD	Organisation for Economic Co-operation and Development
PAMSIMAS	Penyediaan Air Minum dan Sanitasi Berbasis Masyarakat (Government of Indonesia national program to deliver water supply, sanitation and improved hygiene practice to rural and peri-urban areas.)
PGS	Partner Government Systems
PIP	Project implementation plan
PMU- EINRIP	EINRIP Project Management Unit
PNG	Papua New Guinea
PPC	Project preparation consultant
PPO	Proposed project outline
QAE	Quality at Entry review
QAI	Quality at Implementation review
RSC	Regional Supervision Consultant
SRIP	Strategic Roads Infrastructure Project
TFAC	Technical and Financial Audit Consultants
UNDP	United Nations Development Programme
WSI	Water and Sanitation Initiative

Glossary

Accra Agenda for Action The 2008 Accra Agenda for Action built on the commitments made in the 2005 Paris Declaration and sought to improve the:

- influence of countries over their development processes, including through the use of country systems for aid delivery;
- inclusiveness of aid partnerships through greater participation by all aid partners; and
- focus on aid having a real and measurable impact on development.

Further information is available from the OECD at <http://www.oecd.org/dac/aideffectiveness/parisdeclarationandaccraagendaforaction.htm>.

Millennium Development Goals In 2000, 189 nations, including Australia, voted in support of the United Nations Millennium Declaration, which formed the basis of a series of measurable goals for action to combat poverty and disadvantage. There are eight Millennium Development Goals:

- eradicate extreme poverty and hunger;
- achieve universal primary education;
- promote gender equality and empower women;
- reduce child mortality;
- improve maternal health;
- combat HIV/AIDS, malaria and other diseases;
- ensure environmental sustainability; and
- develop a global partnership for development.

Official
Development
Assistance

The OECD defines ODA as those flows to countries and territories on the DAC List of ODA Recipients (available at www.oecd.org/dac/stats/daclist) and to multilateral development institutions which are provided by official agencies, including state and local governments, or by their executive agencies; and which is administered with the promotion of the economic development and welfare of developing countries as its main objective; and is concessional in character (having a grant element of at least 25 per cent).

Further information is available from the OECD at <http://www.oecd.org/dac/aidstatistics/officialdevelopmentasistancedefinitionandcoverage.htm>.

Paris
Declaration on
Aid
Effectiveness

The Paris Declaration (2005) aimed to improve the quality of aid and its impact on development by committing signatories to a series of specific implementation measures and establishing a monitoring system to assess progress and promote mutual accountability for their commitments. The Paris Declaration outlines five principles:

- **Ownership:** Developing countries set their own strategies for reducing poverty, improving institutions and tackling corruption.
- **Alignment:** Donor countries align behind these objectives and use local systems.
- **Harmonisation:** Donor countries coordinate, simplify procedures and share information.
- **Results:** Developing countries and donors shift focus to development results and results get measured.
- **Mutual accountability:** Donors and partners are accountable for development results.

Further information is available from the OECD at <http://www.oecd.org/dac/aideffectiveness/parisdeclarationandaccraagendaforaction.htm>.

Partner Government Systems The legal and institutional frameworks within which a partner government spends its funds.

Summary and Recommendations

Summary

Introduction

1. The purpose of Australia's foreign aid program is to help people overcome poverty, which serves Australia's national interest by promoting stability and prosperity both in the near region and beyond.¹ Through the Australian foreign aid program, the Australian Government anticipates providing an estimated \$5.2 billion in official development assistance (ODA)² in 2012–13, including \$2.9 billion in bilateral country programs and \$1.2 billion in global programs (for example, contributions to international aid organisations).³

2. The Australian Agency for International Development (AusAID) is an autonomous executive agency within the Foreign Affairs and Trade portfolio and is the lead agency within the Government responsible for Australia's aid program.⁴ In addition to its responsibility for providing advice on development policy and managing Australia's overseas aid program, AusAID's functions include:

- planning and coordinating poverty reduction activities;
- collecting, analysing and publishing data or other information relating to development; and
- leading and coordinating responses to humanitarian and disaster crises.⁵

3. In the 10 years since 2002–03, Australian ODA has increased by more than 180 per cent in current prices (98 per cent in constant prices).⁶ As a proportion of gross national income (GNI), ODA is expected to reach

¹ Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 8.

² The OECD definition for ODA is included in the glossary to this document. The terms ODA and foreign aid are often used interchangeably.

³ Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 11.

⁴ In 2012–13, the delivery of \$835 million (16 per cent) of Australian ODA will be managed by other government departments and agencies, such as the Australian Federal Police (see Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 11).

⁵ AusAID, *Annual Report 2011–12*, p. 8.

⁶ Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 145.

0.35 per cent in 2012–13.⁷ While this is higher than it has been since 1985–86, it is in line with the long term average. The Australian Government has committed to increase ODA to 0.5 per cent of GNI by 2017–18.⁸ To achieve this goal, growth in the aid program will need to increase further in coming years, averaging 14 per cent (or \$925 million) a year to 2017–18, compared with average annual growth over the last decade of 11 per cent.

4. ODA to Indonesia has grown strongly in recent years, particularly since the earthquake and tsunami which struck the region in 2004. In the 10 years since 2002–03, ODA to Indonesia has risen by nearly 315 per cent, from \$130.7 million in 2002–03, to an estimated \$541.6 million⁹ in 2012–13. In 2011–12, Indonesia overtook Papua New Guinea (PNG) as the largest recipient of Australian ODA, receiving \$505.2 million compared with \$501.6 million for PNG. Further growth in aid to Indonesia has been foreshadowed by the Government, with the Minister for Foreign Affairs indicating in 2012 that total ODA to Indonesia may reach \$950 million by 2015–16.¹⁰

5. The scale of Australian aid to Indonesia recognises both the importance the Government accords to the relationship between the two countries, as well as the serious poverty challenges Indonesia is expected to continue to face for the foreseeable future. About 120 million Indonesians do not have access to safe drinking water while about 110 million do not have adequate sanitation. More than 120 million Indonesians live on less than \$2 per day and are vulnerable to shocks, like a natural disaster or an economic downturn. However, notwithstanding the growth in Australian aid to Indonesia, the dollar value of Australia's aid contribution is equivalent to around 0.5 per cent of the Indonesian Government budget.¹¹

⁷ Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 11.

⁸ *ibid.*

⁹ Of this, the country bilateral program manages \$476.6 million. Regional and global AusAID-managed initiatives receive \$30.1 million and other Australian Government Departments manage \$34.9 million (Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 41).

¹⁰ AusAID, *Helping the World's Poor through Effective Aid – Australia's Comprehensive Aid Policy Framework to 2015–16*, 2012, p. 14. This target was announced in the context of government policy at the time to increase ODA to 0.45 per cent of GNI by 2015–16. On 14 May 2013, the Government announced a slowing of growth in the aid program, with ODA now expected to be reach 0.45 per cent of GNI in 2016–17. However, the Government has not publicly announced whether the revised growth targets will affect anticipated growth in ODA to Indonesia.

¹¹ The scale of the challenges facing Indonesia means that Australian aid equates to around \$5.20 per person living in poverty in Indonesia each year, compared to \$155 per person in East Timor and \$71 per person in Papua New Guinea.

6. Support for sustainable growth and economic management is the foundation of Australian aid to Indonesia. Inadequate infrastructure is seen as a key impediment to economic growth and poverty alleviation and, as a consequence, support to improve infrastructure and infrastructure planning is the largest single element of this part of the country program. In 2012–13, infrastructure development aid is expected to comprise around 25 per cent of Australia’s ODA to Indonesia (\$130 million out of a total of \$541.6 million).

7. Over 85 per cent of AusAID expenditure on infrastructure aid to Indonesia in 2012–13 (\$111 million out of \$130 million) is expected to be delivered through the \$336 million Eastern Indonesia National Roads Improvement Project (EINRIP)¹² and the \$463 million Indonesia Infrastructure Initiative (IndII).¹³

8. EINRIP was announced by the Australian and Indonesian Governments on 7 December 2005, as part of a series of significant new funding commitments under the \$1 billion Australia Indonesia Partnership for Reconstruction and Development (AIPRD). The AIPRD was established in the aftermath of the 2004 Boxing Day tsunami and was governed by a Joint Commission, overseen by the Prime Minister of Australia and the President of the Republic of Indonesia. The objective of EINRIP is to support regional economic and social development, particularly in Eastern Indonesia. Up to \$300 million in AIPRD concessional loan funds, and up to \$28 million in AIPRD grant funds (for project development and implementation support) were committed to the project by the Joint Commission. The project, as announced, comprised ‘improving the condition of 2000 km of national roads and replacing approximately 4500 m of essential bridging’.¹⁴ It was to be delivered through Indonesian government systems and completed by June 2009. Since the initial announcement, the project scope has been substantially revised to encompass more substantive rebuilding of shorter sections of road (down from 2000 to 395 kilometres) and a reduction in bridge replacement to less than 1400 meters. The project is now scheduled to be

¹² This comprises up to \$300 million in concessional loan funding and \$36 million in associated grants. Grant funding, originally set at \$28 million, has been increased in response to the lengthened timeframe for project implementation.

¹³ The remaining \$19 million is comprised of Australian contributions to a number of smaller projects managed by, or funded in cooperation with, the World Bank and the Asian Development Bank. The performance of these initiatives has not been assessed as part of this audit.

¹⁴ Australia Indonesia Partnership for Reconstruction and Development, ‘Third Joint Ministerial Statement’, media release, 7 December 2005.

concluded in December 2014 and grant funding has been increased to \$36 million to accommodate the longer project duration.

9. The second major infrastructure initiative, IndII, was approved by the Australian Government in October 2007, at an initial cost of \$65 million, to provide technical assistance to the Government of Indonesia (GoI) (at national and sub-national levels) to enhance infrastructure policy, planning and investment. IndII was subsequently expanded to include provision for additional infrastructure development grants, bringing total expenditure for IndII up to \$131 million (including \$30 million in contributions to programs administered by development partners). In May 2011, IndII was extended for four years (to 2014–15), with the second phase of activity involving \$66 million in technical assistance, \$180 million in water and sanitation grants and \$60 million in transport related grants. Including contract, operating and evaluation costs of \$26 million, the total expenditure to be incurred in IndII Phase II is expected to reach \$332 million by 2014–15.

10. While AusAID retains accountability for the extent to which infrastructure aid to Indonesia achieves agreed outcomes, consistent with AusAID's general business model, delivery of aid is generally undertaken by third parties. This includes private sector, non-government and partner government organisations. In the case of EINRIP, major elements of project preparation were outsourced to the private sector and project management (including procurement, contracting and civil works supervision) is undertaken by the Indonesian Directorate General of Highways. IndII is managed by a private contractor, that oversees the procurement of specialist services and the payment of grants to Indonesian Government agencies, at various levels of government. Under IndII, where grants are made to government agencies, those agencies generally carry responsibility for project management. In these circumstances, the extent to which AusAID is able to direct and control specific aspects of the administration of infrastructure aid projects depends upon the nature of the contracts or agreements that AusAID concludes with third party deliverers (whether private sector or Indonesian Government agencies) and the effectiveness of the operation of institutional governance and oversight arrangements established under those contracts and agreements.

Audit objective, criteria and scope

11. The audit objective was to assess the effectiveness of AusAID's management of infrastructure aid to Indonesia, with a particular focus on the

Eastern Indonesia National Roads Improvement Project and the Indonesia Infrastructure Initiative.

12. The high-level audit criteria focused on the extent to which infrastructure aid met defined program and policy goals, including whether:

- strategies for delivering infrastructure aid to Indonesia were aligned with the aid program's objective;
- AusAID gave strategic consideration to the allocation of infrastructure aid to Indonesia, taking into account country needs and policies, and the work of other donors;
- delivery of infrastructure aid was in accordance with agreed aid objectives and best practice principles, and had appropriate regard to the risks to program outcomes and integrity; and
- monitoring and evaluation of infrastructure aid to Indonesia supported performance improvements and results were transparent.

13. Consistent with its usual business model, AusAID, while retaining responsibility for program and project outcomes, has entered into numerous contracts and agreements to support the delivery of infrastructure aid to Indonesia. This has included with Indonesian government agencies and with private sector firms. Accordingly, consultation with contracted parties and partner government representatives has been an important element of the audit.

Overall conclusion

14. Australia's foreign aid program helps people in other countries overcome poverty, which also serves Australia's national interest by promoting stability and prosperity. In Indonesia, AusAID delivers Australia's largest single bilateral aid program, with expenditure of \$476.6 million in 2012–13 and over 50 separate programs targeting health and education, economic growth, improved protection for the poor and vulnerable and the strengthening of democracy, justice and governance. Overall, Australian ODA to Indonesia in 2012–13 is expected to exceed \$541 million, a greater than four-fold increase in the last decade.

15. Infrastructure aid is a key element of Australia's aid to Indonesia and is expected to account for around 25 per cent of all Australian ODA to Indonesia in 2012–13. The majority of Australian infrastructure aid to Indonesia is provided through the Eastern Indonesia National Roads Improvement Project

(EINRIP) and the Indonesia Infrastructure Initiative (IndII). These two initiatives are expected to account for \$111 million of the \$130 million that AusAID anticipates spending on infrastructure aid to Indonesia in 2012–13.

16. EINRIP and IndII are well aligned with, and supportive of, AusAID's strategic objectives for the bilateral country program and the aid program generally. However, AusAID's strategy for its overall engagement in the Indonesian infrastructure sector is not explicit, and the extent to which EINRIP and IndII are directed toward, and are meeting, shared sectoral objectives is not clear. The development of such a strategy would assist AusAID and external stakeholders in assessing the performance of EINRIP and IndII, and provide AusAID with a sound foundation for the long term planning, management and evaluation of its infrastructure sector interests. AusAID has advised the ANAO that an explicit infrastructure sector strategy for Indonesia will be produced in 2013.

17. EINRIP and IndII are both mature initiatives, with implementation of EINRIP having commenced in 2006 and IndII in 2008. However, AusAID's early management of these infrastructure initiatives was not effective in addressing key areas of risk, and both initiatives experienced significant early difficulties. In particular, significant increases in the complexity and cost of the work undertaken through EINRIP has seen a major reduction in linear scope and a doubling of project duration¹⁵, and greater challenges in securing quality outcomes, while IndII was slow to commence activity and has faced challenges in maintaining project momentum.

18. The experience with both initiatives underlines the importance of AusAID having a good understanding of the environment and key stakeholders to inform its approach to planning and delivery of aid projects in Indonesia. This has been the focus in more recent years with AusAID giving greater attention to the arrangements necessary for the management of its key infrastructure aid initiatives, which recognise its accountability for overall outcomes but which are consistent with the shared responsibilities for project implementation. AusAID has also established good working relationships with GoI counterparts and implementation partners and maintains a high degree of visibility over key project outcomes. AusAID is now better placed to achieve currently forecast project outcomes and its current management of the

¹⁵ As discussed at paragraph 8 above.

initiatives is generally effective. EINRIP is now delivering road improvements that, with close ongoing oversight and successful completion of necessary remediation, are generally achieving targeted quality standards. In addition, EINRIP's rate of progress is consistent with the revised project scope and in line with the anticipated project conclusion date of December 2014. IndII has a broad portfolio of technical and policy engagements and grant activity in train, consistent with agreed project outcomes. Feedback received by the ANAO is that both programs are highly valued by GoI counterparts.

19. Both projects face ongoing risks, reflecting the complexity of the projects and their associated delivery arrangements. There are ongoing risks to EINRIP's project schedule, quality and sustainability, which will require intensive and ongoing engagement. For IndII, it is too early to assess whether the measures to address identified risks in relation to activity scheduling and continuity have proven effective. These risks have been identified and are being managed by AusAID, but require ongoing priority if the full benefits of the aid investment are to be realised.

20. The ANAO has made four recommendations directed towards improving the management of infrastructure aid to Indonesia.

The Eastern Indonesia National Roads Improvement Project (EINRIP)

21. The initial scope and timing of EINRIP were announced well ahead of the substantive work necessary to clearly establish project parameters and to validate the assumptions that underpinned initial advice to government. As this work was progressed, greater clarity emerged regarding the nature of work being sought by the GoI. In particular, it became apparent that, to meet project objectives agreed with the GoI, civil works would be required to be more substantive than originally assumed, and as a consequence, the implementation task would be more complex. Accordingly, both project scope and timing were progressively revised. EINRIP is now expected to deliver 395 kilometres of road reconstruction and widening, compared to the 2000 kilometres of improvements initially announced. Furthermore, it is not likely that civil works will be completed before December 2014. In late 2005, when EINRIP was announced, it was expected to be completed by June 2009.

22. The announcement of EINRIP, including its objectives, scope and timing, was made by the AIPRD Joint Commission in December 2005 as part of a series of announcements concerning Australia's response to the 2004 Indian Ocean earthquake and tsunami. The ANAO has previously observed that the

development and delivery of the AIPRD over a relatively short time frame presented a substantial challenge for AusAID, particularly in view of the lead times normally associated with identifying, designing and implementing suitable projects.¹⁶

23. Within the context of the constrained development timetable, AusAID sought to mitigate its inexperience in administering loans, and in the infrastructure sector in Indonesia, by consulting broadly in project development, leveraging relevant structures and practices from the World Bank and the Asian Development Bank, and contracting in relevant expertise. Nonetheless, the early announcement of EINRIP was not informed by a clear statement of the assumptions and risks associated with the nature and scale of announced works. In addition, key assumptions had not been able to be tested adequately with GoI officials, who were heavily engaged in the disaster relief effort. Once the needs of GoI as the borrower became clear, it became apparent to AusAID that some key assumptions that had informed initial advice regarding the nature and possible scale of works were no longer relevant.

24. At the time of the audit, all key structural and administrative elements to support project implementation were in place and the rate of implementation was consistent with the revised project completion date of December 2014. This has included, by September 2012, completion of six of the 20 EINRIP packages of civil works, totalling 105 kilometres, and of separate packages of bridge replacement totalling 1385 meters. A further eight packages of road works were more than 50 per cent complete. Early evaluation results suggest completed works are delivering anticipated benefits to local communities.

25. EINRIP has piloted revised arrangements for activity design, implementation supervision and independent assurance which are consistent with international best practice for promoting quality, and reducing the opportunity for collusion and corruption in civil works. Nonetheless, EINRIP faces ongoing implementation challenges. Targeted quality standards, which are designed to provide higher quality and more durable roads, are generally being achieved, although this has required ongoing monitoring and remediation investment at higher levels than originally foreseen. While a broad anti-corruption framework has been put in place, there are gaps in its

¹⁶ ANAO Audit Report No.50 2005–06 *Arrangements to Manage and Account for Aid Funds Provided Under the Australia-Indonesia Partnership for Reconstruction and Development*, p. 14.

implementation, and AusAID lacks visibility over implementation partners' compliance with the anti-corruption framework. In addition, there are important challenges to project sustainability, such as road maintenance practices and vehicle overloading, which remain to be effectively addressed. Further work is also required if the revised design and supervision practices piloted through EINRIP are to have a broader impact.

26. The institutional framework and the broader relationship context inherent in the shared responsibility arrangements for EINRIP delivery constrain AusAID's capacity to directly influence project administration and outcomes. This is relevant to any assessment of AusAID's management of the initiative, and needs to be clearly communicated to both internal and external stakeholders.

The Indonesia Infrastructure Initiative (IndII)

27. During its first phase of activity, IndII provided targeted grants and technical assistance, project preparation and implementation support to a range of GoI agencies valued at around \$50 million. In addition, AusAID has reported that, through \$25 million in output-based water and sanitation grants, IndII has supported the provision of 77 000 new clean water connections and 4826 new sewerage connections to low income households.

28. Stakeholders, including representatives of the GoI and of multilateral agencies operating in Indonesia, advised the ANAO that they consider the initiative to have made significant contributions to a number of important infrastructure development issues. However, IndII has faced substantive difficulties in its establishment and early operations, and there are ongoing challenges that AusAID will need to address if the planned objectives for the project are to be achieved.

29. Significant delays in IndII's establishment and early commencement of operations resulted in more activity expenditure in the last five months of Phase I operations than had occurred in the first 30 months. Such a rapid increase in late-term activity, following start-up delays, is not desirable as it makes it more difficult for project governance to give full and proper consideration to spending decisions and to manage activities to achieve planned objectives.

30. The late build-up in activity was followed by a significant loss of operational momentum, caused when AusAID was unable to secure an early and actionable decision on IndII's extension. This adversely impacted on

project continuity and saw new operational activity in the first year of the extension well below forecast levels. AusAID will need to be closely engaged in the development and initiation of new activity in 2012–13 if the planned rates of project activity are to be achieved and if the momentum of the engagement, when regained, is to be sustained in the longer term.

31. Initial arrangements for IndII's governance did not operate as anticipated during Phase I, and did not provide timely strategic input to guide IndII operations. This has been recognised by AusAID and GoI partner agencies, and in 2011 revised arrangements at both the strategic and operational levels were implemented. At the time of the audit, it was not yet clear that the revised arrangements would effectively address the issues identified in the first phase of IndII operations, with the activity plan for 2012–13 not approved until halfway through its implementation. AusAID will need to monitor and refine the revised arrangements so that IndII is provided with appropriate and timely strategic guidance and performance oversight.

Managing delivery risks associated with infrastructure aid projects

32. In the design and implementation of infrastructure aid initiatives, AusAID has acted to identify and document risks, design mitigation strategies and monitor their implementation. EINRIP has piloted revised arrangements for activity design, implementation supervision and independent assurance which are designed to promote quality, and reduce the opportunity for collusion and corruption in civil works. Risk mitigation strategies were also inherent in the design of individual IndII activities. In particular, IndII's use of output-based grant programs, which provide for a partial reimbursement of GoI costs after sustained delivery to agreed standards has been demonstrated, reduces the potential for fraud or corruption to impact on program outcomes.

33. Nonetheless, in both EINRIP and IndII, effective risk mitigation has been challenging. In EINRIP in particular, the risks to project schedule, quality and sustainability have required intensive and ongoing engagement, and some controls, such as the remedies and sanctions framework, have been less effective than anticipated. In IndII, measures to address identified risks in relation to activity scheduling and continuity have yet to prove effective. In both instances, the level of residual risk remains high. A clearer description of levels of such residual risks in public documents, such as country program performance reports or Annual Reports, would aid transparency and assist stakeholders in assessing the adequacy of AusAID's efforts to manage risk in the Indonesian aid program.

Managing and reporting infrastructure fraud risks

34. The risk to infrastructure aid posed by fraud and corruption is managed at an initiative level and the levels of identified and reported fraud are very low. Fraud and corruption remain a significant concern for the GoI and for AusAID. Internationally, Indonesia is recognised as a challenging environment in which to operate: in 2012 Transparency International ranked Indonesia 118th out of 176 countries in terms of perceived levels of public sector corruption.

35. The risk that fraudulent or corrupt activities would impact on AusAID initiatives in the infrastructure sector was acknowledged during project development. AusAID has incorporated controls to reduce opportunities for fraudulent or corrupt behaviour in program design and, in 2011, AusAID increased its investment in risk management and fraud mitigation in Indonesia. In the past five years AusAID has not identified any net loss through fraud in its infrastructure initiatives in Indonesia. Over this period, AusAID reported losses in the Indonesian country program that are equivalent to only 0.006 per cent of ODA, well below the level reported for Australia's aid program generally.

36. In arriving at publicly reported losses through fraud and corruption, AusAID does not estimate the potential loss to the Indonesian aid program of unreported fraud or corrupt activity. Fraud against AIPRD loan programs has not been included in reported estimates of potential loss through fraud, and fraud against development partners is only included once AusAID has determined, in consultation with that partner, that losses are attributable to AusAID funds. Public reporting of potential loss through fraud, for example in AusAID's annual reports, is based on point in time estimates and has not previously been updated to reflect changes in the status or quantification of fraud cases. However, AusAID advised the ANAO that it will now publish point in time updates of its annual fraud loss figures, commencing with an update of 2010–11 figures.

37. Without clear reference to the approach adopted, the ANAO considers that there is considerable scope for misinterpretation of the publicly reported aggregate data on 'estimated potential losses' to the aid budget arising from fraud and corruption. In light of the acknowledged ongoing risk that fraud and corruption will affect the aid program in the environments in which it operates, it would be appropriate for AusAID to provide greater clarity as to

the basis of its aggregate fraud reporting, to reduce the potential for misunderstanding.

Summary of agency response

38. The proposed report was provided to AusAID for formal comment. AusAID provided the following summary response, and the formal response is shown at Appendix 1.

AusAID welcomes the ANAO's report AusAID's Management of Infrastructure Aid to Indonesia, in particular its recognition that current management of the Eastern Indonesia Roads Improvement Project (EINRIP) and the Indonesia Infrastructure Initiative (IndII) is effective; and that these projects are highly valued by Government of Indonesia and are delivering tangible benefits for a large number of poor Indonesians.

AusAID welcomes the report's recognition of the robust systems and processes AusAID have in place to manage these programs effectively. ANAO observed a high degree of compliance by AusAID with core elements of AusAID's performance and evaluation framework and with current risk management policy. The report highlights that AusAID has acted to identify and document risks, design mitigation strategies and monitor their implementation – for example noting that EINRIP has piloted revised arrangements for activity design, implementation supervision and independent assurance which are consistent with international best practice for promoting quality and reducing opportunities for collusion and corruption in civil works.

Recommendations

Recommendation No.1

Para 2.49

To support improved program planning, delivery and evaluation, the ANAO recommends that AusAID progresses the development of a sector strategy for infrastructure aid to Indonesia, with a view to finalising the strategy as soon as possible.

Agency response: *Agreed (see Appendix 1 for further comment).*

Recommendation No.2

Para 3.114

To maximise the potential return from its investment in EINRIP, the ANAO recommends that AusAID:

- (a) puts in place the necessary structural and administrative arrangements to support the timely completion of EINRIP; and
- (b) explores further opportunities for working with the Government of Indonesia to promote institutional strengthening in road management, address risks to project sustainability, and monitor compliance with EINRIP's anti-corruption framework.

Agency response: *Agreed (see Appendix 1 for further comment).*

**Recommendation
No.3**

Para 4.75

To support more effective and efficient management of IndII, improve assurance for stakeholders and better manage transitional risks, the ANAO recommends that AusAID:

- (a) monitors the effectiveness of reforms to IndII governance and administration;
- (b) refines its external review strategy to enhance transparency in regard to IndII's performance and AusAID's management of the initiative; and
- (c) develops appropriate arrangements to manage the risk of loss of continuity and momentum at the end of the second phase of IndII operations.

Agency response: *Agreed (see Appendix 1 for further comment).*

**Recommendation
No.4**

Para 5.66

To support greater stakeholder awareness of risks in aid delivery, the ANAO recommends AusAID considers options for:

- (a) more clearly reporting the levels of residual operational risk in infrastructure initiatives in Indonesia or when operating in environments or with delivery models which are similarly characterised by lower levels of AusAID administrative or legal control; and
- (b) improving transparency in the public reporting of aggregate fraud estimates.

Agency response: *Agreed (see Appendix 1 for further comment).*

Audit Findings

1. Background and context

This chapter provides background on Australia's foreign aid program and an overview of Australia's program of infrastructure aid to Indonesia. It also outlines the audit objective, scope and criteria.

Australia's foreign aid program

1.1 The purpose of Australia's foreign aid program is to help people overcome poverty, which serves Australia's national interest by promoting stability and prosperity both in the near region and beyond.¹⁷ Through the Australian foreign aid program, the Australian Government anticipates providing an estimated \$5.2 billion in official development assistance (ODA)¹⁸ in 2012–13, including \$2.9 billion in bilateral country programs and \$1.2 billion in global programs (for example, contributions to international aid organisations).¹⁹

1.2 The Australian Agency for International Development (AusAID) is an autonomous executive agency within the Foreign Affairs and Trade portfolio and is the lead agency within the Government responsible for Australia's aid program.²⁰ In addition to its responsibility for providing advice on development policy and managing Australia's overseas aid program, AusAID's functions include:

- planning and coordinating poverty reduction activities;
- collecting, analysing and publishing data or other information relating to development; and
- leading and coordinating responses to humanitarian and disaster crises.²¹

¹⁷ Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 8.

¹⁸ The OECD definition for ODA is included in the glossary to this document. The terms ODA and foreign aid are often used interchangeably.

¹⁹ Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 11.

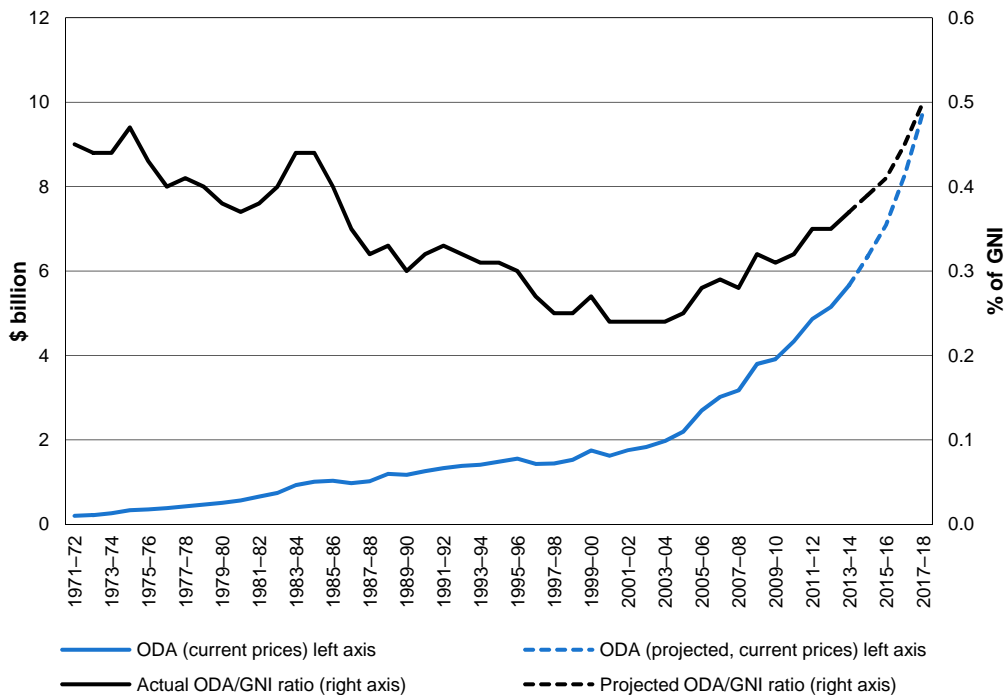
²⁰ In 2012–13, the delivery of \$835 million (16 per cent) of Australian ODA will be managed by other government departments and agencies, such as the Australian Federal Police (see Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, pp. 11).

²¹ AusAID, *Annual Report 2011–12*, p. 8.

1.3 In the 10 years since 2002–03, Australian ODA has increased by more than 180 per cent in current prices (see Figure 1.1) or 98 per cent in constant (price adjusted) terms.²²

Figure 1.1

ODA (current prices) and as a percentage of Gross National Income (GNI)



Source: Figures to 2013–14 are from Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 145.

Figures to 2017–18 are ANAO projections reflecting ODA/GNI targets announced in Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 11, and assume straight line growth in GNI consistent with average growth over the last 20 years.

1.4 As a proportion of gross national income (GNI), ODA is expected to reach 0.35 per cent in 2012–13.²³ While this is higher than it has been since 1985–86, it is in line with the average, since 1971–72, of 0.34 per cent. In

²² Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 145.

²³ Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 11.

May 2013, the Australian Government announced that it would defer until 2017–18, its commitment to increase ODA to 0.5 per cent of GNI, and announced interim targets of 0.39 per cent for 2014–15, 0.41 per cent for 2015–16 and 0.45 per cent in 2016–17.²⁴ To achieve this goal, growth in the aid program will need to increase further in coming years, averaging 14 per cent (or \$925 million) a year to 2017–18, compared with average annual growth over the last decade of 11 per cent.

1.5 With the growth in the aid program has come a substantial increase in staff. Since 2002–03, the number of AusAID staff has tripled from 510 to 1528 (at 30 June 2012). Growth in overseas staff (270 per cent) has exceeded growth in Australia-based staff (190 per cent).²⁵

Aid to Indonesia

1.6 Australia's development assistance program is focused on our near region. In 2012–13, East Asia and the Pacific expected to receive around 70 per cent of all Australian ODA attributable to particular countries or regions.²⁶ On an individual country basis, Indonesia and Papua New Guinea (PNG) receive the largest proportion of ODA (in total, more than 30 per cent of all attributable ODA in 2012–13), followed by the Solomon Islands, Afghanistan, Vietnam, the Philippines and Timor–Leste.

1.7 ODA to Indonesia has grown strongly in recent years (see Figure 1.2), particularly since the earthquake and tsunami which struck the region in 2004. In 2011–12, Indonesia overtook PNG as the largest recipient of Australian ODA, receiving \$505.2 million compared with \$501.6 million for PNG. ODA to Indonesia in 2012–13 is expected to reach \$541.6 million, of which 94 per cent will be administered by AusAID. The Government has foreshadowed further growth in aid to Indonesia, with the Minister for Foreign Affairs indicating in May 2012 that, subject to future budget decisions, ODA to Indonesia could

²⁴ Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 11.

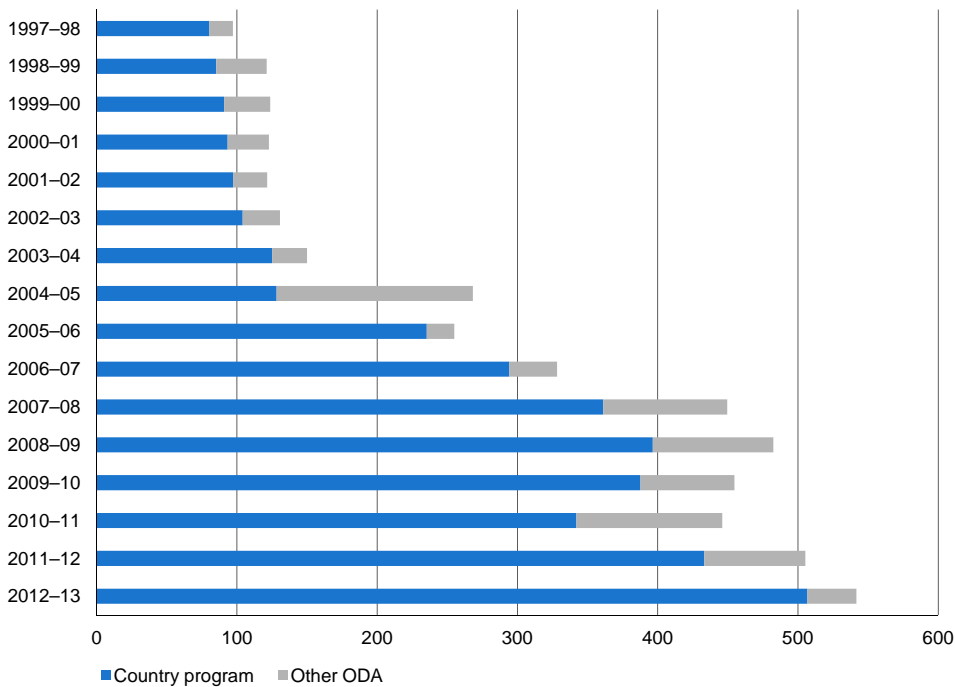
²⁵ AusAID, *Annual Report 2002–03*, p. 173; AusAID, *Annual Report 2011–12*, p. 347. This does not include staff locally engaged at overseas posts, who numbered nearly 600 as at 30 June 2012.

²⁶ Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 12.

reach \$950 million by 2015–16.²⁷ This will require the program to grow by more than \$135 million (or 25 per cent) each year for the next four years. By 2015–16, Indonesia’s share of Australian ODA will have risen to more than 13 per cent, up from seven per cent in 2002–03.

Figure 1.2

Australian ODA to Indonesia, current prices (\$m)



Source: 2011–12 data is from Commonwealth of Australia, *Australia’s International Development Assistance Program 2012–13*. 2012–13 data is from Commonwealth of Australia, *Australia’s International Development Assistance Program 2013–14*. Data for 1998–99 to 2010–11 is from the respective AusAID Annual Reports, and data for 1997–98 is from the 1997–98 DFAT Annual Report.

1.8 Support for sustainable growth and economic management is a foundation of the Indonesian aid program, and inadequate infrastructure is seen as a key impediment to economic growth and poverty alleviation in Indonesia. As a consequence, support to improve infrastructure and

²⁷ AusAID, *Helping the World’s Poor through Effective Aid – Australia’s Comprehensive Aid Policy Framework to 2015–16*, 2012, p. 14. This target was announced in the context of government policy at the time to increase ODA to 0.45 per cent of GNI by 2015–16. On 14 May 2013, the Government announced a slowing of growth in the aid program, with ODA now expected to be reach 0.45 per cent of GNI in 2016–17. However, the Government has not publicly announced whether the revised growth targets will affect anticipated growth in ODA to Indonesia.

infrastructure planning is the largest single element of AusAID's program to support economic growth. In 2012–13, infrastructure development aid is expected to comprise nearly 25 per cent of Australia's ODA to Indonesia.

1.9 Over 85 per cent of AusAID expenditure on infrastructure aid to Indonesia in 2012–13 (\$111 million out of \$130 million) is expected to be delivered through the Eastern Indonesia National Roads Improvement Project (EINRIP) and the Indonesia Infrastructure Initiative (IndII). The remaining \$19 million is comprised of Australian contributions to a number of smaller projects managed by, or funded in cooperation with, the World Bank and the Asian Development Bank.

1.10 EINRIP was announced by the Government on 7 December 2005, as part of a series of significant new funding commitments under the \$1 billion Australia Indonesia Partnership for Reconstruction and Development (AIPRD). The objective of EINRIP was to 'support regional economic and social development, particularly in Eastern Indonesia, by improving the condition of 2000 km of national roads and replacing approximately 4500 m of essential bridging'.²⁸ EINRIP would be funded by up to \$300 million in AIPRD concessional loan funds, and up to \$28 million in AIPRD grant funds (for project development and implementation support). The project was to be delivered through Indonesian government systems and completed by mid-2009.

1.11 IndII was approved by the Government in October 2007, at an initial cost of \$65 million, to provide technical assistance to the Government of Indonesia (GOI) (at national and sub-national levels) to enhance infrastructure policy, planning and investment. IndII was subsequently expanded to include a significant infrastructure development grant component. In May 2011, IndII was extended for four years (to 2014–15), with the second phase of activity involving \$66 million in technical assistance, \$180 million in water and sanitation grants and \$60 million in transport related grants. Including contract, operating and evaluation costs, the total expenditure to be incurred in IndII Phase II is expected to reach \$332 million over four years.

1.12 AusAID also provides support for externally managed initiatives of a similar nature. The performance of these initiatives was not assessed in this

²⁸ Australia Indonesia Partnership for Reconstruction and Development, 'Third Joint Ministerial Statement', media release, 7 December 2005.

audit. In 2012–13 AusAID’s contribution to these initiatives is expected to total less than \$20 million, and will include contributions to:

- Penyediaan Air Minum dan Sanitasi Berbasis Masyarakat (PAMSIMAS), a GoI national program to deliver water supply, sanitation and improved hygiene practice to rural and peri-urban areas (delivered through the Indonesian Ministry of Public Works and co-financed by Australia and the World Bank);
- the World Bank’s Indonesia Infrastructure Support Trust Fund (INIS), which supports initiatives that complement Australian and World Bank activities in roads, public-private partnerships and low-income housing; and
- support for Asian Development Bank (ADB) activities through the ADB Infrastructure Co-funding Agreement.

Audit objective, criteria and scope

1.13 The audit objective was to assess the effectiveness of AusAID’s management of infrastructure aid to Indonesia.

1.14 The high-level audit criteria focused on the extent to which infrastructure aid met defined program and policy goals, including whether:

- strategies for delivering infrastructure aid to Indonesia were aligned with the aid program’s objective;
- AusAID gave strategic consideration to the allocation of infrastructure aid to Indonesia, taking into account country needs and policies, and the work of other donors;
- delivery of infrastructure aid was in accordance with agreed aid objectives and best practice principles, and had appropriate regard to the risks to program outcomes and integrity; and
- monitoring and evaluation of infrastructure aid to Indonesia supported performance improvements and results were transparent.

1.15 The primary focus of this audit has been AusAID’s management of its two principal infrastructure activities, EINRIP and IndII. Where issues relevant to the general administration of the Indonesian country program have arisen in the course of the audit, they have also been addressed.

1.16 Consistent with its usual business model, AusAID, while retaining responsibility for program and project outcomes, has entered into numerous contracts for services to support the delivery of infrastructure aid to Indonesia. This has included contracts with private sector firms and agreements with Indonesian government agencies. However, this audit was not formally extended to incorporate a review of the performance of third parties in achieving program outcomes.²⁹ While consultation with contracted parties and partner government representatives has been an important element of audit methodology, audit conclusions and recommendations are directed primarily to matters administered by AusAID.

1.17 Fieldwork was undertaken between May and September 2012, and included work at AusAID's national office in Canberra as well as three visits to Indonesia by the audit team. Fieldwork involved:

- document and file reviews, including quantitative and qualitative analysis of data drawn from AusAID systems and from the public domain;
- interviews with AusAID staff and contractors in Australia and Indonesia;
- consultation with Indonesian government officials and other key stakeholders, including other Australian agencies operating in Indonesia and multilateral organisations such as the World Bank and Asian Development Bank; and
- visits to AusAID project sites in Java and Sulawesi.

1.18 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of \$480 933.

²⁹ Recent amendments to the *Auditor-General Act 1997* (which came into effect on 8 December 2011) have provided the Auditor-General with authority to assess the performance of Commonwealth partners in achieving a Commonwealth purpose (Section 18B). For the purposes of this provision, a Commonwealth partner includes a person or body who has entered into a contract that relates to a Commonwealth purpose.

Report structure

1.19 The structure of the report is outlined in Table 1.1.

Table 1.1

Structure of the Report

Chapter	Chapter overview
2. Policy Alignment and Coordination	This chapter provides an overview of current development cooperation policy and the Indonesian country program. It examines alignment of the Indonesian program with overall aid policy goals and the linkages between the country program and Indonesian development objectives. The management of development cooperation in the infrastructure sector and opportunities for improved planning and performance are also discussed.
3. The Eastern Indonesia National Roads Improvement Project	This chapter considers the effectiveness of AusAID's administration of the Eastern Indonesia National Roads Improvement Project (EINRIP). It reviews the current status of the initiative and examines AusAID's planning, implementation and subsequent oversight of key program elements, including the Anti-Corruption Action Plan (ACAP).
4. The Indonesia Infrastructure Initiative	This chapter considers the effectiveness of AusAID's administration of the Indonesia Infrastructure Initiative (IndII). It includes consideration of the planning and development of the program, and AusAID's ongoing oversight of key program elements.
5. Evaluation and Management of Risk	This chapter examines AusAID's arrangements for monitoring and evaluating the performance of Indonesian infrastructure programs, as well as its approach to identifying, monitoring and reporting on risk. The examination of risk management includes consideration of AusAID's approach to the management and reporting of the risks posed by fraud and corruption. AusAID's management of risks associated with the expansion of the Indonesian program over future years is also examined.

2. Policy Alignment and Coordination

This chapter provides an overview of current development cooperation policy and the Indonesian country program. It examines alignment of the Indonesian program with overall aid policy goals and the linkages between the country program and Indonesian development objectives. The management of development cooperation in the infrastructure sector and opportunities for improved planning and performance are also discussed.

Introduction

2.1 The development and delivery of infrastructure aid to Indonesia is a complex and challenging task. In considering whether AusAID's program of infrastructure aid is delivered effectively, it is important to consider not only AusAID's administration of individual initiatives, but also:

- whether Australia's aid program to Indonesia is well aligned with the overarching goals of Australia's aid program;
- how well the program of infrastructure aid supports the objectives of AusAID's development cooperation with Indonesia; and
- whether individual initiatives are well integrated and complementary in support of AusAID's sectoral objectives.

2.2 In assessing AusAID's management of infrastructure aid, it is necessary to have regard to the context in which it is delivered. As was noted in the 2011 *Independent Review of Aid Effectiveness*:

In aid, performance needs to be judged against degree of difficulty. Australia is seeking to get results in difficult and sometimes dangerous countries overseas, in a wide range of areas from health and education to humanitarian support in emergencies, and grappling with multiple methods of delivery.³⁰

2.3 Each of AusAID's bilateral engagements presents unique challenges. In Indonesia, AusAID has a large, dynamic and diverse partner. Institutional arrangements are complex and continuing to evolve. Improving the quality of infrastructure is a core development challenge for Indonesia, requiring cooperation between national institutions and various levels of government,

³⁰ Commonwealth of Australia, *Independent Review of Aid Effectiveness*, Canberra, 2011, p. 3.

between the public and the private sectors, and between Indonesia and key external stakeholders. To be effective, Australia's program of development cooperation with Indonesia must have regard to the nature of institutional arrangements and the scale and nature of the development challenges facing Indonesia. It must also reflect the capacity of AusAID to meaningfully influence local outcomes, and the work of other donors.

2.4 The ANAO examined recent developments in Australia's aid program and in the program of development cooperation with Indonesia. Having regard to the development challenges and goals of Indonesia, the ANAO considered the alignment of the Indonesian aid program with the objectives of the aid program overall. AusAID's management of its portfolio of infrastructure interests in Indonesia, including the manner in which AusAID works with other donors, was also reviewed.

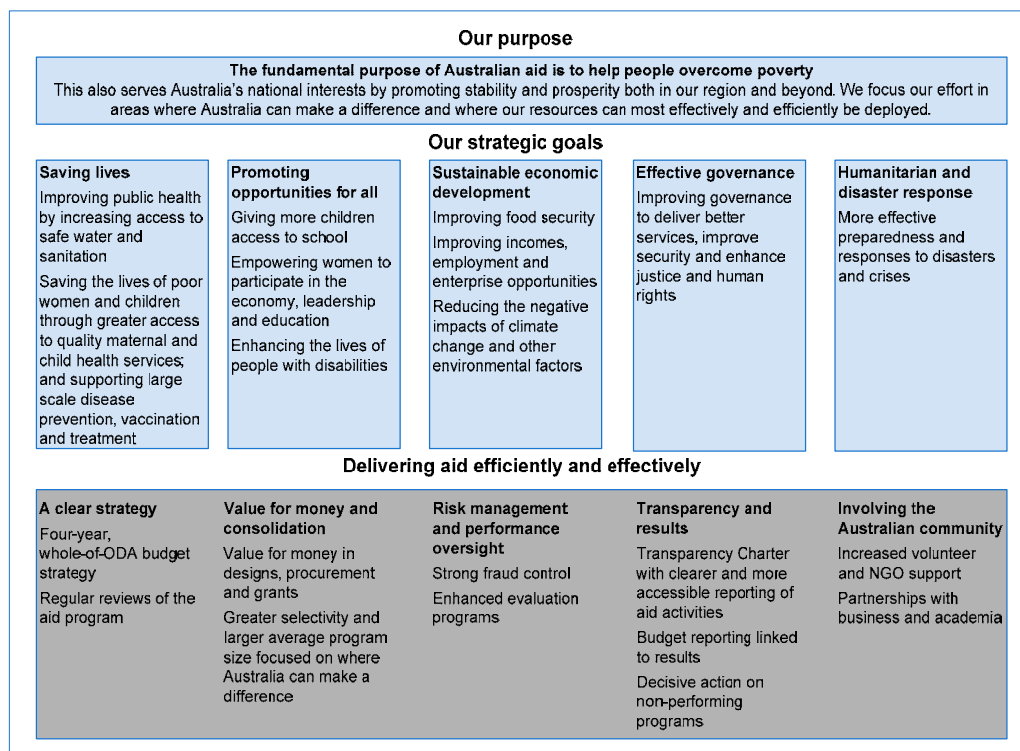
The Australian aid program

The purpose of the aid program

2.5 The Government's policy on the Australian aid program is set out in *An Effective Aid Program for Australia: Making a real difference – Delivering real results*, released in July 2011. The policy states that the fundamental purpose of Australian aid is to help people overcome poverty, noting that this serves Australia's national interest by promoting stability and prosperity in the near region and beyond. It also sets out five strategic goals for the aid program and several key principles to guide aid delivery (see Figure 2.1).

Figure 2.1

Framework for the Australian aid program



Source: ANAO, from Commonwealth of Australia, *An Effective Aid Program for Australia: Making a real difference—Delivering real results*, Canberra, 2011, p. 6.

2.6 The framework for the Australian aid program is consistent with the Government’s commitment to the United Nation’s Millennium Development Goals (MDGs). The Australian Government is one of 189 nations which, in 2000, voted in support of the United Nations Millennium Declaration, which formed the basis of a series of measurable goals for action to combat poverty and disadvantage (see Figure 2.2).³¹ The articulated purpose of the aid program, and its strategic goals, accord closely with MDG priorities.

³¹ United Nations Development Program, *The Millennium Development Goals*, available from <<http://www.undp.org/content/undp/en/home/mdgoverview.html>> [accessed 19 October 2012].

Figure 2.2**The Millennium Development Goals, Eight Goals for 2015**

1 Eradicate extreme hunger and poverty	2 Achieve universal primary education	3 Promote gender equality and empower women	4 Reduce child mortality
5 Improve maternal health	6 Combat HIV/AIDS, malaria and other diseases	7 Ensure environmental sustainability	8 Develop a global partnership for development

Source: ANAO, from United Nations Development Program, *The Millennium Development Goals*, available from <<http://www.undp.org/content/undp/en/home/mdgoverview.html>> [accessed 19 October 2012].

2.7 Australian ODA is broadly distributed across the aid program's strategic goals. In 2012–13, the largest part of Australia's ODA was directed towards alleviating poverty through sustainable economic development, including issues of food security and environmental sustainability (27 per cent of all ODA in 2012–13). Some 10 per cent of ODA was directed toward humanitarian and disaster response, while 60 per cent of ODA was broadly distributed between the remaining three strategic goals of saving lives, promoting opportunities for all, and supporting effective governance.³²

2.8 The Government's aid policy sets out its response to the findings and recommendations of the April 2011 *Independent Review of Aid Effectiveness*. The review examined the effectiveness and efficiency of the Australia aid program and made recommendations to improve its structure and delivery.³³ The report concluded that by the standards of donors generally, Australia is an effective performer. It also found that the aid program was good but improvable and under increasing administrative stress. The report made findings on 10 key

³² Commonwealth of Australia, *Australia's International Development Assistance Program 2012–13*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 8 May 2012, p. 15.

³³ Commonwealth of Australia, *Independent Review of Aid Effectiveness*, Canberra, 2011, p. 319.

issues relating to effectiveness, and 39 recommendations on matters ranging from the overall objective of the aid program through to agency administration.³⁴

2.9 In May 2012, pursuant to the recommendations of the 2011 review, the Government released *Helping the World's Poor through Effective Aid: Australia's Comprehensive Aid Policy Framework to 2015–16* (the CAPF). The CAPF provided indicative budget allocations to 2015–16, headline results that will be sought to be achieved and standards for aid delivery, aligned to the strategies outlined in *An Effective Aid Program for Australia*.

2.10 The need to formulate and implement a clear and concise overall strategy, to maintain a tight focus that discourages or corrects program fragmentation, and to promote a rigorous approach to assessing aid effectiveness, have previously been highlighted in independent reviews of the aid program. A 1997 independent review of the Australian aid program recommended, amongst other things:

- the adoption of a clear and unambiguous objective for the aid program;
- a sharpening of the geographic focus of the aid program to achieve greater efficiency and effectiveness; and
- a more rigorous approach to measuring aid effectiveness.³⁵

Delivery of the aid program

2.11 The Government anticipates total ODA in 2012–13 to reach \$5.149 billion, of which \$4.394 billion will be managed by AusAID and the remainder by other Australian government departments.³⁶ Over 56 per cent of ODA will be delivered through more than 35 bilateral country programs administered by AusAID, while 22 per cent will be directed toward AusAID administered global programs. AusAID departmental expenses account for around 6 per cent of ODA (see Figure 2.3).³⁷

³⁴ A response to recommendations is included in *An Effective Aid Program for Australia: Making a real difference—Delivering real results*.

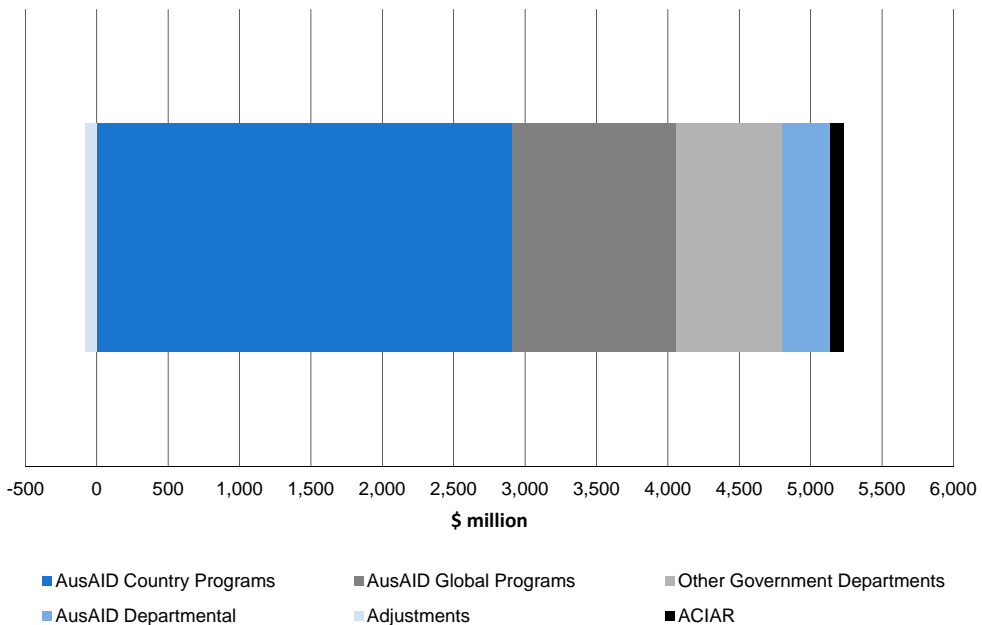
³⁵ The Simons Review was commissioned in 1996 by the then Foreign Minister. The report of the review committee, titled *One Clear Objective - poverty reduction through sustainable development*, was presented to Government in April 1997.

³⁶ Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 11.

³⁷ Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 11.

Figure 2.3

The composition of Australian ODA 2012–13



Source: Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 11.

2.12 As at 30 June 2012, AusAID directly employed 2124 staff in the delivery of the aid program, including nearly 600 staff locally engaged at overseas posts. Of the 1528 staff engaged in Australia, 1301 worked in AusAID's Canberra headquarters while 227 worked at overseas posts. AusAID maintains a presence in nearly 40 countries.³⁸

2.13 Since 2002–03 the number of staff employed by AusAID (excluding staff locally engaged at overseas posts) has tripled, with growth in AusAID staff overseas outstripping growth of staff located in Australia.³⁹ Over the same period, the real value of Australian ODA has risen by 86 per cent (see Figure 2.4) with the apparent ratio of ODA to staff declining. AusAID advised that this change reflects the need to invest in planning and design ahead of

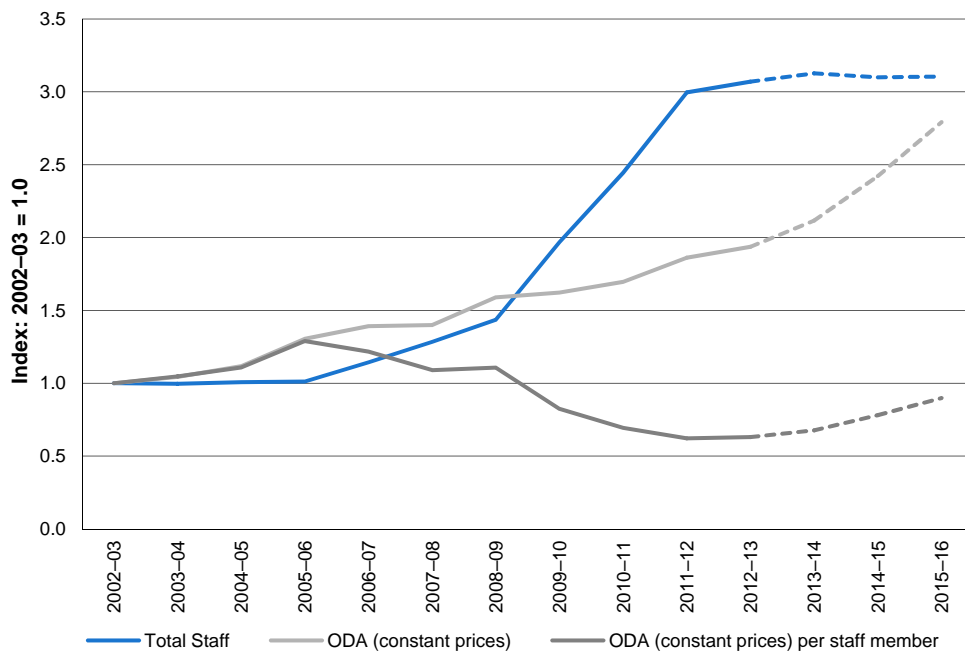
³⁸ AusAID, *Annual Report 2011–12*, pp. 254–55.

³⁹ AusAID advised that between 2002 and 2012, government policy to widen the geographic spread of the aid program resulted in AusAID increasing the number of countries in which it was represented from 22 to 40. This increase in AusAID's overseas presence has driven much of the relative increase in overseas staffing.

forecast growth in expenditure and that staffing growth has slowed in 2012–13 at the same time as growth in aid outlays are anticipated to accelerate.

Figure 2.4

Changes in staffing, ODA (constant prices) and the ratio of ODA (constant prices) to staff



Source: ANAO analysis of AusAID data as at 22 April 2013. Dashed lines represent forecast values.

2.14 AusAID’s approach to the delivery of aid is heavily influenced by Australia’s commitment to the 2005 Paris Declaration on Aid Effectiveness and the 2008 Accra Agenda for Action, and the 2011 Busan Partnership for Effective Development Cooperation. Collectively, these OECD-sponsored initiatives seek to improve aid effectiveness by promoting ownership of development priorities by developing countries. This includes aid recipients setting their own national development strategies and aid donors working together to harmonise aid flows and support developing country leadership of the aid agenda. It also includes a greater emphasis on working through developing country systems, a focus on improving the linkages between aid and development, and the building of a development partnership with broader

engagement with civil society and shared responsibility for outcomes.⁴⁰ These initiatives have provided strong cues for AusAID's management of aid over the past decade.

The Indonesian country program

Context

2.15 Indonesia is the third largest democracy in the world, after India and the United States, and one of Australia's closest neighbours. The country is the largest economy in Southeast Asia and a member of the G-20 group of major economies. The Indonesian economy withstood the global financial crisis better than many analysts expected and has continued to grow strongly since.⁴¹

2.16 However, Indonesia continues to face complex development challenges. Notwithstanding continued significant economic growth and steady growth in per capita incomes⁴², Indonesia will continue to face serious poverty challenges for the foreseeable future. This is because of the enormous variation in poverty rates around the country, high levels of poverty vulnerability and lacklustre performance in non-income poverty measurements.⁴³

2.17 Living standards for many Indonesians fall well below those enjoyed by Australians. An Indonesian woman is 30 times more likely to die in childbirth than an Australian woman and one in three children under the age of five suffer from stunting, caused by malnutrition. About 120 million Indonesians do not have access to safe drinking water while about 110 million do not have adequate sanitation. More than 120 million Indonesians live on less than \$2 per day and are vulnerable to shocks, like a natural disaster or an economic downturn.⁴⁴ Indonesia is also unlikely to meet its MDG target of

⁴⁰ Organisation for Economic Co-operation and Development (OECD), *Paris Declaration and Accra Agenda for Action*, available from <http://www.oecd.org/document/18/0,3746,en_2649_3236398_35_401554_1_1_1_1,00.html> [accessed 21 May 2012].

⁴¹ Department of Foreign Affairs and Trade, *Indonesia Country Brief*, available from <http://www.dfat.gov.au/geo/indonesia/indonesia_brief.html> [accessed 28 November 2012].

⁴² The World Bank, *Indonesia Overview*, available from <<http://www.worldbank.org/en/country/indonesia/overview>> [accessed 18 October 2012].

⁴³ AusAID, *Indonesia Annual Program Performance Report 2011*, Canberra, July 2012.

⁴⁴ AusAID, *Indonesia*, available from <<http://www.usaid.gov.au/countries/eastasia/indonesia/Pages/why-aid.aspx>> [accessed 28 November 2012].

halting and reversing the spread of HIV and providing universal access to HIV treatment for those who need it.⁴⁵

2.18 Even as the value of ODA to Indonesia grows, the dollar value of AusAID's contribution is modest in the context of the poverty challenges facing Indonesia. Australia provides \$5.20 per person living in poverty in Indonesia each year, compared to \$155 per person in East Timor and \$71 per person in Papua New Guinea.⁴⁶ While the aid program to Indonesia is Australia's largest, it equates to less than 0.5 per cent of the Indonesian Government budget.⁴⁷

2.19 Accordingly, while many elements of the aid program provide direct assistance to some of the poorest people in Indonesia, Australian aid is unlikely on its own to directly improve the situation of most of Indonesia's poor. Australian aid will be at its most effective where it is pursued in partnership with local authorities, is strategically aligned with local priorities and effectively supports efforts by the Indonesian Government's to more effectively utilise its own resources.

The size and structure of the program

2.20 ODA to Indonesia in 2012–13 is estimated to reach \$541.6 million.⁴⁸ Of this amount, \$476.6 million is anticipated to be provided through the AusAID-managed bilateral country program, \$30.1 million through AusAID-managed regional and global initiatives and a further \$34.9 million through programs administered by other Australian Government Departments.⁴⁹ The Government has indicated that, in line with overall growth in the aid program and subject to further budget decisions, ODA to Indonesia may reach \$950 million a year by 2015–16.⁵⁰

⁴⁵ AusAID, *Indonesia Annual Program Performance Report 2011*, Canberra, July 2012.

⁴⁶ AusAID, *Country Situation Analysis – Indonesia – Consultation Draft*, June 2012.

⁴⁷ AusAID, *Indonesia Annual Program Performance Report 2011*, Canberra, July 2012.

⁴⁸ Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 41.

⁴⁹ Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 41.

⁵⁰ Commonwealth of Australia, *Helping the World's Poor through Effective Aid: Australia's Comprehensive Aid Policy Framework to 2015–16*, Canberra, 2012, pp. 11–14. This target was announced in the context of government policy at the time to increase ODA to 0.45 per cent of GNI by 2015–16. On 14 May 2013, the Government announced a slowing of growth in the aid program, with ODA now expected to be reach 0.45 per cent of GNI in 2016–17. However, the Government has not publicly announced whether the revised growth targets will affect anticipated growth in ODA to Indonesia.

2.21 ODA to Indonesia increased markedly following the 2004 earthquake and tsunami. A significant source of additional funding was the five year \$1 billion *Australia Indonesia Partnership for Reconstruction and Development* (AIPRD), announced by the Australian Prime Minister on 5 January 2005. The \$1 billion of new money consisted of equal parts of grant assistance and highly concessional financing.⁵¹ Grant aid was to be directed to small-scale reconstruction, while concessional financing would initially go to reconstruction and rehabilitation of major infrastructure but could be extended to support long-term, sustained development cooperation and capacity building.⁵² The program was originally intended to be completed by 30 June 2009, although in 2006 the Government announced that the period over which funding would be provided would extend to 30 June 2011.⁵³

2.22 The AIPRD was initially subject to separate arrangements for decision making and implementation. A *Joint Commission of Australian and Indonesian Ministers* was established to take key decisions relating to the direction of funds, with support provided by a Secretaries Committee and a dedicated Secretariat within AusAID.⁵⁴ In 2008, the Joint Commission agreed to cease operations, with the ongoing administration of the related initiatives being managed in the context of the broader bilateral aid arrangements.

Australia Indonesia Partnership Country Strategy

2.23 The *Australia Indonesia Partnership Country Strategy 2008–13* (AIPCS) sets out the broad framework for the development cooperation program between AusAID and the GoI. Developed by AusAID in consultation with key stakeholders in the GoI and following an assessment of the performance of the preceding five year plan, the AIPCS gives priority to achieving sustainable poverty alleviation by delivering development outcomes consistent with Indonesia's own Medium Term Development Plan.⁵⁵ The key elements (or pillars) of the AIPCS are described in Table 2.1.

⁵¹ The concessional financing component provided \$500 million interest-free for up to 40 years with no repayment of principal for 10 years.

⁵² Howard, J (Prime Minister of Australia), 'Australia-Indonesia Partnership for Reconstruction and Development', media release, Parliament House, Canberra, 5 January 2005.

⁵³ ANAO Audit Report No.50 2005–06 *Arrangements to Manage and Account for Aid Funds Provided Under the Australia-Indonesia Partnership for Reconstruction and Development*, 2006, p. 11.

⁵⁴ *ibid*, p. 39.

⁵⁵ Ministry of National Development Planning, *2010–2014 National Medium-Term Development Plan*, available from <bappenas.go.id/get-file-server/node/9374/> [accessed 25 February 2013].

Table 2.1

Key Pillars of the Australia Indonesia Partnership Country Strategy 2008–13

Pillar	Topic	Description
1	Sustainable growth and economic management	Pillar 1 is the foundation of the AIPCS. It places increased emphasis on helping Indonesia achieve sustainable growth through improved natural resource and economic management. It also aims to reduce constraints to infrastructure and productivity growth. AusAID's Indonesian infrastructure program falls under Pillar 1.
2	Investing in people	Pillar 2 aims to work with Indonesia to achieve better health access and systems, as well as improve education quality, access and governance.
3	Democracy, justice and good governance	Under Pillar 3, Australia supports Indonesia as it strengthens the capacity and responsiveness of its legal, democratic and oversight institutions and improves the performance of select provincial and district governments, particularly in financial management.
4	Safety and peace	Pillar 4 places emphasis on working with Indonesia to improve responses to humanitarian needs, emergencies and vulnerability to disasters, as well as improving capacity to ensure transport safety and security and to counter threats from transnational crime.

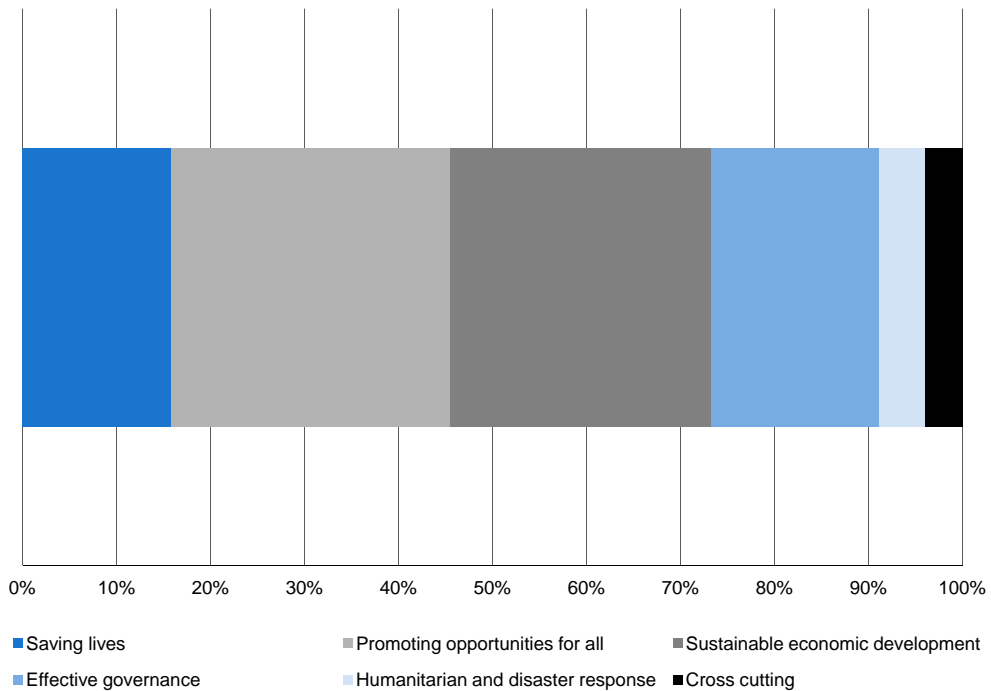
Source: Commonwealth of Australia, *Australia Indonesia Partnership Country Strategy 2008–13*, Canberra, June 2008.

2.24 The AIPCS was to be replaced in 2013. However, AusAID has advised the ANAO that the Australian and Indonesian Governments have agreed to extend the current country strategy until 2015. This will allow the next strategy to align with Indonesia's next Medium Term Development Plan, which will run from 2015–2020.

2.25 Public reporting of expenditure on ODA to Indonesia has evolved in line with AusAID's policy framework (described earlier in Figure 2.1), rather than continuing to reflect the structure of the AIPCS. In 2012–13, around 35 per cent of ODA is directed toward 'promoting opportunities for all', which involves a broad range of education initiatives included under the Investing in People pillar of the AIPCS. Around 30 per cent of ODA is directed to 'sustainable economic development', which aligns closely with the first pillar of the AIPCS and includes support for the GoI national program to raise rural incomes and a range of infrastructure and sustainable development initiatives (including EINRIP and IndII). The distribution of the 2012–13 program of ODA against AusAID strategic goals is described in Figure 2.5.

Figure 2.5

ODA to Indonesia in 2012–13 by sector (total \$541.6 million)



Source: AusAID, *Indonesia, Our funding for 2012/13*, AusAID, Canberra, 2013, available from <<http://www.ausaid.gov.au/countries/eastasia/indonesia/Pages/home.aspx>> [accessed 15 May 2013].

2.26 The AIPCS is supported by a joint Australia – Indonesia *Anti-corruption for development plan 2008–13*, and incorporates a Performance Assessment Framework to measure the effectiveness of Australia’s development assistance to Indonesia. The performance framework provides for the annual assessment of progress against the country strategy goals.

2.27 The formal framework for the delivery of development cooperation is provided by the *General Agreement on Development Cooperation between the Government of Australia and the Government of the Republic of Indonesia* (the GADC). The GADC envisages a broad range of possible activities and for the formulation of subsidiary arrangements (SAs) to govern the scope and administration of individual activities. The coordinating authorities for the

implementation of the Agreement are the Indonesian National Development Planning Agency (BAPPENAS) and AusAID.⁵⁶

2.28 Notwithstanding the continued development of Australia's aid strategy, the priorities of the AIPCS remain strongly supportive of current policy. The AIPCS shares the Australian aid program's ongoing focus on poverty alleviation and, through its four pillars, provides coverage of the key AusAID strategic goals. The close consultation with GoI during the development of the AIPCS, its inclusion of key GoI development priorities, and its use (where appropriate) of partner government systems are also consistent with Australia's commitment to both the Paris Declaration and the Accra Agenda for Action.

2.29 AusAID's public reporting of performance and expenditure in the Indonesian aid program is not closely aligned with the structure established by the AIPCS. In particular, AusAID's annual review of country program performance (most recently for 2011)⁵⁷ reports neither against the current strategic framework nor against the four pillars framework established by the AIPCS, instead reporting performance in 10 different sectors.⁵⁸ AusAID's annual report for 2011–12 reviews Indonesian program performance against the current program strategic objectives and also assesses performance in relation to the MDGs.⁵⁹ In February 2013, AusAID advised that the new Indonesia Country Strategy (now due to be released in 2015) will be aligned with the Comprehensive Aid Policy Framework (CAPF) 'to ensure consistency in the way results are reported'.

2.30 The release of a new AIPCS in 2015 will not only provide an opportunity to better align the strategy with GoI development priorities but will also improve the alignment of the plan with Indonesia's national election cycle. The next Indonesian presidential election is to be held in mid-2014 (following parliamentary elections earlier in the year) and will elect a president for a five-year term.

⁵⁶ Although the GADC has been in place since 1999, it continues to provide a broadly appropriate framework for the management of development cooperation. AusAID has advised that it may be appropriate to consider updating some elements of the framework to reflect developments in the relationship but a formal review of the GADC has not been scheduled at this time.

⁵⁷ AusAID, *Indonesia Annual Program Performance Report 2011*, Canberra, July 2012.

⁵⁸ Including education, health, transport and connectivity, water and sanitation, social protection and community driven development, climate change, disaster risk management, governance, law and justice, and rural livelihoods and agribusiness.

⁵⁹ AusAID, *Annual Report 2011–12*.

2.31 The improved alignment between the aid planning cycle and Indonesia's domestic political and policy schedules will assist AusAID in responding in the medium term. However, it will be important that the AIPCS remain relevant over time, not only at a strategic level, but also in regard to its identification of more detailed priorities. This will allow the new AIPCS to provide guidance to decision makers, a foundation for measuring performance and assurance to stakeholders. In February 2013, AusAID advised that it considered its process of annual review provided opportunities for adaptive management of country strategies, noting that the new strategy will be:

... monitored and revised as necessary through its lifespan in order to ensure it remains relevant and provides guidance for program decision making and performance measurement.

Administration

2.32 Approved staffing for AusAID's Jakarta post for 2012–13 is 175, comprising 39 Australia-based staff and 136 locally engaged staff.⁶⁰ The Jakarta post is led by a Senior Executive Band 2 Minister. The function of AusAID staff in Jakarta include:

- design, implementation and management of aid program activities (including overseeing work undertaken on AusAID's behalf);
- program monitoring, performance assessment and reporting;
- advocacy and dialogue with host governments on development policy issues, as well as with regional and international development organisations⁶¹;
- managing and coordinating stakeholder relations; and
- risk management and fraud control.

2.33 AusAID staffing in Jakarta has risen sharply in recent years, rising by 42 per cent between 2007–08 and 2012–13. This increase reflects the growth in the aid program and in the complexity of the program and the environment as well as an increasing emphasis by AusAID on developing and managing aid off-shore. The Government's April 2006 White Paper *Australian Aid – Promoting*

⁶⁰ Of the 175 staff, 98 are paid from departmental funds and 77 from appropriated funds.

⁶¹ AusAID's larger and medium sized posts, such as Jakarta, undertake more advocacy and dialogue with host governments than smaller posts.

Growth and Stability supported the need to locate more Government-employed staff overseas.⁶² The impact of devolution on the split of responsibility between AusAID's Canberra headquarters and overseas posts was also described in the 2007 *AusAID 2010 – Director General's Blueprint*, which noted that:

... it will be the job of Canberra to set the strategic direction for the agency and to oversee, equip and support overseas offices, and it will be the job of overseas offices to deliver the program.⁶³

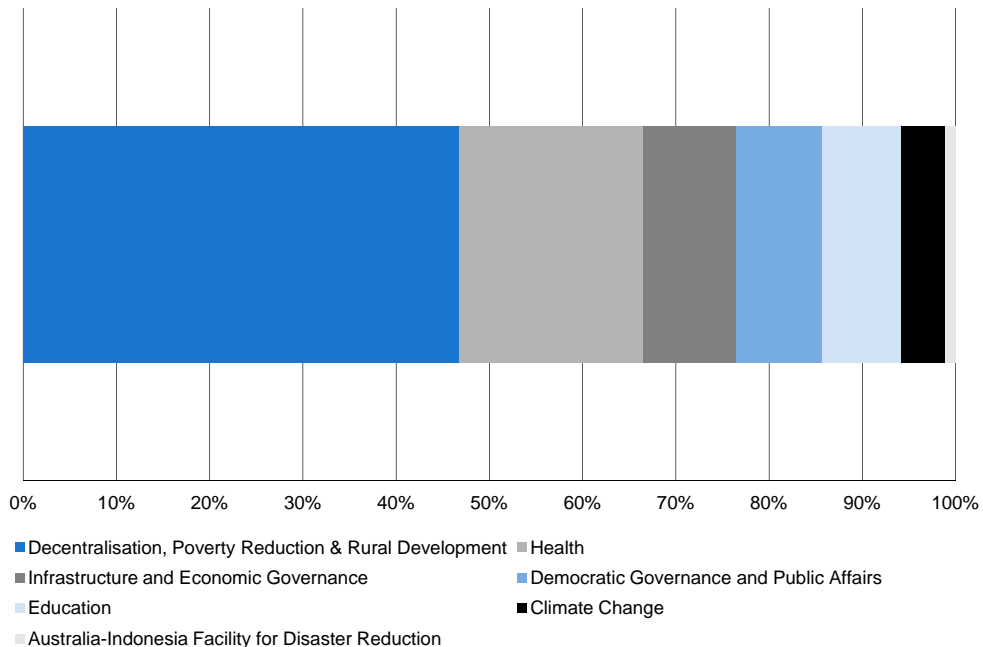
2.34 While AusAID's own staffing in Indonesia has grown, the largest group of persons involved in the delivery of Australia's aid program in Indonesia are not included in the above paragraphs. Aid delivery is primarily undertaken by individuals and firms contracted to, but administratively outside of, AusAID Jakarta. AusAID has advised that, as at 1 July 2012, there were in excess of 5400 people employed by the agency as contractors or subcontractors and actively engaged in the delivery of the Australian aid program⁶⁴, including 160 engaged in the delivery of EINRIP and IndII. Over 90 per cent of contractors or subcontractors (4970) were Indonesian nationals and more than 55 per cent (of the total) were employed on a long-term basis. AusAID classify around half of contractors and subcontractors as having an advisory role, with half filling administrative or support roles.

2.35 The disposition of the contractor and subcontractor personnel by sector is shown in Figure 2.6. The Decentralisation, Poverty Reduction and Rural Development sector employs more than 45 per cent of contractors and subcontractors, including 1339 on the Poverty Reduction Support Facility (PRSF). AusAID has advised that the majority of the 1339 subcontractors were casual staff employed for short periods (mainly to conduct surveys) and that only 56 long term administrative staff are employed by the PRSF.

⁶² AusAID, *Australian Aid - Promoting Growth and Stability: A White Paper on the Australian Government's Overseas Aid Program*, Canberra, 2006, p. 72.

⁶³ AusAID, *AusAID 2010: Director General's Blueprint*, 20 February 2007, p. 2.

⁶⁴ This does not include any Gol personnel fully engaged in aid projects, such as the EINRIP Project Management Unit within the Directorate General of Highways (DGH).

Figure 2.6**Disposition of personnel engaged in delivering Australian aid to Indonesia as at 1 July 2012 (total 5400)**

Source: AusAID advice to ANAO dated 24 October 2012.

2.36 AusAID staff in Jakarta carry principal responsibility for coordination with other aid donors and multilateral agencies. ANAO observed a high level of awareness of the activities of other participants in the aid sector, and a number of close and effective relationships with other key donors and multilaterals. However, consistent with Paris Declaration and Accra Agenda for Action, GoI plays a central role in coordinating the activities of donors (primarily through BAPPENAS) and there is limited use of formal coordination mechanisms, such as donor forums, amongst aid donors.

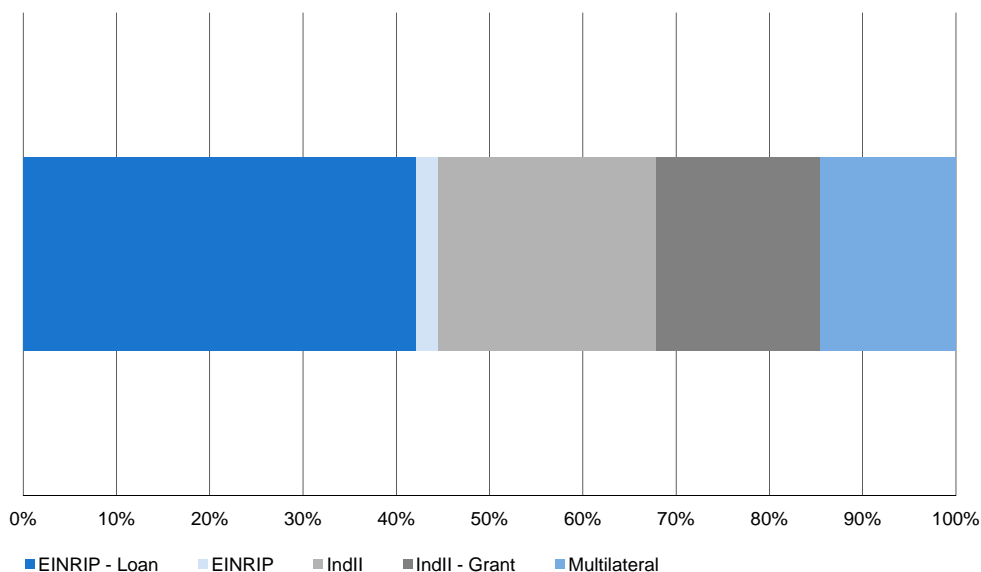
Management of the infrastructure program

2.37 AusAID's program of infrastructure aid to Indonesia is expected to amount to some \$130 million in 2012–13, including \$55 million of loan funding. Two activities account for the majority of expenditure on infrastructure aid in 2012–13 (see Figure 2.7):

- the Eastern Indonesia National Roads Improvement Program (EINRIP), with expenditure of \$58 million (including \$55 million in loan funds); and
- the Indonesia Infrastructure Initiative (IndII), with expenditure of \$53.5 million comprised of a mix of technical assistance and grant funding.⁶⁵

Figure 2.7

Composition of infrastructure aid, 2012–13



Source: AusAID data.

2.38 In addition, AusAID anticipates providing \$19 million in infrastructure-related grant funding to multilateral institutions in 2012–13 (see paragraph 1.12), including:

- \$9 million for PAMSIMAS;
- \$5 million for Indonesia Infrastructure Support (INIS); and
- \$5 million to support Asian Development Bank (ADB) activities.

⁶⁵ The planning and delivery of EINRIP and IndII are discussed in detail in Chapters 3 and 4 (respectively).

2.39 AusAID's current planning pipeline for infrastructure aid provides for further growth in the infrastructure program of around 20 per cent through to 2014–15. The major vehicle supporting planned growth is IndII, through grants and technical assistance, where expenditure is expected to reach \$113 million in 2014–15.

2.40 Day-to-day, AusAID's infrastructure sector interests in Indonesia are managed on a sectoral basis under the Counsellor (APS Executive Level 2) Infrastructure and Economic Governance Team. EINRIP is delivered primarily through Indonesian government systems, but AusAID's management of their engagement is supported by the operations of the EINRIP Monitoring Unit (EMU). The EMU is comprised of locally engaged technical specialist and administrative staff and its operation is discussed further in Chapter 3. The day-to-day administration of IndII is undertaken by a managing contractor. Arrangements for the administration of IndII are discussed further in Chapter 4.

2.41 Administrative arrangements for delivering infrastructure aid are consistent with the current AIPCS but do not align closely with broader agency strategic goals or reporting. Under the AIPCS, both infrastructure and water and sanitation initiatives support Pillar 1: Sustainable Growth and Economic Management. However, under the strategic framework outlined in *Australia's Comprehensive Aid Policy Framework to 2015–16*, water and sanitation initiatives are aligned with general public health interests under the strategic goal of *Saving Lives*, while other infrastructure activity supports the *Sustainable Economic Development* goal.

2.42 On several occasions in recent years, AusAID Jakarta has begun to develop an explicit infrastructure sector strategy however, to date, no sectoral strategy has been finalised. Under current AusAID policy, country strategies should be supported by operational strategies focusing on particular outcome areas identified in the country program strategy, often a sector. These sectoral delivery strategies set out current/proposed individual investments and programming approaches, policy dialogue, partnerships/agreements and supporting research and analysis. A sectoral delivery strategy should help to identify internal capacity and resourcing requirements and associated management strategies; and are the primary means of outlining how a program is planned, at the sectoral level. AusAID policy notes that sectoral delivery strategies are to be developed concurrently with country program strategies and are to be available to the stakeholders and general public shortly after the publication of the country program strategy.

2.43 The ANAO considers the development of an explicit infrastructure sector strategy would add value to program planning, delivery and evaluation. Explicitly agreeing sectoral goals and priorities would provide an enhanced basis for improved selectivity at a time when options for scaling up are being considered. It would also provide for improved program level management, allowing for consideration of strategic sectoral interests and the scope of multiple projects to contribute to advancing those interests. In the absence of articulated sectoral priorities, there is a heightened risk that the sector strategy becomes, by default, the sum of the individual initiatives.

2.44 Many of the issues that are creating challenges for AusAID in the development of its new country strategy also impact on the development of sectoral strategies. It is important that sectoral strategies remain dynamic and responsive to environmental change and do not lock the agency into priorities whose relevance may change over time. Given the current pipeline of development activity in the infrastructure sector, AusAID would be better served having a sectoral strategy in place sooner rather than later. In January 2013, AusAID advised the ANAO that ‘in line with agency guidance and potential recommendation one, AusAID will produce an infrastructure sector delivery strategy in 2013’.

Conclusion

2.45 To be effective, Australia’s program of development cooperation with Indonesia must recognise both the maturity of Indonesia’s institutional arrangements and the scale and nature of the development challenges it faces. It must also reflect a realistic assessment of the capacity of AusAID to meaningfully influence local outcomes and accommodate the work of other donors.

2.46 AusAID’s program of infrastructure aid is positioned with a country program strategy that, notwithstanding its imminent replacement, is well aligned with and supportive of current agency strategic goals. It provides support for both the targets set under the MDGs and the commitments made under the Paris Declaration and the Accra Agenda for Action. The strategy emphasises the importance of working through Indonesian government systems to ensure ownership and sustainability of development initiatives, and acknowledges and accommodates the development challenges and goals of Indonesia.

2.47 Effective infrastructure aid is a large and central element of the overall country strategy. Infrastructure aid is expected to account for 25 per cent of all Australian ODA to Indonesia in 2012–13 and further growth in the sector is anticipated in coming years. The majority of Australian infrastructure aid to Indonesia is provided through the EINRIP and IndII. These two initiatives are expected to account for \$111 million of the \$130 million that AusAID anticipate spending on infrastructure aid to Indonesia in 2012–13.

2.48 EINRIP and IndII are well aligned with, and supportive of, AusAID's strategic objectives for the bilateral country program and the aid program generally and AusAID works well with other donors in the infrastructure sector, including multilateral agencies. However, AusAID presently lack an explicit strategy for its overall engagement in the Indonesian infrastructure sector, and the extent to which EINRIP and IndII are directed toward, and are meeting, shared sectoral objectives is not clear. The development of such a strategy would assist AusAID and external stakeholders in assessing the performance of EINRIP and IndII, and provide AusAID with sound foundation for long term planning, management and evaluation of its infrastructure sector interests. In January 2013 AusAID advised the ANAO that will produce an explicit infrastructure sector delivery strategy for Indonesia in 2013.

Recommendation No.1

2.49 To support improved program planning, delivery and evaluation, the ANAO recommends that AusAID progresses the development of a sector strategy for infrastructure aid to Indonesia, with a view to finalising the strategy as soon as possible.

AusAID's response: *Agreed (see Appendix 1 for further comment).*

3. The Eastern Indonesia National Roads Improvement Project

This chapter considers the effectiveness of AusAID's administration of the Eastern Indonesia National Roads Improvement Project (EINRIP). It reviews the current status of the initiative and examines AusAID's planning, implementation and subsequent oversight of key program elements, including the Anti-Corruption Action Plan (ACAP).

Introduction

3.1 The Eastern Indonesia National Roads Improvement Project (EINRIP) was announced by the AIPRD Joint Commission Ministers on 7 December 2005⁶⁶, as part of a series of significant new funding commitments under the \$1 billion AIPRD (see paragraph 2.21). Ministers announced that the 'objective of EINRIP [was to] support regional economic and social development, particularly in Eastern Indonesia, by improving the condition of 2000 km of national roads and replacing approximately 4500 m of essential bridging'.^{67, 68} EINRIP would be funded by up to \$300 million in AIPRD loan funds, and up to \$28 million⁶⁹ in AIPRD grant funds for project development and implementation support.⁷⁰ The project was to be completed by mid-2009, less than four years following the announcement.

3.2 Twenty road betterment packages were ultimately included in the project and their location is shown in Figure 3.1.⁷¹ A full listing of the packages is at Appendix 2.

⁶⁶ Australia Indonesia Partnership for Reconstruction and Development, 'Third Joint Ministerial Statement', media release, 7 December 2005.

⁶⁷ *ibid.*

⁶⁸ Although announced in the context of Australia's commitment to provide increased assistance to Indonesia following the 2004 earthquake and tsunami, EINRIP was not targeted at rectifying damage done in that disaster. Consistent with the announced scope of the AIPRD, EINRIP was directed at longer term economic development.

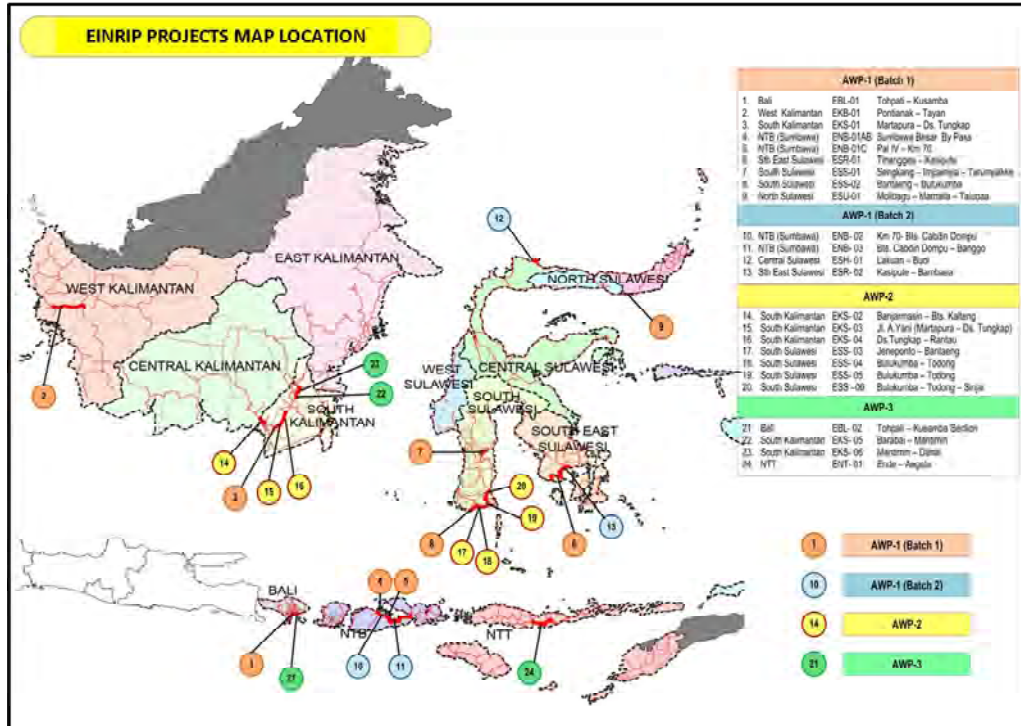
⁶⁹ This has subsequently been increased to \$36 million, in line with extension of the closure date of the EINRIP loan facility to December 2014.

⁷⁰ Under the terms of the Loan Agreement, the Government of Indonesia is also providing \$30 million to finance applicable taxes under the project. Given the difficulties in administering tax exemptions for project activities, this contribution is made as a co-contribution for civil works, amounting to 11 per cent of contracted costs.

⁷¹ Figure 3.1 shows a total of 24 road betterment packages. Road packages EKS-3, 4, 5 and 6 (which appear at numbers 15, 16, 22 and 23 in the list) did not subsequently proceed to procurement.

Figure 3.1

EINRIP Project Locations



Source: AusAID documentation.

3.3 EINRIP is primarily delivered through Indonesian government systems. While AusAID provided support for project development (including the preparation of detailed engineering designs) and maintained ongoing financial and technical oversight, the GoI carried primary responsibility for project implementation and management, including tendering and contractor supervision.

3.4 The ANAO examined the current status of the initiative, including performance against original targets. To assist with understanding the current status of EINRIP and to identify any opportunities for improved administration, the ANAO also reviewed AusAID’s:

- planning and design processes;
- implementation and delivery, including the management of shared responsibilities; and
- management of issues arising in the administration of EINRIP.

Current status

3.5 At the time of audit field work in July 2012, all major institutional and governance frameworks for EINRIP were in place and project delivery was proceeding. Through close monitoring and effective cooperation between AusAID and Directorate General of Highways (DGH), design work had been completed, civil works packages were being progressed and many of the challenges to the quality of program outcomes were being addressed with increasing effectiveness. Importantly, the engineering and design standards adopted for the project are providing higher quality and more durable roads, and initial evaluation data suggests significant gains are accruing to communities serviced by project roads.

3.6 However, EINRIP has provided numerous challenges for AusAID. When compared to the original December 2005 announcement by Ministers, there have been significant delays in implementation and several revisions to scope. Timing in particular has remained volatile. AusAID now expects the project to be concluded by December 2014, some nine years after initial announcement and four and a half years after the originally anticipated completion date of June 2009. While project scope has remained stable since September 2009, the works to be undertaken through EINRIP, albeit more substantive, are now expected to be less than 20 per cent of the length originally forecast. The factors underpinning the changes to timing and scope are complex, reflecting the context of the original announcement, the length of time taken to clearly define the parameters of the desired investment, and inherent volatility in the economic and policy environment.

3.7 Achieving desired quality standards is also proving difficult. AusAID anticipated that considerable investment would be required if quality standards were to be consistently achieved, as these were set substantively higher than are generally achieved within the sector. These standards are generally being met, although this is requiring ongoing, intensive engagement from AusAID. AusAID confirmed in January 2013 that 'all EINRIP packages completed to date are substantively compliant with design specifications, which are of a considerably higher standard than other national roads being built in Indonesia'.

3.8 Achieving broader institutional change, while not directly targeted in original project design, remains a goal for the project. If achieved, this will provide more significant and broader based benefits for Indonesia. Early

evidence is mixed, with some positive outcomes but key features of the revised institutional arrangements are having trouble gaining traction.

3.9 AusAID has established strong relationships with GoI implementing partners and has the necessary internal capacity to manage the project closely. However, this remains a sector with an inherently high level of difficulty and substantive ongoing risk. This is evidenced by the experience of multilateral agencies and other donors with extensive engagement in infrastructure development. EINRIP's ongoing risk profile is also shaped by its use of partner government systems (PGS) for project delivery. This has been a necessary consequence of the decision to finance the activity with a concessional loan rather than grant funding, but the use of PGS is also consistent with broader agency policy and offers scope for increasing project value.

3.10 Both the institutional framework and the broader relationship context inherent in such an arrangement constrain AusAID's capacity to directly influence project administration and outcomes. This is relevant to any assessment of AusAID's management of the initiative, and needs to be clearly communicated to both internal and external stakeholders.

3.11 EINRIP has been a valuable learning experience for AusAID. While the ANAO was able to identify scope to improve aspects of planning, delivery and reporting (including maintaining clear visibility over assurance frameworks), many of the issues observed had also been identified by AusAID through its internal and external review frameworks. Overall, starting from a relatively low base, AusAID has acquired useful institutional capability and sectoral understanding to support ongoing engagement in the infrastructure sector.

Planning and delivery

Concept development

3.12 The Indian Ocean earthquake and tsunami of 26 December 2004 was one of the worst natural disasters in recent human history. Across the region, the tsunami devastated over 5000 miles of coastline, destroyed 2000 miles of roads, swept away 430 000 homes and damaged or destroyed 100 000 fishing boats. The number of dead and missing approached 230 000.⁷²

⁷² Joint Standing Committee on Foreign Affairs, Defence and Trade, *Australia's response to the Indian Ocean Tsunami*, Parliament of Australia, June 2006.

3.13 Indonesia was hardest hit by the disaster, with more than 130 000 people killed⁷³ and 500 000 people displaced. Over 11 000 hectares of land was damaged and 230 kilometres of roads were destroyed. Three months later, on 28 March 2005, another massive earthquake occurred off the island of Nias in Sumatra. This earthquake left a further 70 000 people displaced and nearly 1000 people dead.⁷⁴

3.14 Indonesia received the greater part of Australia's assistance in the wake of the disaster, with medical relief, water supply and sanitation, child protection and logistical support provided during the emergency phase. Overall, Australia was the second highest contributor to tsunami aid after the United States. The Australia Indonesia Partnership for Reconstruction and Development (AIPRD), combining \$500 million in grant aid and \$500 million in concessional loans, was a key element of Australia's response to the disaster.

3.15 As an AIPRD initiative, initial development work for EINRIP was undertaken outside of the usual AusAID development processes. The development and delivery of the AIPRD over a relatively short timeframe presented AusAID with a substantial challenge. This is particularly so given the lead times normally involved in identifying, designing and implementing suitable projects. AusAID adopted a range of strategies designed to manage delivery pressures, including, to reduce the risk of delays, proceeding with the identification and development of individual loan projects in parallel with overarching AIPRD arrangements. As such, early project development was accelerated, and a decision to proceed, and an announcement regarding its objective, scope and timing of the initiative, were made earlier in the project development process than would usually occur.

3.16 Concept development was supported by an initial review of the relative merit of engagement in various areas of infrastructure development. A proposal recommending a focus on the road sector was put to the AusAID's Jakarta Minister Counsellor and the head of the AIPRD secretariat in late May 2005, and in late June 2005, the then Minister for Foreign Affairs (the Minister) was approached seeking agreement to the development of a program of

⁷³ Joint Standing Committee on Foreign Affairs, Defence and Trade, *Australia's response to the Indian Ocean Tsunami*, Parliament of Australia, June 2006.

⁷⁴ Commonwealth of Australia, *Australia's response to the Indian Ocean tsunami: Report for the period ending 30 June 2005*, Canberra, 2005.

support for road transport infrastructure improvement involving \$250 to \$300 million in concessional loan financing or grants.

3.17 The Minister was advised that the opportunity existed for the AIPRD to finance a parallel program of road transport infrastructure to that being designed under the proposed National Roads Improvement Project (NRIP), being financed by the World Bank. NRIP was being designed by the GoI to improve 2500 km of the 8000 km of roads recently reclassified as national roads, with a Bank loan of about US\$300 million. On 29 June 2005, the Minister agreed that details of proposed activity be finalised with Indonesian officials, with a view to then seeking out-of-session Joint Commission endorsement of the activity.

3.18 During September 2005, following agreement from the Joint Ministerial Commission for the AIPRD, AusAID engaged consultants to further develop the proposed road program in consultation with the GoI. Once the consultants had completed the AIPRD Road Program Identification Mission, and a proposed project outline (PPO) was prepared in October 2005. The PPO was subject to both a peer review and formal appraisal process. EINRIP was formally announced by the AIPRD Joint Commission on 7 December 2005.

Project preparation

3.19 Following the December 2005 announcement by Ministers, AusAID proceeded with project preparation on a range of fronts, including obtaining necessary financial approvals, and finalising the formal government to government arrangements under which the project would be pursued. AusAID also initiated necessary technical planning and preparation activity.

3.20 In March 2006, AusAID engaged URS Australia Pty Ltd as the Project Preparation Consultant (PPC) for EINRIP. The PPC was responsible for several tasks, including, preparing a feasibility study of candidate road and bridge sub-projects, and developing final engineering designs. The PPC published the Project Implementation Plan (PIP) on 18 June 2007. The PIP set out institutional and administrative arrangements for project implementation and a framework for monitoring and evaluation. It also described key elements of the risk management framework, including the environmental and social safeguards and anti-corruption measures that would apply to the project.

Implementation and delivery

3.21 The Loan Agreement for EINRIP, signed on 7 September 2007, set a number of conditions which needed to be met before EINRIP loan funds could be made available. On 4 March 2008, AusAID agreed that all necessary conditions had been met and declared that the loan was effective and EINRIP implementation was able to proceed. A broad outline of the implementation and delivery arrangements for EINRIP is discussed below and key implementing responsibilities are outlined in Table 3.1.

Table 3.1

EINRIP implementing responsibilities

AusAID responsibility	Government of Indonesia responsibility
Grant-funded	Loan-funded
Project Preparation Consultant	Management of road works and bridge replacement works, including procurement
Monitoring and oversight including: <ul style="list-style-type: none"> • monitoring and evaluation • technical and financial audit • procurement agent • road safety audits To assist with managing these functions, AusAID established the EINRIP Monitoring Unit (EMU) in late 2008	Procurement and management of key personnel including: <ul style="list-style-type: none"> • Project Management Support • Procurement Advisory Services • Regional Supervision

Source: ANAO from AusAID data.

Governance arrangements

3.22 Under the terms of the EINRIP Loan Agreement, DGH is the executing agency, and is responsible for the engagement and, through the supervising engineer, oversight of all works contractors.

3.23 A major initiative under EINRIP has been the requirement that GoI employ a supervising engineer consistent with the internationally established FIDIC⁷⁵ supervisory model. Use of the FIDIC supervisory model is mandated by the EINRIP ACAP, as a method of strengthening the supervision of civil works. It is also identified in the EINRIP PIP Risk Matrix as the principal

⁷⁵ *Fédération Internationale des Ingénieurs-Conseils* (International Federation of Consulting Engineers).

mitigation strategy for addressing the risk that construction quality may fail to meet technical specifications.

3.24 The implementation of each EINRIP package involves a similar process. Initially, the GoI undertakes action to identify and address barriers so that there are no barriers to project implementation. This may include any necessary land acquisition, which is required to be managed according to the provisions of the Loan Agreement and the Project Management Manual. GoI then seeks a no objection letter (NOL) from AusAID before initiating procurement action. After procurement action has been completed, the GoI seeks a NOL from AusAID in relation to the proposed contract, after which the contractor can be mobilised and construction commenced. Any proposed variation to the original contract is also assessed by AusAID prior to its execution (all packages, other than those in very early stages of implementation, have been subject to contract variations). When construction is complete, formal handover to the GoI occurs. There is a 12 month period following handover in which the contractor is obliged to rectify any deficiency in construction.

Performance reporting and monitoring

3.25 In addition to internal monitoring and evaluation arrangements, EINRIP has been subject to a significant amount of external scrutiny, consistent with broader AusAID arrangements for the evaluation of effectiveness of aid activities. This has included:

- an Independent Completion Report (ICR) of the work PPC in 2009⁷⁶;
- an Independent Progress Review (IPR) of EINRIP in 2011–12⁷⁷; and
- regular assessments of performance and progress through AusAID's Quality at Entry and Quality at Implementation reviews.

3.26 Extensive monitoring and reporting on project progress and compliance is also undertaken by DGH. Much of the information is available through the EINRIP project website <http://www.pmueinrip-binamarga.com/pmu/>, maintained by DGH. In addition, regular financial and

⁷⁶ AusAID, *Independent Completion Report: EINRIP Project Preparation Consultant*, 2009, available from <<http://www.usaid.gov.au/Publications/Documents/einrip-ppc-icr.pdf>> [accessed 6 November 2012].

⁷⁷ AusAID, *Eastern Indonesia National Road Improvement Project: Independent Progress Review*, 2012, available from <<http://www.usaid.gov.au/countries/eastasia/indonesia/Documents/einrip-ipr.pdf>> [accessed 6 November 2012].

compliance audits undertaken by the GoI, and technical audits undertaken by AusAID, are published through the project website.

Issues in administration

3.27 EINRIP is one of the largest projects ever undertaken by AusAID. Project development was undertaken at an accelerated rate, within the broader context of the development of the Australian response to the 2004 tsunami. When the AIPRD was announced in 2005, AusAID had little experience in either the infrastructure sector or the specific delivery model proposed.

3.28 AusAID sought to mitigate its inexperience by consulting broadly in project development, leveraging relevant structures and practices from the World Bank and the Asian Development Bank, and contracting in relevant expertise. AusAID also established a broad framework for maintaining project oversight and for containing key project risks, which has worked with increasing effectiveness over the life of the initiative, and has built strong relationships to support project outcomes.

3.29 At the time of the audit, all key structural and administrative elements to support project implementation were in place, civil works were achieving the quality standards set in project design (albeit with close and intensive management), and the rate of implementation was consistent with the revised project completion date of December 2014. This has included, by September 2012, completion of six of the 20 EINRIP packages of civil works, totalling 105 kilometres, and of separate packages of bridge replacement totalling 1385 meters. A further eight packages of road works were more than 50 per cent complete. Early evaluation results suggest completed works are delivering anticipated benefits to local communities. In particular, a high traffic generation effect (that is, increases in both traffic volumes and speeds on EINRIP roads compared with control roads) has been observed, consistent with the relatively rapid development that AusAID notes is being observed in the corridors where EINRIP packages are under construction.⁷⁸

3.30 Nonetheless, EINRIP's project scope and timing has changed significantly since its announcement by Ministers in late 2005, and the project faces ongoing implementation challenges. Achieving project quality standards

⁷⁸ AusAID have also advised that they are aware of anecdotal information suggests that land prices in EINRIP road corridors have risen sharply, but note that this is yet to be substantiated.

is requiring ongoing monitoring and remediation investment at higher levels than originally foreseen. While a broad anti-corruption framework has been put in place, there are gaps in its implementation, and AusAID lacks visibility over implementation partners' compliance with the anti-corruption framework. In addition, there are important challenges to project sustainability, such as road maintenance practices and vehicle overloading, which remain to be effectively addressed. Further work is also required if the revised design and supervision practices piloted through EINRIP are to have a broader impact.

Project duration and scope

3.31 As noted earlier, EINRIP is now expected to deliver 395 kilometres of road betterment and, separately, 1385 metres of bridge rehabilitation or replacement,⁷⁹ which constitutes a substantial reduction in the linear scope of road improvement work compared to the 2005 announcement by Ministers. AusAID now anticipate EINRIP will be completed by December 2014, some nine years after initial announcement and four and a half years after the originally anticipated completion date. The reasons for the departure from originally announced outcomes have provided several important lessons for AusAID, particularly in regard to the management of risks associated with the development of complex infrastructure projects within tight time constraints.

3.32 The reduction in the linear scope of EINRIP outputs reflects issues in AusAID's initial assessment and provision of advice to decision makers, as well as later changes in the regulatory environment and the cost of inputs.

3.33 In particular, the initial scope and timing of EINRIP was announced well ahead of the substantive work necessary to clearly establish project parameters and to validate the assumptions that underpinned initial advice to government. Advice provided to the AIPRD Joint Commission and Ministers in 2005 regarding the scale of work achievable within the proposed funding envelope was consistent with the experience of other agencies in Indonesia at that time, but was based on the assumption that only limited civil works would be required to achieve the desired extent of road betterment. The advice to the AIPRD Joint Commission and Ministers did not clearly identify the assumptions underpinning the proposed project scope, nor of the potential

⁷⁹ Project Management Unit EINRIP, *EINRIP Project Progress Report: August 2012*, Directorate General of Highways, 2012, p. 6.

risks to achieving the scale of announced works if the assumptions were not robust.

3.34 During initial project scoping and the preparation of advice to the AIPRD Joint Commission and Ministers, AusAID had limited opportunity to test assumptions regarding the condition of roads and the nature of work being sought by the GoI as the borrower, including the assumption that only limited civil works would be required.⁸⁰ As project preparation progressed, and AusAID, in consultation with GoI, was able to identify and inspect priority road corridors, AusAID became aware that some key assumptions underpinning the original advice to the AIPRD Joint Commission and Ministers were no longer relevant. More substantive civil works would be required to meet project objectives agreed with the GoI, and the implementation task would therefore be considerably more complex. Accordingly, both project scope and timing were revised.

3.35 Following the announcement by the AIPRD Joint Commission, during detailed project preparation, changes in national road standards increased the required width of project roads. This affected the preparation of detailed designs for the road betterment work and the quantity of inputs that would be required. It also increased the requirement for land acquisition by government. While some volatility in the regulatory framework could have been assumed, the nature of the change and its potential impact were difficult to foresee. Also during detailed project preparation, there were significant increases in input prices, which reflected broader economic developments within Indonesia.⁸¹ While the possibility of increases in input costs was reasonably foreseeable (although the extent may have not been), such increases nonetheless reduced the potential scope of work that was able to be achieved within the fixed funding envelope.

3.36 The factors resulting in the delay in project completion are less apparent. Initially anticipated to take less than four years, EINRIP has been formally extended twice, and is now likely to take some nine years from announcement to conclusion. As originally conceived, the project was of a type which the experience of other infrastructure projects suggested could be

⁸⁰ The ANAO has independently assessed reports from the World Bank concerning contemporary road betterment projects, but has relied upon advice from AusAID regarding the quality of advice from GoI road maintenance systems.

⁸¹ The 2009 review of PPC performance notes advice at that time that some input costs (such as fuel, cement and steel) had risen in cost by as much as 75 per cent.

reliably managed to schedule. Nonetheless, the initial time frame for project delivery was optimistic. In particular, the Eastern Indonesia Region Transport Project, which was nearing completion in 2005 and the scope and conduct of which informed AusAID planning, had taken nearly six years from initial concept review through to project closing.⁸²

3.37 Further delays arose in project preparation. Completion of the initial phase of project preparation was delayed by some 16 months, to November 2008 and as a consequence, work on the first of the betterment packages did not start until August 2008, a year behind schedule. The 2009 review of the PPC process identified a number of factors contributing to delays in project preparation. Some, such as incorrect assumptions regarding the availability of local expertise and how quickly consensus could be reached on technical design and process reforms, were consistent with AusAID's inexperience in the sector.⁸³ Others were largely outside of AusAID's control, such as the impact of changes to national regulations, staff turnover in the PPC contractor and delays in the land acquisition process.

3.38 Delays in project implementation have also been significant and continue to be an issue requiring close engagement by AusAID. The rate of disbursement of project funds (Figure 3.2) is indicative of the delays in civil works. Since implementation commenced in late 2008, the disbursement of project funds has not kept pace with either the original June 2011 loan closure date, or the revised March 2013 loan closure date. AusAID has advised the ANAO that the loan closure date has now been extended to December 2014. ANAO analysis of project expenditure data to October 2012 suggests only a slight increase in the rate of disbursement would be required to allow the revised loan closure date to be met.

3.39 A 2012 review undertook an analysis of package timelines and concluded the principle sources of project delay had been in:

- land acquisition (which emerged as a more substantive issue when changes to government regulations widened road widths);
- initiating procurement action (although delays were not excessive);

⁸² The World Bank, *Eastern Indonesia Region Transport Project*, available from <<http://www.worldbank.org/projects/P040578/eastern-indonesia-region-transport-project?lang=en>> [accessed 3 March 2013].

⁸³ This is consistent with briefing to the AIPRD Secretaries Committee in November 2006, which noted a five month delay in signing the project loan agreement due to delays in agreeing procurement reforms, and in June 2007, which noted a six month delay in commencing works due to delays in agreement construction supervision arrangements with the Gol.

- the process for approving variation orders (which are a usual element of major construction work and were required for every contract under EINRIP) was complex and centralised even for small value orders, and took up to 12 months to complete, delaying project completion and frequently increasing project costs; and
- contractor performance, where delays could result from the contractors not mobilizing qualified management, or providing adequate working capital or appropriate equipment in sufficient numbers.⁸⁴

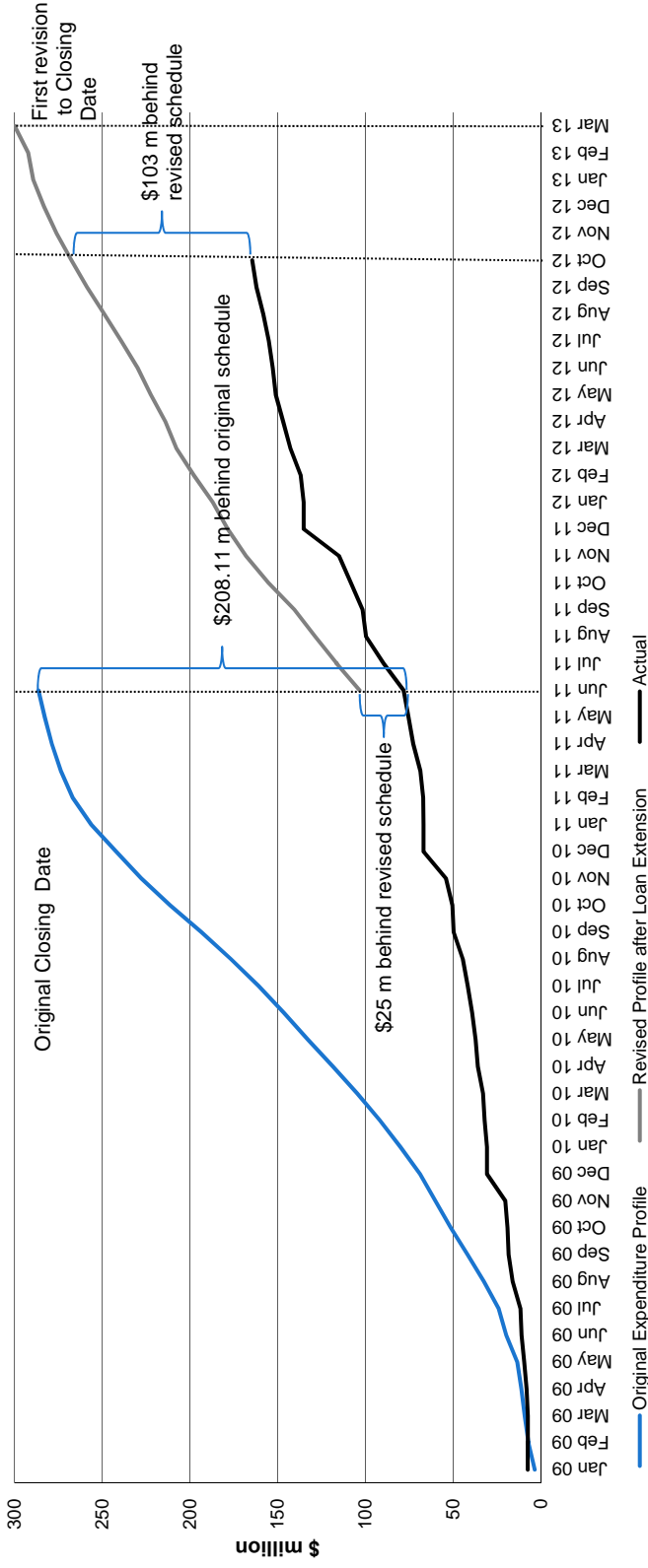
3.40 It is necessary to note that, under EINRIP implementation arrangements, AusAID does not carry primary responsibility for the management of those matters which have been identified as the main causes of implementation delay. As such, to a large degree, adherence to project schedules is a matter for project managers within the GoI⁸⁵ and AusAID's avenues for influencing conformance with project scheduling are largely limited to persuasion and support. While the project governance arrangements do provide for sanctions and remedial action, AusAID has advised the ANAO that the relevant provisions of the agreement model used for EINRIP (which was modelled on World Bank loan agreements) are not well suited for assistance programs that are intended to foster improved bilateral relations. AusAID further advised that, should there be further loan programs, careful consideration should be given to defining more graduated or progressive remedies.

⁸⁴ In regard to poor contractor compliance with agreed construction schedules, the report noted that provisions in the contracts had not proven effective in getting contractors to take required actions to reduce delays and speed up construction, and that, besides time delays, work by contractors sometimes did not meet the specifications but that non-conforming works were approved and paid. While the contract provided remedies to make the contractor follow the time schedule, these were not applied by the Regional Supervision Consultant (RSC) or the Client and it seemed there was reluctance to apply sanctions to contractors. AusAID, *Eastern Indonesia National Road Improvement Project: Independent Progress Review*, 2012, available from <<http://www.ausaid.gov.au/countries/eastasia/indonesia/Documents/einrip-ipr.pdf>> [accessed 6 November 2012], p. 9.

⁸⁵ AusAID advised that, even within the GoI, devolved arrangements for implementation can limit the capacity of central government to directly intervene to speed up construction.

Figure 3.2

EINRIP – delays in project disbursement



Source: AusAID data. The loan closing date has subsequently been extended to December 2014.

3.41 The change in the nature of the work to be undertaken effectively transformed the nature of the project, increasing the time required for project preparation and resulting in a more complex civil works program with a substantially different risk profile and greater inherent unpredictability. In particular, the timeliness of project delivery became heavily dependent on the responsiveness of the GoI's processes for procurement and project management, including land acquisition. In light of this change, EINRIP is more appropriately benchmarked against other projects also involving significant reconstruction and additional complications, such as land acquisition. One example of such a project is the World Bank funded Strategic Roads Infrastructure Project (SRIP).

3.42 SRIP shares EINRIP's focus on improving regional economies and social well-being through developing key arterial road transport corridors, as well as involving substantive redevelopment and significant land acquisition. SRIP, as originally conceived in 2004, included a US\$350 million betterment and capacity expansion element which provided for 780 kilometres of betterment and capacity expansions and 50 kilometres of new roads (as well as 1200 meters of bridge replacement). By the time the loan agreement was signed in September 2007, the extent of road betterment had been reduced to some 305 kilometres of road and the replacement of around 50 meters of bridging, within an overall budget of US\$290 million (of which \$208 million was loan funding). Adjustments to the agreement in 2011 saw the amount of betterment reduced by 49 kilometres and loan closure extended to 30 June 2013. Since that time, disbursements have not kept pace with the revised loan schedule.

3.43 AusAID's management of the changes to EINRIP scope and timing has highlighted a number of issues which AusAID would need to consider in any future infrastructure engagement of this nature and scale.

3.44 Firstly, there is considerable value in having robust estimates of the possible scale and nature of outputs associated with potential projects. They aid consideration by decision makers, and have the potential to significantly influence decisions regarding resource disposition. However, the key assumptions underpinning or inherent limitations of advice need to be clearly communicated to decision makers. Particularly where a significant investment is required to clearly establish the potential scope of work to be undertaken, decision makers should be made aware of the risks inherent in an early and unqualified announcement of project outputs. These issues were not included in early documented advice to the Minister and the AIPRD Joint Committee.

3.45 Secondly, where the nature of a project is heavily predicated on assumptions regarding the nature of physical works to be undertaken, or the accuracy of early data, it would be appropriate for AusAID to seek to assure itself regarding the quality of the data (for example by spot checking a number of randomly selected sites). It would also be prudent for AusAID to include in early planning documents a clear statement of underlying assumptions and associated risks. This may include sensitivity analysis examining the potential impact on project planning of movements in underlying assumptions. These matters were not addressed by AusAID in early EINRIP planning.

3.46 Thirdly, clearly establishing an early baseline for potential project outcomes (particularly if advice on potential outcomes is required by decision makers) would provide a sound foundation for managing adjustments to project scope which are necessitated by access to improved information over time. This would provide AusAID with an enhanced capacity to monitor and report on expectations and performance, and would improve transparency for stakeholders. A baseline was not clearly established in early EINRIP planning documents.

3.47 Finally, AusAID will need to give consideration to the nature of the controls built into to project arrangements, and whether these provide adequate capacity for AusAID to deliver on the expectations of stakeholders in regard to its management of major initiatives. Where elements of the delivery strategy or funding model inherently limit AusAID's capacity to meet project objectives for quality, quantity or timeliness, it will be important for AusAID to ensure that these are clearly understood by decision makers and stakeholders at the outset and that expectations are effectively managed over the life of the project. Over the life of EINRIP, controls were not as effective as anticipated and the limits of those controls were not always well understood by key decision-makers.

Addressing issues of quality

3.48 A failure to achieve agreed quality standards would significantly undermine the potential benefits sought through EINRIP. The cost associated with the design and implementation models being promoted in EINRIP are higher than those inherent in DGH's normal business model and if EINRIP roads are not clearly superior to the outcomes of usual DGH practice:

- the expected benefits accruing to those Indonesians accessing the roads is significantly reduced; and

- the potential transformative impact of the project is also reduced, as the case made by AusAID for a general improvement in design and construction practice is undermined.

3.49 The risk to construction quality was identified early by AusAID, with the EINRIP PPO highlighting the issue as a major potential risk to outcomes:

Construction quality continues to be an issue in the road sector, and works are frequently subject to premature failures, and the effective loss of the investment.

3.50 The PIP also recognised previous concerns over the quality of engineering designs by provincial works agencies and their consultants and included approaches to improve bidding documents, responsibilities and the quality of supervision.

3.51 As implemented, EINRIP included structural arrangements designed to mitigate the risk of poor construction quality. At the basis of these arrangements was the preparation of detailed Final Engineering Designs (FEDs) for all road betterment work, to clearly outline the nature and standard of construction required. Use of FEDs was intended to forestall problems associated with the simplified design approach in more general use in Indonesia, which at times had included poor quality outcomes and cost escalation. Compliance with FEDs was to be supported by the:

- use of the FIDIC supervisory model, to provide for independent professional supervision of construction;
- use of technical and financial audit consultants (TFAC) to independently assess compliance with contracted standards; and
- establishment of an independent monitoring and evaluation program to measure program outcomes.

3.52 Early TFAC audits identified substantive and systemic quality shortfalls. An internal review of EINRIP performance in 2010 suggested a variety of factors underpinned poor project quality, including contract management practices, contractor capability and the implementation of the supervision model. It concluded that a 'lack of DGH actions to address serious quality issues reported by TFAC is a major risk to the performance and sustainability of the entire EINRIP program'.

3.53 AusAID has maintained clear visibility over emerging quality issues and has actively advocated for change that would strengthen controls and

processes. AusAID has also acted to ensure senior executives were informed of emerging issues associated with achieving project quality outcomes. There has been a substantive expansion of the TFAC technical audit program, with AusAID advising that all packages will now be subject to initial, follow-up and completion audits. However, improvements in quality have been hard to achieve, with an internal report on EINRIP performance for 2011 highlighting ongoing difficulties posed by weak supervision and a reluctance to sanction non-performing contractors.

3.54 While initial planning had identified construction quality as a risk, and project planning saw mitigation measures incorporated into project design, with greater experience in the sector, AusAID should have given greater weight to this risk. An internal AusAID summary of lessons learnt from the project concludes that the project planning documents did not adequately address risks, including those arising from poor quality supervision during the construction phase and that, as a result, AusAID and EMU were surprised by and unprepared for, EINRIP's quality problems.

3.55 While project planning did not give due weight to the risk of inadequate construction quality, or include sufficiently robust strategies for mitigating that risk, AusAID's early assessment of the causes of poor construction quality was sound and it has worked closely with the GoI in attempting to improve the quality of construction under EINRIP. However, under EINRIP project management arrangements, the GoI carries primary responsibility for securing civil works outcomes, including through employing and supervising the work of the RSC. AusAID can, and has, expressed its concern regarding performance issues but neither the Loan Agreement nor Subsidiary Arrangement provide any capacity for AusAID to directly intervene in the management of packages of work that are in train, or in relation to the GoI's management of employed firms and personnel. While the ACAP does provide for AusAID to withhold loan payments relating to particular sub-projects where adequate measures are not taken to avoid poor quality works, this sanction has not been invoked.

3.56 In the event, quality problems have persisted. This assessment was reinforced by the EINRIP 2012 Independent Progress Review, which stated the TFAC's work indicates poor quality of construction is systemic in EINRIP, and probably on all other road construction projects in Indonesia. The 2012 IPR, while noting that poor quality of construction is systemic in road construction projects in Indonesia, emphasised the impact of the 'seriously deficient' contractor supervision. The IPR acknowledged the difficult business

environment, but highlighted major concerns, including a failure to fully implement the project’s quality assurance system, poor record keeping, approval of work that does not conform to specifications, recruiting underqualified staff, underpayment of staff, and a failure to properly supervise staff.

3.57 While the IPR strongly suggested the RSC be replaced, the GoI did not pursue this option. Following the presentation of the IPR, the performance of supervisory personnel in Indonesia has been subject to internal review by the parent company, to analyse the current situation of supervision and to propose ways for improvement. Following this review, a number of changes were made to supervisory operations. In 2012 key personnel including the Team Leader for the project and a Chief Supervision Engineer were replaced, and a plan to improve the quality of supervision was implemented. While this action is a positive outcome and offers the prospect of both improved supervision quality and greater assurance regarding risk mitigation, for the greater part of EINRIP’s implementation, this key part of the strategy to mitigate the risk of fraud impacting outcomes has not operated effectively. Accordingly, the achievement of quality standards has depended on AusAID investing more heavily than initially anticipated in ongoing monitoring and remediation.

3.58 Analysis of the TFAC audits conducted during 2012 suggests that the changes to RSC operations have yet to fully impact on construction quality (see Table 3.2). Serious quality issues, often requiring extensive rework, have been identified in the majority of audits and ongoing close management by GoI and AusAID remains necessary to secure quality outcomes.

Table 3.2

Outcome of recent TFAC audits

Package	Date of Audit	AusAID assessment
ENB-03	2 to 5 April 2012	‘The quality of work has been greatly improved since the previous audit in March 2011, but there remain a number of matters requiring attention, and non-conformities to be addressed by the Contractor and the Supervision Team as soon as possible.’
ESU-01	21 to 27 April 2012	‘Concrete quality is seriously below standard. Additional concrete testing has been undertaken, and the results confirm that all deck concrete should be rejected, and abutment elements could be accepted but at a reduced cost reflecting their seriously poor quality.’
EKS-01	10 to 12 May 2012	‘While the audit noted some aspects of the work were good it also found serious quality issues.’

Package	Date of Audit	AusAID assessment
ENT-01	14 to 16 June 2012	'While the Audit noted a few quality issues it indicates that works are generally acceptable and the contractor is making reasonable efforts to achieve quality.'
ESS-03	30 May to 2 June 2012	'While the audit noted a number of acceptable aspects of the work, it also found some serious quality issues ... (which) require urgent attention.'
ESS-04	14 to 16 July 2012	'While the Audit noted a few quality issues such as low strength concrete it generally indicated that the contractor is making reasonable efforts to achieve quality.'

Source: ANAO analysis of AusAID documents.

3.59 AusAID is continuing to work closely with the GoI to improve initial construction quality. Based on recent audit findings and the body of experience arising from EINRIP, a workshop was held in July 2012 in Jakarta. A series of systemic non-conformities in construction practice were reviewed by participants, with important concerns raised including:

- failure by contractors to operate comprehensive quality control systems;
- failure by supervision teams to apply hold points;
- falsified laboratory data; and
- contractors' equipment not as specified.

3.60 While minutes of the workshop suggest a lack of consensus over the best way to respond to the ongoing quality concerns⁸⁶, the meeting resulted in directions being issued by the DGH to key supervising personnel seeking their cooperation in addressing a number of key issues impacting on construction quality.

3.61 While the continued work with the GoI to improve initial construction quality offers the prospect of systemic improvements in practice over time, to date poor quality construction has proven a significant, and persistent, issue for both GoI and AusAID managers. Bringing packages of road works to the required quality standards has required significant resources, including a

⁸⁶ For example, the minutes note that the RSC was of the view that 'none of the matters discussed are new and that all have been addressed by the RSC action plan'. However TFAC representatives expressed the view that the evidence presented demonstrates 'that the RSC action plan has been too slow to achieve significant improvement'.

substantially expanded program of technical audit, and has slowed general implementation.

3.62 AusAID has advised the ANAO that, as a result of the quality monitoring arrangements implemented under EINRIP, all packages completed to date are substantively compliant with design specifications, which are of a considerably higher standard than other national roads being built in Indonesia. However, achieving this outcome has required ongoing and substantive investment. Consistently achieving quality in EINRIP road projects is important to AusAID's advocacy for the broader use of both FED and the FIDIC methodology. As discussed in more detail later in this chapter, these models of operation have had difficulty in gaining substantive acceptance. In discussions with the ANAO, GoI officials highlighted the problems experienced in implementing these arrangements and suggested a strong preference for reverting to previous business models, which did not employ an independent supervising engineer, for managing road betterment projects.

EINRIP project safeguards

3.63 As part of the conditions for EINRIP loan effectiveness, the GoI were required to adopt, as binding, two key supporting project safeguard documents: the Anti-Corruption Action Plan (ACAP) and the Environmental and Social Safeguards (ESS).

ACAP

3.64 The ACAP was developed to 'ensure that [EINRIP's] goal of road improvement is not compromised by corruption which in turn reduces the quality and quantity of civil works'. The PIP says that the ACAP 'will be adopted by GoI as a legally binding commitment, ensuring that anti-corruption measures are an integral part of the implementation of EINRIP'.

3.65 While the ANAO found evidence of compliance with many of the provisions of the ACAP, AusAID's monitoring of compliance was limited and there were some significant omissions in regard to certain provisions of the ACAP, including effective public information dissemination, complaint handling and the conduct of financial audits. These matters are discussed further below. In addition, while the ACAP provides a framework for the application of sanctions and remedies, the effectiveness of the framework has been limited (as discussed earlier in this chapter). Generally, however, the administration of EINRIP was compliant with the majority of the key provisions the ACAP, particularly in regard to:

- requirements for information disclosure, including the establishment of the project website (<http://www.pmueinrip-binamarga.com/pmu/>) which provides extensive documentation regarding the structure of the project, tendering and implementation progress;
- structures aimed at improving oversight and monitoring (although, while arrangements have been introduced in accordance with the ACAP, their effectiveness in achieving the quality and timeliness objectives of the project has been limited); and
- arrangements to mitigate the risk of fraud and collusion, including enhanced support for procurement and liaison over fraud and corruption (although the cessation of financial audits by AusAID is discussed further below).

Public information dissemination

3.66 Under the ACAP:

The Project Manager for each civil works contract is responsible for making project information available to communities in the project area before commencement of civil works. As a minimum, the Project Manager must establish a noticeboard outside each District Office in the project area containing the name of the contractor, brief description of works, value of contract, percentage completion and percentage of contract paid (updated monthly), details of complaints handling mechanisms (MPW and AusAID) and EINRIP website address.

3.67 The 2011 BPKP audit of GoI compliance with the ACAP noted several instances of failure to provide notice boards in accordance with the ACAP. Furthermore, during fieldwork, AusAID confirmed that while DGH staff routinely consulted with local authorities in the lead up to construction, no mechanisms had been employed to communicate project information generally in communities within project areas.

Figure 3.3

Example of publicly accessible notice board



Source: ANAO.

3.68 Even where compliance with the terms of the ACAP had been achieved, it was not effective in communicating project information, including complaints provisions, to affected communities. The ANAO examined project notice boards in several sites in South Sulawesi and observed that, where project notice boards were located at the project site, they lacked information required under the ACAP (see Figure 3.3).

3.69 Those boards containing project data and complaint advice specified by the ACAP (see Figure 3.4) were:

- located well inside the boundaries of private land without public access;
- located several kilometres from the project site; and
- presented in English with no Indonesian translation.

Figure 3.4

Project Notice Board – ACAP compliant



Source: ANAO.

Complaints handling

3.70 The establishment of complaints handling arrangements is required under the ACAP. Effective complaints handling mechanisms provide an important means of community engagement, and assist in identifying and responding to unintended or unforeseen impacts of major projects. In other AusAID projects (for example the Australia Indonesia Basic Education Program), complaints handling mechanisms have proven a valuable element of the anti-fraud and corruption strategy.⁸⁷ However, while a formal complaints mechanism had been established by the Government of Indonesia, the ANAO found that at the time of this audit, this mechanism was not operating effectively.

3.71 As noted above, there has been a lack of effective communication with affected communities in regard to providing information on projects and

⁸⁷ Of the 12 reports of fraud against the AIBEP program in 2009–10, 11 were initially identified through the AIBEP complaints handling arrangements. In the majority of these cases, fraud was confirmed and funds were recovered.

processes for making complaints. This limits the potential effectiveness of a complaints handling system. In addition, to the extent that arrangements have been put in place, a number of implementation issues were observed.

3.72 The ACAP requires advice on the making of complaints and complaints handling arrangement to be provided through the project website, including advice on how to make anonymous complaints. Early in audit fieldwork, the ANAO identified that this information was not available. While access to this information was subsequently restored, as at late November 2012, only the English language version of the website provided access to this information, with no information on the complaints handling mechanism and the lodgement of anonymous complaints available in local languages. In addition, the initial 'landing point' for complaints still advised that complainants' name and email address would be recorded (see Figure 3.5).

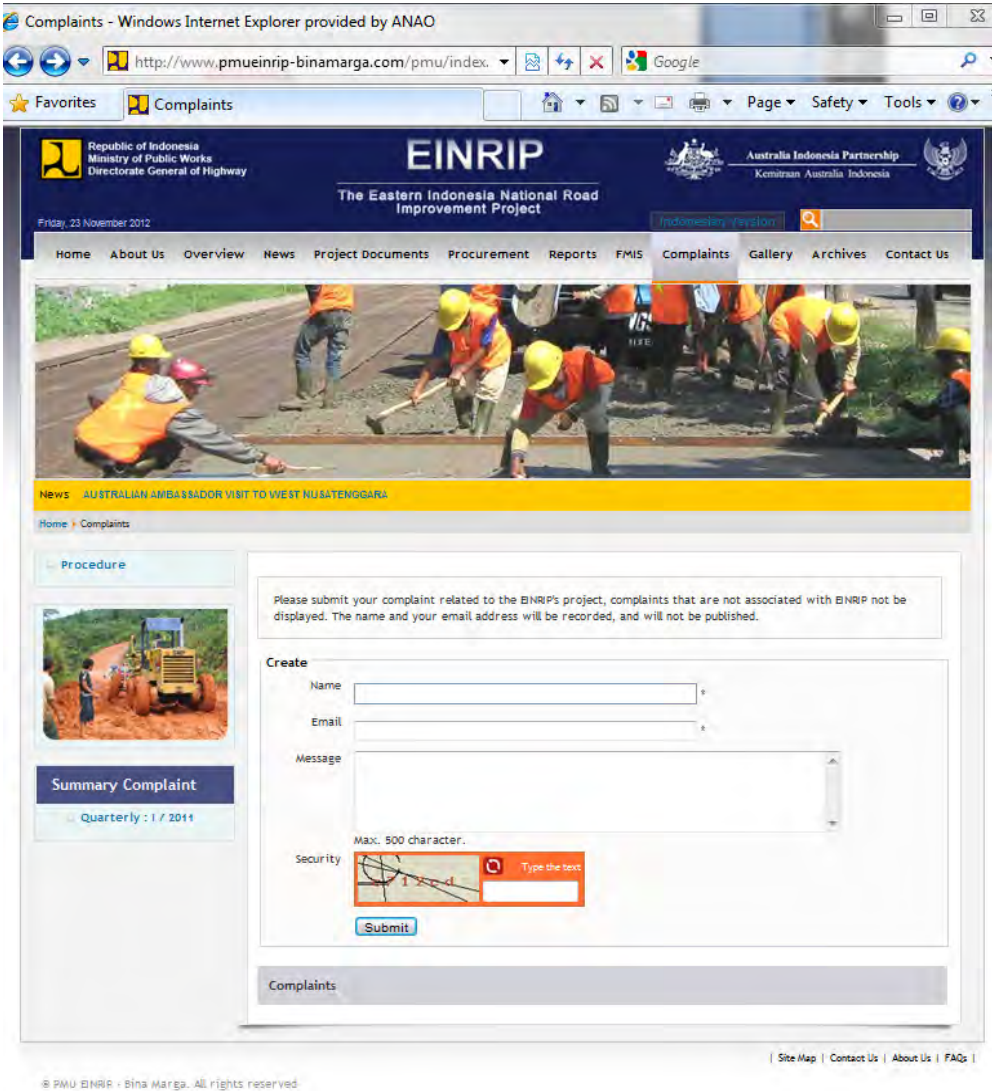
3.73 The 2011 BPKP audit of ACAP compliance noted that 'complaint treatment mechanisms have not been established, there are still delays in response to complaints received and identity of the complainants has not been concealed'. While the scope of this audit does not extend to the performance of GoI agencies, it is notable that AusAID has not taken action to resolve issues in the establishment of effective complaints handling mechanisms with DGH.

3.74 The ACAP also provides the opportunity for AusAID to establish its own complaints handling mechanism to deal with complaints that are submitted directly to AusAID. However, at the time of this audit, AusAID has not taken action to establish an independent complaints handling mechanism. During audit fieldwork, the ANAO were advised that there had been no detailed consideration of the merits of an independent complaints handling mechanism, nor of the role such a system might play given the absence of an effective GoI managed system. Rather, AusAID advised that no issues had arisen which might have given cause to consider establishing such an arrangement. AusAID has subsequently advised the ANAO that:

... a more robust complaints mechanism would have identified community-level issues such as dust problems or contractors not clearing rubble, and enabled better response. AusAID has suggested to DGH that for the last two packages, loan funds are used to employ a community liaison officer to work with communities on those community level issues.

Figure 3.5

EINRIP Complaints Website



Source: Directorate General of Highways, *EINRIP: The Eastern Indonesia National Road Improvement Project*, Directorate General of Highways, available at <http://www.pmueinrip-binamarga.com/pmu/index.php?option=com_cpl&Itemid=77&lang=en> [accessed November 2012].

3.75 AusAID confirmed in April 2013 that DGH has advised that it will employ an EINRIP Community Liaison Officer to assist, in the first instance, with community level issues in relation to selected EINRIP projects in South Sulawesi.

Financial audits of projects

3.76 Under the terms of the EINRIP ACAP, AusAID undertook to engage a private sector accounting firm as an independent auditor for EINRIP. The independent auditor would:

... undertake external project audits with a focus on:

- Detecting corruption and collusion in procurement processes (including sample audits of procurement processes) and during contract implementation;
- Detecting non-compliance with key financial management requirements, with a focus on the process for validating payments to contractors;
- Detecting misappropriation of funds.

The independent auditor will also conduct annual audits of the special purpose project financial statements.

3.77 Technical and financial audit services are provided by Cardno Emerging Markets (Australia) Pty Ltd under an undated contract which provided for services to commence on 1 March 2010. At the time of ANAO audit fieldwork, 10 financial and 35 technical audits had been completed. No financial audits have been undertaken since October 2011. The decision to discontinue financial auditing is not documented and ANAO was informed that it did not involve AusAID senior management at post.

3.78 The ANAO's examination of the technical and financial audits conducted during 2010 and early 2011 suggests that there was scope to improve the robustness and effectiveness of the financial audit elements. In particular:

- while the reason for the conduct of the financial reviews was clearly set out in the ACAP, neither individual financial audits nor the program of financial audit activity appear to have been designed to address those specific objectives;
- the scope of services included in the contract between AusAID and the Technical and Financial Audit Consultant did not specifically identify the need to design audit activities to address the risk of fraud or corruption (neither word appears in the scope of services), nor did it identify the standards under which the financial audit would be conducted (the requirements of the technical audit are dealt with at much greater length than the requirements of the financial audit); and

- other aspects of financial audit were also not as well addressed as the program of technical audit. For example, financial audits were conducted at a time dictated by the requirements of the technical audit (that is, early in the package implementation cycle at around 15 per cent of physical progress) rather than when there was a greater body of evidence to assess, and no follow up financial audit activity was scheduled or undertaken.

3.79 AusAID's decision to discontinue financial audits was taken in conjunction with an expansion of the technical audit program, and reflected AusAID's view that early financial audit work undertaken by the TFAC had 'failed to identify any substantive issues of non-compliance, misappropriation, fraud or corruption'. However, the ANAO considers there was scope to strengthen the program of financial audit. This could have included, for example, AusAID directly engaging an independent financial auditor, designing and implementing a program of audit activity explicitly targeted at the requirements of the ACAP, and undertaking audits at a point (or points) in time most likely to provide a comprehensive insight into financial management practices. The World Bank recommends the use of auditors to check contractor and supervisory consultant financial records as one of six key strategies for reducing fraud and corruption in civil works in the roads sector.⁸⁸

3.80 Overall, the ANAO considers the conduct of financial audits formed an important part of the documented and agreed anti-corruption framework of a major program being implemented in a high risk environment. Given the project risk profile and the specific provision for independent financial audit including in the ACAP, it would have been appropriate for the decision to discontinue financial audits to have been informed by an appropriate assessment of the risk environment, formally endorsed by senior AusAID management and appropriately documented.

Audit of financial statements

3.81 Under the terms of the EINRIP ACAP, the private sector accounting firm engaged by AusAID as an independent auditor for EINRIP would also 'conduct annual audits of the special purpose project financial statements'.

3.82 This was consistent with the EINRIP Loan Agreement, which required the GoI to maintain a financial management system and prepare financial

⁸⁸ The World Bank, *Curbing Fraud, Corruption and Collusion in the Roads Sector*, Washington, DC, June 2011, p. 31.

statements to reflect the operations, resources expenses and payments related to the project, and to have those statements audited for each fiscal year and furnished to the Australian Government within six months of the end of the audit period.

3.83 On 31 March 2009, AusAID agreed that the BPKP⁸⁹ would fill the role of independent auditor for the project, and undertake the required financial statement audits.

Compliance with the ACAP

3.84 The 2012 EINRIP Independent Progress Review (IPR) concluded that the ACAP was providing:

...increased transparency and easy access to information. Many of its provisions have been incorporated in the project design, such as employment of a procurement advisory services consultant to help in the procurement process and reduce chances for corruption. No breaches of procurement have been discovered and only one complaint was lodged, and was satisfactorily handled. However, corrupt practices are endemic in Indonesia, and it would be optimistic to assume that an absence of complaints proves an absence of corruption.

3.85 The ACAP allocates implementation responsibility for individual components of the ACAP to either AusAID or nominated GoI agencies. However, AusAID has no mechanism in place to systematically monitor overall compliance with the ACAP, nor has it comprehensively reviewed general compliance at any stage since the project commenced. While the 2012 EINRIP IPR includes some commentary on compliance with the ACAP, this is generally limited to consideration of the impact of the ACAP on procurement.⁹⁰

3.86 GoI compliance with the ACAP has been subject to regular audit by the BPKP and the outcomes provided to AusAID (including by being included in the monthly PMU-EINRIP Project Progress Reports). BPKP audits of ACAP compliance were undertaken in 2009, 2010 and 2011. The objective of the audits

⁸⁹ The Indonesian Finance and Development Supervisory Agency (BPKP) is a non-ministerial institution responsible to the President which has a mandate to function as a government internal auditor (<http://www.bpkp.go.id>). BPKP audits have been undertaken for the years 2008 to 2011 inclusive, with the reports provided in the first instance to DGH and the Indonesian Ministry of Finance and copied to AusAID.

⁹⁰ For example, while the IPR reported that 'only one complaint was lodged, and was satisfactorily handled', it did not identify the absence of effective public information regarding lodging complaints and the absence of established complaint handling mechanisms by either DGH or AusAID.

was to evaluate compliance with the ACAP against a number of agreed indicators, and to provide feedback to managers in relation to performance improvement. The 2011 audit found high levels of compliance with the ACAP, but noted there are still some problems which require attention. However, notwithstanding BPKP audit results being advised to AusAID, at the time of the audit fieldwork, AusAID lacked effective visibility over the operation of the compliance audit framework, and outcomes arising from the audits, and was unable to advise whether any auditing of GoI compliance with the ACAP had occurred since 2009.

3.87 Full implementation of the ACAP is important for maintaining confidence in an engagement occurring in an environment where the risk of fraud and corruption has been broadly highlighted, including in AusAID planning documents and risk assessments. Departures from the ACAP (for example the decision to cease project financial audits, the decision not to appoint a private sector financial auditor, the lack of an effective complaints system, and failure to effectively comply with requirements for public information dissemination) should have been identified early and addressed appropriately. In addition, explicit decisions to vary the anti-corruption framework applying to EINRIP should have been appropriately documented, with consideration being given to amending published documentation to provide greater transparency in regard to the application of the assurance regime.

3.88 Maintaining greater ongoing visibility over compliance with key elements of assurance mechanisms such as the ACAP, using either GoI systems or independently, would also allow AusAID to better shape its engagement with GoI on related matters. It would provide insight into the effectiveness and appropriateness of key measures included in the ACAP, allowing AusAID to fine-tune the application of particular provisions to improve outcomes during implementation, and to better incorporate learnings from EINRIP into anti-corruption planning in other projects.

Environmental and Social Safeguards

3.89 The Environmental and Social Safeguards (ESS) strategy for EINRIP is another key element of project assurance. Initial monitoring of progress for managing compliance with the ESS was undertaken by the PPC. Following completion of this project phase, responsibility for monitoring was transitioned to the EINRIP PMU. Since this time, the status of environmental and social safeguards has been reported on regularly by the GoI through the monthly

EINRIP Project Progress Reports, providing AusAID with high level visibility of progress and emerging issues.

3.90 The 2012 EINRIP IPR was generally positive regarding the implementation of social safeguards, in particular land acquisition, noting that the process was ‘well planned and implemented’ with affected persons properly compensated and concluded ‘there appears to have been no diversion of funds—a major achievement in governance’. Additional assurance was provided by the engagement of a non-government organisation to assist in monitoring land acquisition management.

3.91 The IPR reported greater reservations in regard to the effectiveness of the environmental safeguards, which were considered well planned but less well implemented. The IPR noted, for example, that a failure by some contractors to control dust during construction had been found by project surveys to have led to health problems for those living near construction areas in Sumbawa. The IPR also reported that there had been failures in construction waste disposal and that worker health and safety measures were not in force, concluding that the Regional Supervision Consultant (RSC) has been ineffective in requiring contractor compliance with safeguards.

3.92 There is considerable risk to AusAID in the potential for infrastructure projects to have adverse social and environmental outcomes. Even where delivery is the primary responsibility of partner governments, there is a reasonable expectation that AusAID will maintain close oversight of the effectiveness of implementation, and engage with implementing partners should remedial action be required. Current monitoring and reporting arrangements provide reasonable visibility for AusAID but nonetheless require closer ongoing oversight if project risks are to be effectively mitigated. AusAID advised that it ‘will continue to pursue closer oversight of environmental safeguards on EINRIP through existing management and reporting arrangements, as well as onsite verification during AusAID project monitoring visits.’

Transformative impact and sustainability

3.93 The objective of EINRIP—to support regional economic and social development, particularly in Eastern Indonesia, by improving the condition of 2000 kilometres of national roads and replacing approximately 4500 metres of essential bridging—has (other than in regard to the length of project outputs) remained consistent over the life of the project.

3.94 However, as with Australia's overall program of aid to Indonesia, infrastructure aid to Indonesia will have greatest impact where it is strategically aligned with local priorities and supports efforts by the Indonesian Government to more effectively utilise its own resources (see paragraph 2.19). Currently, road betterment undertaken through EINRIP will impact directly on only around one per cent of Indonesia's 40 000 kilometre National Roads network. If EINRIP were able to achieve a sustained improvement in practices in Indonesian institutions responsible for road construction and maintenance, benefits would accrue more widely, to users of Indonesian built and maintained roads as well as to the GoI and tax payers through an improved return on funds invested in road works.

3.95 While extending the reforms advanced through EINRIP to broader GoI practice offers the potential to improve the return on Australia's investment in EINRIP, systemic challenges to project sustainability were identified early in EINRIP planning. These included the risk that poor maintenance practices and vehicle overloading would reduce the lifespan of EINRIP roads and limit the potential returns from the greater than usual initial investment in comprehensive design and quality management.

3.96 AusAID has included institutional change and capacity building elements in internal monitoring and reporting. It advised the ANAO that this shift represents an opportunity to 'try and capture and report on these more aspirational objectives that had not been explicitly outlined in the design and loan documentation'. In 2011, AusAID internal review documentation noted that EINRIP has shifted 'from a direct resource transfer project to build roads, to a collaborative effort to resolve the most pressing problems of reforming road management practices'.

3.97 There were a number of contextual matters surrounding the initial development of EINRIP that suggested attempting to seek agreement with the GoI on broader goals for transforming practice in the roads sector was not appropriate in the circumstances. These include the pace of program development, AusAID's lack of prior engagement in the roads sector and the decision to fund the program through the use of concessional loans. AusAID advised that issues of project timing and other issues 'dictated that a simple objective be adopted and ruled out the inclusion of aspirational governance reform and institutional capacity building objectives'.

3.98 At the same time, the ANAO's experience is that program objectives are more likely to be realised when they are identified at the outset, and when

specific strategies are developed to address them. While it may have been premature (or impractical) to incorporate objectives of transformation and sustainability in key agreements with GoI, to the extent that AusAID considered they were important to overall project success, it would have been appropriate to see them incorporated in agency planning and implementation documentation with relevant strategies identified.

Institutional change

3.99 The potential benefits of including explicit strategies to promote the adoption of innovative practices being piloted in projects such as EINRIP was raised with the ANAO during consultation with Indonesian officials. However, during fieldwork, the ANAO audit team saw little evidence to suggest a wider adoption of initiatives such as the use of FED in project preparation, the use of the FIDIC model for project management, or the wider use of independent technical audit for quality control. In particular:

- while aspects of FED processes were being considered for broader application in GoI design, it was not clear that funding was available to support the increased investment, including in site surveys;
- discussions with GoI stakeholders revealed strong reservations about the effectiveness of the FIDIC model, consistent with the problems in its operation in EINRIP; and
- while GoI was interested in the wider use of quality audits⁹¹, this did not extend to such audits being conducted independently.

3.100 AusAID considers that engagement through EINRIP (and IndII) is building a strong constituency for road safety and technical audits within the GoI, and that the formal adoption in 2012 of revised design guidelines for longer life road pavements on DGH works (which was based on the earlier design work of EINRIP) provides some evidence of the impact of EINRIP on GoI policy and practices. However, AusAID's internal reporting reflects a clear appreciation of the challenges associated with achieving institutional change in the transport sector, and has identified resistance to the FIDIC model and concerns about the relative cost implications of FED. While the employment of local personnel in aspects of design, implementation and review undoubtedly

⁹¹ For example, AusAID has advised the ANAO that, in December 2012, it was requested to provide support for the conduct of technical and safety audits of roads improved under the World Bank funded Western Indonesia National Roads Improvement Project.

has a capacity building element, in the absence of ongoing demand for these skills, they are likely to be dispersed.

3.101 The rate and nature of change in Indonesia's public sector institutions is necessarily a matter for the Indonesian government. AusAID has been consistent in its support for institutional strengthening and improvements in the Indonesian roads sector. However, the Australian experience has been that institutional reform is incremental and takes time. The inclusion of a well-defined, long term strategy to support institutional change in the roads sector in both initial project planning and related monitoring and evaluation arrangements would have provided AusAID with a firm foundation for providing consistent and sustained support for change. It would also have provided AusAID with a more explicit basis for assessing opportunities and evaluating the effectiveness of specific measures. AusAID should consider including such a strategy in any future engagement in this sector.

3.102 AusAID's experience in EINRIP also demonstrates the potential for difficulties in implementation to undermine the change agenda. There remain significant opportunities for AusAID to promote capacity improvement, both through EINRIP and related initiatives, which are being actively pursued. However, the need for effective championing of reform at senior levels within relevant GoI agencies is seen as a key factor, and remains a focus for AusAID.

Project sustainability

3.103 The key focus of EINRIP has been the construction of quality roads whose quality and lifespan exceeds that obtained through current practices more broadly used in the Indonesian transport sector. Even in the absence of active strategies for promoting institutional change, the demonstration impact of long-lasting, high quality roads has the potential to significantly influence domestic practice. However, this potential is undermined if, over time, deficiencies in road maintenance or other systemic issues lead to the rapid degradation of EINRIP constructed roads.

3.104 The risks to outcomes posed by road sustainment issues, in particular poor maintenance and road vehicle overloading, were acknowledged early in project development, with early documents highlighting the issues. Reflecting concerns about vehicle overloading, the initial approval of EINRIP grants included an allocation of \$1.5 million for a 'contribution to World Bank

undertakings in this area, supported with additional innovative approaches direct from AIPRD'. However, AusAID has advised the ANAO that the anticipated allocation was not actioned.⁹²

3.105 Design work undertaken by the PPC incorporated actual axle load measurements in pavement design, rather than simply using averages or estimates. While this design feature would lead to increased construction costs, it was considered likely to result in more robust roads able to withstand the high truck axle loads commonly experienced in parts of Indonesia. However, in 2009, an independent review of project preparation observed that 'many of the major sustainability risks are yet to be addressed'. These included the shortfall in road maintenance funding and endemic vehicle overloading. The PPC ICR concludes that 'Better quality design can only translate into sustainable roads if the underlying problems are also addressed.'

3.106 Again, AusAID's approach to achieving sustained improvement in this sector would have been better supported had initial project design clearly articulated strategies for managing the risks to project outcomes posed by road sustainment issues and had these strategies been included in project monitoring and evaluation arrangements. This would have provided AusAID with a clear view of progress in this regard, and supported the regular review and refinement (if necessary) of related strategies.

3.107 AusAID remains conscious of the ongoing risk posed by road sustainment issues. The agency continues to advocate for change in this sector and to work with the GoI through, for example, initiatives supporting the introduction of Performance Based Budgeting (PBB) and a Medium Term Expenditure Framework (MTEF) within DGH. At the same time, internal assessments of EINRIP implementation have indicated increased concern over project sustainability⁹³, with AusAID noting in February 2012 that 'it is possible that the sustainability goal will be defeated ... unless DGH senior management can be encouraged to step in and take action on systemic quality issues'.

⁹² AusAID has advised the ANAO that, following further discussions with the World Bank, AusAID supported a range of World Bank implemented activities related to national roads including support for the preparation of the Western Indonesia National Roads Improvement Project (WINRIP), a road construction industry review, and transport sector public expenditure reviews.

⁹³ The rating of project sustainability included in AusAID's annual assessments of project performance has declined in 2010 and 2011 compared with earlier years, from five (good quality) to four (adequate quality).

Conclusion

3.108 EINRIP is well aligned with, and supportive of, AusAID's strategic objectives for the bilateral country program and the aid program generally. EINRIP is a mature initiative, with implementation having commenced in 2006. However, the initiative has experienced significant difficulties, particularly in the early stages of implementation, which have adversely affected project outcomes. In particular, changes in the nature of the work to be undertaken through EINRIP have seen major reductions in linear scope, a doubling of project duration, and greater challenges in securing quality outcomes.

3.109 The reasons for the changes to scope and timing are complex. The initial scope and timing of EINRIP were announced well ahead of the substantive work necessary to clearly establish project parameters and to validate the assumptions that underpinned initial advice to government. As this work was progressed, greater clarity emerged regarding the nature of civil works required if project aims were to be met, and the consequent increase in the complexity of the implementation task. At the same time, there were significant changes in input costs and in the regulatory framework guiding road construction standards. Accordingly, both project scope and timing were progressively revised. EINRIP is now expected to deliver 395 kilometres of road reconstruction and widening, compared to the 2000 kilometres of betterment initially announced. Furthermore, it is not likely that civil works will be completed before December 2014. In late 2005, when EINRIP was announced, it was expected to be completed by June 2009.

3.110 The announcement of EINRIP, including its objectives, scope and timing, was made by the AIPRD Joint Commission in December 2005 as part of a series of announcements. The announcement of EINRIP, including its objectives, scope and timing, was made by the AIPRD Joint Commission in December 2005 as part of a series of announcements concerning Australia's response to the 2004 Indian Ocean earthquake and tsunami. The ANAO has previously observed that the development and delivery of the AIPRD over a relatively short time frame presented a substantial challenge for AusAID,

particularly in view of the lead times normally associated with identifying, designing and implementing suitable projects.⁹⁴

3.111 Within the context of the constrained development timetable, AusAID sought to mitigate its inexperience in loans and in the infrastructure sector in Indonesia by consulting broadly in project development, leveraging relevant structures and practices from the World Bank and the Asian Development Bank, and contracting in relevant expertise. Nonetheless, the early announcement of EINRIP was not informed by a clear statement of the assumptions and risks associated with the nature and scale of announced works. In addition, key assumptions had not been able to be tested adequately with GoI officials, who were heavily engaged in the disaster relief effort. Once the needs of GoI as the borrower became clear, it became apparent to AusAID that the assumptions that had informed initial advice regarding the nature and possible scale of works were no longer relevant.

3.112 At the time of the audit, all key structural and administrative elements to support project implementation were in place and the rate of implementation was consistent with the revised project completion date of December 2014. This has included, by September 2012, completion of six of the 20 EINRIP packages of civil works, totalling 105 kilometres, and of separate packages of bridge replacement totalling 1385 meters. A further eight packages of road works were more than 50 per cent complete. Early evaluation results suggest completed works are delivering anticipated benefits to local communities.

3.113 EINRIP faces ongoing implementation challenges. Targeted quality standards, which are designed to provide higher quality and more durable roads, are generally being achieved, although this has required ongoing monitoring and remediation investment at higher levels than originally foreseen. While a broad anti-corruption framework has been put in place, there are gaps in its implementation, and AusAID lacks visibility over implementation partners' compliance with the anti-corruption framework. In addition, there are important challenges to project sustainability, such as road maintenance practices and vehicle overloading, which remain to be effectively addressed. Further work is also required if the revised design and supervision practices piloted through EINRIP are to have a broader impact. Whether

⁹⁴ ANAO Audit Report No.50 2005–06 *Arrangements to Manage and Account for Aid Funds Provided Under the Australia-Indonesia Partnership for Reconstruction and Development*, p. 14.

AusAID is able to effectively address these matters will be an important factor in determining the extent of the sustained benefits flowing from EINRIP.

Recommendation No.2

3.114 To maximise the potential return from its investment in EINRIP, the ANAO recommends that AusAID:

- (a) puts in place the necessary structural and administrative arrangements to support the timely completion of EINRIP; and
- (b) explores further opportunities for working with the Government of Indonesia to promote institutional strengthening in road management, address risks to project sustainability, and monitor compliance with EINRIP's anti-corruption framework.

AusAID's response: *Agreed (see Appendix 1 for further comment).*

4. The Indonesia Infrastructure Initiative

This chapter considers the effectiveness of AusAID's administration of the Indonesia Infrastructure Initiative (IndII). It includes consideration of the planning and development of the program, and AusAID's ongoing oversight of key program elements.

Introduction

4.1 On 4 October 2007, the then Minister for Foreign Affairs approved expenditure of up to \$64.8 million over four years for the establishment of the Indonesia Infrastructure Initiative (IndII). The objective of IndII was to promote economic growth in Indonesia by improving the relevance, quality and quantum of infrastructure investment in Indonesia. This was to be achieved through providing technical support to national and sub-national governments to:

- implement efficient, effective and accountable project management for governments' infrastructure including those financed by loans from the multilateral development banks;
- build a more supportive regulatory and policy environment for infrastructure investment; and
- enhance the economic and social impact of priority infrastructure projects.

4.2 IndII was to operate as an infrastructure facility. Structuring IndII as a facility allowed AusAID to bring together a range of qualified personnel to work closely with both AusAID and the partner government to identify, design and deliver a range of infrastructure development activities. This would include technical advice and assistance, project and policy support, and the design and delivery of related grants.

4.3 During its initial phase of operation, overall funding for IndII was increased three times to \$131.25 million, and functions expanded to include the development and management of grants in relation to water and sanitation access. In May 2011, the Director General of AusAID approved a four year extension to IndII (Phase II). IndII Phase II represents a significant expansion of activity, involving \$66 million in technical assistance, \$180 million in water and

sanitation grants and \$60 million in transport related grants. Including contract, operating and evaluation costs, the total expenditure to be incurred in IndII Phase II is expected to reach \$332 million over four years.⁹⁵

4.4 The ANAO examined the current status of IndII and AusAID's:

- planning and design processes for the initiatives;
- implementation and ongoing management, including the 2011 extension; and
- response to issues arising in the administration of IndII.

Current status

4.5 At the time of audit fieldwork, IndII was one year into the four year second phase of operations. Through IndII, AusAID are actively engaged in a challenging and broad reform agenda, with a high degree of inherent difficulty but with the prospect of a significant return on aid investment if reforms are successful. Assessing the impact of IndII on infrastructure investment and regulatory reform in Indonesia provides an ongoing challenge for AusAID. However, the ANAO observed that at the time of the audit:

- IndII, through its technical assistance and project preparation and support, was considered by many stakeholders to have made significant contributions in regard to a number of important infrastructure development issues. It was valued by GoI stakeholders and was highly regarded by other agencies operating in Indonesia;
- the grant programs developed and administered by AusAID and IndII (through IndII) were similarly well regarded and had substantive, tangible outcomes; and
- the evolving IndII monitoring and evaluation framework was well placed to begin to provide increasingly meaningful feedback to key stakeholders regarding progress in addressing longer term goals.

4.6 IndII enjoys a broad based relationship with key infrastructure partners within GoI, and key stakeholders consulted by the ANAO expressed considerable satisfaction with the support provided through IndII. In

⁹⁵ In 2008, SMEC International Pty Ltd (SMEC) was engaged by AusAID to manage the IndII facility and related grant programs. With the extension of IndII in 2011, SMEC's management contract was also extended for a further four years.

particular, stakeholders valued the expertise embedded in IndII, its capacity to respond quickly and flexibly to the needs of the host government, and its willingness to work cooperatively with other donors to support broader development goals.

4.7 The grant programs administered by IndII are seen as well-designed, innovative, and providing considerable value. In particular, the Water Hibah has yielded tangible benefits for a large number of low income Indonesians. Its design and implementation promotes domestic investment, builds capacity and capability in local water authorities, provides for the independent verification of outcomes and effectively minimises the potential for fraud or corruption to adversely impact on aid outcomes. It provides a model of good practice for both grant aid and for the management of transfers between differing levels of government. AusAID and IndII are, with the GoI, exploring opportunities to apply the model more broadly.

4.8 The strategy for IndII is well articulated through facility planning documents. While revised governance arrangements have been introduced in response to the difficulties experienced in the first phase of IndII operations, they are yet to impact fully on operations and, as such, it is too early to assess their effectiveness. AusAID will need to monitor and fine-tune current structures on an ongoing basis to ensure they provide appropriate leadership and direction for operations. Similarly, the shift in the focus of decision making from the management board to technical teams provides an opportunity to streamline activity design and approval processes but will require ongoing assessment of its operation in practice. In particular, AusAID will need to assure itself that the revised arrangements make best use of the skills and expertise available, provide a meaningful forum for engagement and effective decision making, and do not become administratively burdensome.

4.9 Effective monitoring and evaluation is particularly critical for IndII to support the identification, design and management of development activities. Following delays in establishing appropriate monitoring and evaluation arrangements during the initial phase of operations, IndII now has a comprehensive model for assessing activity and organisational performance in various sectors. Nonetheless, assessing the effectiveness of individual activities and overall IndII performance is inherently challenging. IndII is targeted at assisting the GoI in efforts to address substantive and long-standing barriers to more effective infrastructure investment and utilisation. Such barriers may require repeated efforts at resolution, over extended periods. Measures of success need to be clearly articulated, but also need to acknowledge the

inherent challenges and the role of external factors in influencing immediate outcomes.

4.10 While effective monitoring and evaluation arrangements are needed to support IndII management and provide information and assurance to stakeholders, external independent review will remain an important element of AusAID's strategy for maximising the benefits from its investment in IndII. AusAID's independent review strategy for the first phase of IndII operations proved problematic. While the reviews themselves yielded valuable insights into IndII operations and assisted in identifying issues requiring management attention, issues in the design, management and resourcing of the program of external review activity reduced their potential benefit. Some reviews were not able to be adequately concluded, with adverse consequences for both contractor relations and for program transparency. There remains significant scope for AusAID to enhance the effectiveness of the program of external review.

4.11 AusAID will also need to pay ongoing attention to the phasing of IndII activity. The first phase of the initiative was initially conceived and funded, as a four year program of activity. By the time of commencement, this initial phase of operation had been reduced to three years. With a slower than anticipated start to IndII operations, expenditure and activity was heavily concentrated in the later stages of Phase I. Delays in finalising arrangements for the extension of IndII (discussed later in this chapter) then led to a rapid curtailment of activity and a significant loss of continuity and momentum between project phases. While at the time of fieldwork IndII had a broad portfolio of activities in progress, regaining momentum lost in the transition from the first to the second phase of IndII operations has been challenging for AusAID.

Planning and delivery

4.12 Planning for IndII commenced following the 2006 White Paper *Australian Aid: Promoting Growth and Stability*, in which the Australian Government announced funding of \$800 million over five years for the Infrastructure for Growth Initiative (IFGI). IFGI was targeted at supporting increased economic growth in Asia and the Pacific by helping partner governments improve infrastructure policies and finance high-priority infrastructure projects. IndII was developed within the IFGI framework and is supported by IFGI funding. Initial policy development for IndII commenced during 2006, and in October 2007, AusAID finalised a Program Design

Document (PDD) which described the proposed initiative, its objectives, management arrangements, monitoring and evaluation plan and its implementation strategy.

Funding approvals and procurement

4.13 Funding for IndII of up to \$64.8 million over four years (commencing in 2007–08) was approved by the then Minister for Foreign Affairs in October 2007. The Minister was advised that the:

... development goal of IndII is to promote economic growth in Indonesia by improving the relevance, quality and quantum of infrastructure investment in Indonesia. This will be achieved by reducing policy, regulatory, capacity and financing constraints on infrastructure investment.

4.14 Following an international open tender process to select a managing contractor for IndII, SMEC International Pty Ltd (SMEC) formally commenced as the IndII Facility Manager in August 2008.

4.15 On 9 December 2009, AusAID approved expenditure of \$56.5 million (plus GST) over 2009–10 and 2010–11 on an Indonesian Water and Sanitation Initiative (WSI) program. With a focus on efficiency and to minimise coordination problems, the WSI was to be managed at the activity and technical level by the IndII facility manager, while AusAID retained responsibility for strategic management. During the 2009–10 and 2010–11 financial years, further additional funding was directed to IndII, reflecting changes to both the scale and scope of IndII operations. This included an additional:

- \$4.46 million in April 2010 to accommodate a broadened scope of work for IndII in water and sanitation, integrated urban transport, and air, sea and rail transport; and
- \$5.49 million in December 2010 from the Economic Infrastructure Initiative (EII) budget measure and the IFGI.

4.16 These additions brought the total budget for Phase I of IndII to \$131.3 million.⁹⁶

⁹⁶ Around \$30 million of the funding identified for IndII comprised Australian contributions to water and sanitation initiatives jointly funded with or administered by third parties, including multilateral agencies. The IndII managing director would not be responsible for the management of these initiatives.

Implementation and delivery Phase I

4.17 The initial governance and management structures for IndII assigned overall authority for management to AusAID and Bappenas, as the designated coordinating authorities of the respective governments. These agencies co-chaired the Facility Management Board (the Board), which was responsible for guiding and directing the implementation of IndII. Day-to-day responsibility for managing the implementation of IndII was vested in SMEC, as the Facility Manager. The principal tool for guiding the strategic direction of IndII was the Facility Review and Planning Document (FRPD). The FRPD was prepared by SMEC for consideration and endorsement by the Facility Management Board.

4.18 Activities are the basic building blocks for the delivery of technical assistance and other services by IndII. IndII was responsible for the development of activity concept proposals which were reviewed initially by the Facility Management Board and then, after October 2008, by the relevant technical team before funding was approved by AusAID. In Phase I, 95 activity requests were approved by AusAID, at a value of \$43 146 596. These are listed at Appendix 3.

4.19 Specific grant programs administered by IndII during its initial phase of operation were governed by separate subsidiary arrangements with the GoI, and dedicated funding agreements. The programs included output based water supply and sanitation grants totalling \$25 million and supported the provision, by the end of 2011, of 77 000 new piped water connections and 4826 new piped wastewater connections. In addition grants totalling \$6 million were provided to 22 local government authorities for developing sanitation infrastructure.

4.20 The monitoring and evaluation arrangements for IndII in its first phase of operation included on-going monitoring and evaluation by the Facility Manager, and external impact assessments to be conducted by an independent team engaged by AusAID. An internal monitoring and evaluation plan for IndII was finalised in August 2009, while the Impact Assessment Team (IAT) conducted three reviews of IndII between April 2010 and August 2011. AusAID also conducted an Extension Assessment Mission (EAM) in October 2010 to assess whether IndII should be extended from its initial three year phase.

4.21 IndII faced a number of substantive issues during its first phase of operations that impacted on IndII's early performance. However,

notwithstanding these issues, external assessment of IndII's performance and of SMEC's management of IndII is positive, with the EAM stating that 'after a slow start the Facility has "hit its straps" and is highly appreciated by GOI counterparts'. The assessment of the EAM is consistent with the views expressed by stakeholders to the ANAO during fieldwork. However, concerns were expressed by stakeholders in relation to the slow speed of start-up, the implementation of effective governance arrangements, and the scope to improve monitoring and evaluation and administrative operations.

IndII extension

4.22 Following the assessments of the IAT's Mid-Term Review and the EAM, on 31 May 2011, AusAID's Director General agreed to expenditure of an additional \$92 million to extend IndII for a further four years until 2014–15. He also agreed to exercising the option to extend SMEC's contract as the managing contractor of IndII for a period of four years. IndII would also be responsible for the development and implementation of the \$240 million Australia–Indonesia Infrastructure Grants (AIIG) program. This would include an expansion of existing water and sanitation grant programs and the development of new areas of grant activity for example in the roads sector.

4.23 On 28 June 2011, two days before the expiration of the extant contract, a Deed of Amendment to AusAID's contract, exercising the option to extend the contract for four years, was signed. The factors contributing to the timing of this decision, and the impact on operations, are discussed further below.

Implementation and delivery Phase II

4.24 With the funding approved and the formal exercising of the option to extend SMEC as manager of the IndII Facility for a further four years, transition to Phase II was effected. The overarching goal of IndII—'improving infrastructure provision by reducing policy, regulatory, capacity and financing constraints on infrastructure expenditures at the national and sub-national levels'—was retained for Phase II although detailed objectives were updated.

4.25 To improve the effectiveness of facility governance, revised arrangements were introduced for Phase II. The Facility Management Board has been replaced by a Facility Management Committee with responsibility for high level decision making with respect to the overall planning and implementation of IndII, and for the allocation of AIIG funding. To support broader engagement a new Facility Governance Board was established, with the earlier Coordination Group discontinued. Two technical teams, one for

Water and Sanitation and the other for Transport, have been established to consider proposals for technical assistance, capacity building or training activities to be funded through IndII. They will also monitor the progress of ongoing activities and review and assess outputs produced. There has been no substantive change in the management role of SMEC, as managing contractor of the IndII Facility, in Phase II. The FRPD remains at the heart of ongoing strategic management.

4.26 While SMEC, as managing contractor, retains much of the responsibility for IndII's implementation, overall responsibility for IndII outcomes continues to rest with AusAID. AusAID is involved in key elements of the governance framework and provides final approval of individual design proposals. It is also engaged with IndII in the development of proposed grant activity, including securing necessary policy and financial approvals, and for putting in place the necessary government-to-government architecture to support evolving programs. At an operational level, AusAID staff work closely with IndII personnel in the development of key planning and strategy documents, such as the FRPDs, risk and evaluation frameworks, and the development activity proposals prior to their consideration by the technical teams. AusAID also plays an active role in working with IndII management in the ongoing refinement of procedures and the implementation of responses to review recommendations.

4.27 As at 1 July 2012, IndII involved 32 staff, including 24 advisers and eight administrative staff. A further 102 personnel were sub-contracted to IndII, including 88 advisers and 14 administrative personnel. While IndII continued to progress the development and implementation of activities in a range of sectors, there had been considerable difficulty in recovering momentum lost in the transition from Phase I. The newly programmed activity expenditure of \$5.2 million in 2011–12 was around half of the level initially anticipated by AusAID (Phase II activities approved as at the time of the audit are listed at Appendix 3), while there had been payments of Phase II grants (the IndII Phase II approval had forecast \$32 million in new grant activity in 2011–12).

4.28 The proposed approach to monitoring and evaluation in Phase II of IndII extends the approach that evolved over Phase I and includes on-going monitoring and evaluation, an external impact assessment (conducted by an IAT) and regular contractor performance assessments. AusAID intends further developing the IndII monitoring and evaluation Framework, both to improve

the nature and quality of data collected and to address key, emerging challenges. The concept of an IAT is also being maintained for Phase II.

Issues in administration

4.29 Stakeholders consulted by the ANAO reflected positively on IndII's performance. Bappenas indicated that the flexible nature of IndII, its in-house expertise and its ability to respond to emerging Indonesian requirements are valued by the GoI. Bappenas also indicated that the GoI was examining opportunities to apply the reimbursement approach used in the Water Hibah to other GoI programs. Similarly, DGH highlighted their positive experiences with IndII, including IndII's consultative approach to working with the GoI. The close and positive relationship with both AusAID and IndII was noted, and the Water Hibah was described as both effective and good value for money. Representatives from the Ministry of Finance commented positively on their engagement with AusAID and IndII, especially in relation to the Water Hibah.

4.30 The Asian Development Bank (ADB) informed the ANAO that it considered that IndII has been successful in building effective working relationships with Indonesian government counterparts. In particular, the ADB are 'very impressed' with IndII's Water Hibah, and the ADB looked to AusAID as a leader in the sector.

4.31 AusAID maintains a high degree of engagement with, and oversight of, IndII. However, successive reviews, while noting the achievements of IndII, have identified scope for AusAID to improve the effectiveness and efficiency of IndII operations, particularly in relation to governance and administration. In addition, the ANAO's consultation with stakeholders and examination of AusAID and IndII records highlighted issues in:

- program phasing and activity continuity, relating to the slow start-up of IndII operations and the management of transition between phases; and
- the framework for external assessments of IndII performance.

Improving governance and administration

Governance

4.32 AusAID significantly revised its governance arrangements for IndII Phase II in light of the difficulties experienced with those arrangements during

Phase I. In particular, during Phase I, the Facility Management Board did not operate as intended. Scheduling of Board meetings proved difficult which, given the key decision making powers assigned to the Board, led to matters having to be progressed bilaterally or out of session. This limited the scope for effective oversight and direction of IndII and reduced the opportunity for engagement by stakeholders in strategic and operational decision making. AusAID had clear visibility of the difficulties in securing effective operation of the governance arrangements, with the matter flagged in both internal reporting and external reviews.

4.33 In 2010, reflecting its awareness of the issues, AusAID requested the first IAT mission to focus on evaluating management and governance of IndII. The IAT assessment noted that 'IndII's Management Board (which operates as an Advisory Board) and Technical Team are not functioning well, having issues of attendance and membership'. The first IAT report made a series of recommendations aimed at resolving the governance issues.

4.34 The second IAT review (the Mid-Term Review) was conducted immediately following the first and reiterated the view that 'IndII's main problems are ones of Governance'. The report noted that despite strong efforts to re-energise the Management Board and Technical Teams, the Management Board was still the subject of concern. The report also suggested that without robust oversight from the Management Board, IndII risked a loss of strategic direction. As a consequence, there was a risk that IndII's strategic direction would, by default, be determined mainly by the near-term priorities of the main stakeholders. This would be likely to undermine the longer-term outcomes from IndII's assistance.

4.35 Following the first and second IAT reports, AusAID took measures to improve the governance of IndII. This included the decision to divide the technical team into two technical teams along sector lines. This change has reduced the workload on team members and enabled the participation of GoI personnel with specific responsibilities in the sectors concerned. The EAM, conducted during October 2010, found that the Management Board was still not sufficiently engaged, but that in spite of this IndII was working well. It also found the Technical Teams were functioning better, but there was room for further improvement.

4.36 Further refinements to governance were introduced progressively by IndII and AusAID, and formalised in planning for Phase II. Initial planning for Phase II acknowledged the consequences of the problematic governance

arrangements. This included the inability to have the FRPDs reviewed and approved regularly with the consequence that the Technical Teams had to take decisions on activities without up-to-date direction or guidance on overall programming strategy.

4.37 For Phase II, AusAID implemented a two tiered governance framework with an IndII Governance Board established to provide a forum for engagement with key stakeholders, while decision-making authority was vested in a smaller IndII Management Committee. The revised governance arrangements were included in the Subsidiary Arrangement for Phase II. AusAID advised the ANAO that it considered the new technical teams, introduced to improve IndII governance, were operating effectively, and had met nine times during 2012 with technical team meetings well attended and constructive.

4.38 The revised arrangements, however, have yet to impact substantively on IndII direction. In particular, there has been ongoing difficulty with finalising the FRPDs in a timely manner. While Phase II of IndII operations commenced in July 2011, the first FRPD was not finalised until late 2011. As previously noted, much of the initial strategic direction setting for Phase II was built into the extension approval documentation, including the amended Scope of Services under the contract between SMEC and AusAID and the Subsidiary Arrangement for Phase II, meaning that delays in approving the first FRPD did not impact substantively on facility operations. However, the second Phase II FRPD, which covered programmed work for the period July 2012 to June 2013, was also delayed and not approved by the IndII Management Committee until 12 December 2012. Given the role of the FRPD in setting and guiding IndII's direction, substantial delays in its finalisation limits the capacity of the Management Committee to provide effective strategic direction.

4.39 It will be important for AusAID to assess, on an ongoing basis, whether the changes to the governance structure have proven effective in addressing the issues identified in the first phase of IndII operations.

Administration

4.40 The first IAT report and the EAM commented on the time-consuming approvals process involved in AusAID's management of IndII. The first IAT report noted that there is a perception that AusAID staff are too closely involved in the details of the activity selection and decision process and recommended that AusAID take a 'more strategic approach to Facility

Management’, and in particular, ease ‘the protocols for AusAID’s final approval of Activity Designs and Budget spending’.

4.41 The EAM also recommended AusAID streamline its review and approval process and suggested ‘consideration should be given to increasing the delegated authority given to SMEC on contract related expenditure and adopting a single step approval process for activity designs’. The third IAT noted ongoing issues in activity process management and recommended that:

IndII and AusAID need to discuss—and agree on—significantly simpler AD processes. This should include time-bound end-points for comments and sign-off responsibilities, including on the GoI side.

4.42 Consultation with stakeholders during audit fieldwork and the ANAO’s review of documents relating to the administration of a sample of Phase II activities suggests that there remains scope to improve administrative efficiency. In particular, the activity design process saw significant engagement between IndII and AusAID staff and multiple iterations of design documents, which was time consuming and effectively limited the role of the Technical Teams to providing a final sign off rather a meaningful contribution to activity proposal development. While the factors driving this situation were not broadly agreed, all parties expressed a view that streamlining proposal development would be desirable.

4.43 AusAID and IndII staff are continuing to work together to improve procedures. The most recent proposed FRPD notes a number of reforms introduced since the IAT and EAM reports, but concludes that:

Despite these important changes, paperwork remains a challenge for IndII, in that it diverts key resources away from implementation, strategic planning, M&E and other crucially important tasks such as delivering key messages to our primary stakeholders... More effort is required by IndII to work with the management team at AusAID to progress the above-mentioned reforms, and also to follow up on various proposals for streamlining approvals processes.

4.44 Successfully progressing administrative reforms would reduce the workload associated with day-to-day process management. It would also improve the capacity of IndII staff to address tasks more directly related to facility objectives while also allowing AusAID to focus its efforts on strategic engagement and direction. AusAID advised the ANAO in January 2013 that it ‘accepts that there is still scope to improve administrative efficiency, particularly regarding the activity approval process’.

Start up and transition

4.45 For an ambitious project, IndII Phase I had a relatively compact timeframe. While original financial approvals anticipated expenditure over four years, by the time procurement had been finalised and framework arrangements settled, the overall timeframe for the project had been reduced to three years. Recognising the need to provide for long term engagement on infrastructure issues, AusAID incorporated the option to extend operations for a further four years, subject to performance.

4.46 The consequences of this framework were two-fold. Firstly, if IndII was unable to make good early progress, AusAID would have limited opportunity to fine tuning operations if necessary and to make a well-founded and timely assessment of IndII performance that could inform decision making regarding the future of the initiative. Secondly, delays in taking decisions regarding the possible extension of IndII would increase the risk that continuity of engagement and operations would be lost, activity momentum would falter and key personnel might leave the activity. Both of these matters were to provide challenges for AusAID.

Start up

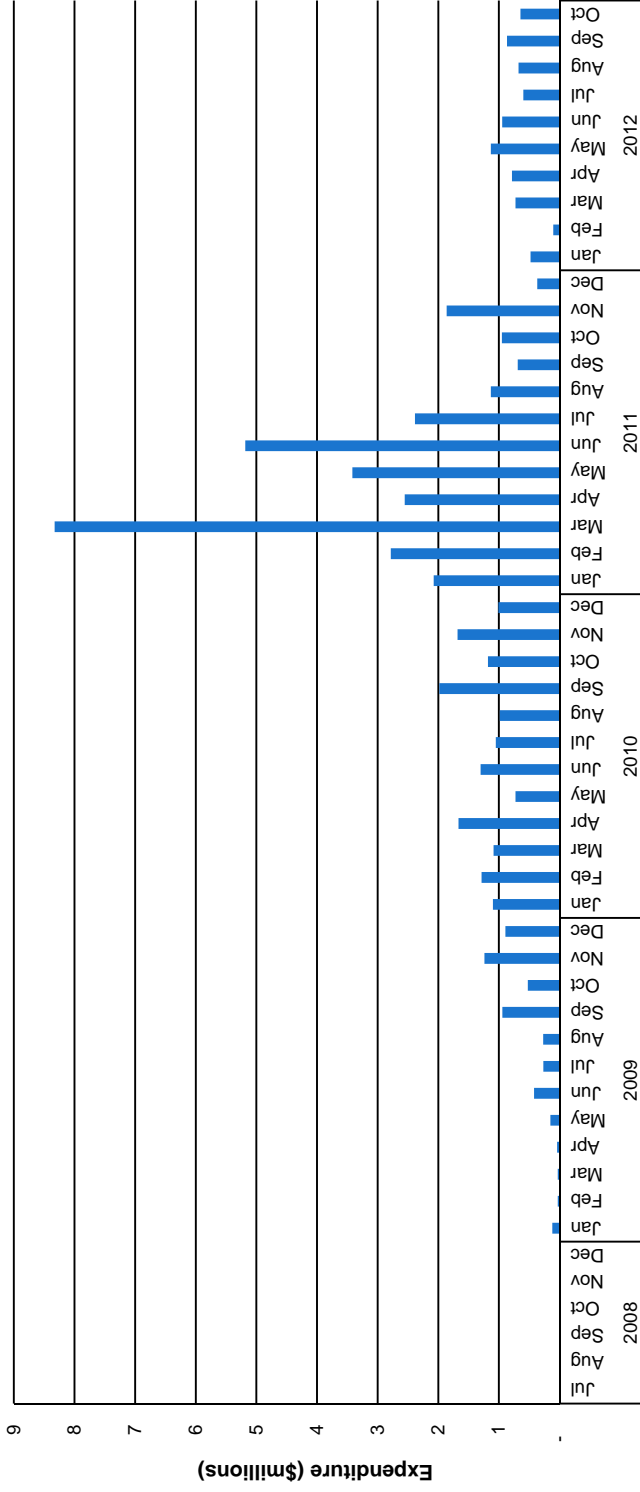
4.47 The facility model, in which the specific opportunities for engagement are developed consultatively after the facility is established, necessarily involves a slower start up than a more conventional aid initiative where extensive programming has been determined in advance of commencement.⁹⁷

4.48 Evidence of slower than anticipated start up emerged early in the life of IndII. The first IndII Facility Management Board meeting, held in October 2008, noted 'the need to speed up procurement processes to ensure that expenditure targets are met'. The matter was also identified at the subsequent Board meeting, in February 2009 and in the February 2009 FRPD. ANAO analysis of IndII monthly expenditure confirms these early assessments (see Figure 4.1). By August 2009, after its first year of operation, cumulative expenditure had reached \$1.2 million, less than 10 per cent of what had been anticipated, reflecting significantly slower than expected progress in the identification, design and implementation of activities.

⁹⁷ Indonesian Government officials also observed in discussions with the ANAO that the IndII Facility was a significant departure from other development programs with which it had engaged. In particular, IndII did not come with a pre-defined range of options, rather the IndII Facility and Gol needed to work together to establish how to most effectively support Indonesian infrastructure needs. It took some time for Gol to work through this process and prioritise its needs.

Figure 4.1

Indll monthly expenditure



Source: Indll documentation.

4.49 Key elements of IndII's operating framework also progressed much more slowly than had been anticipated. IndII and AusAID experienced significant difficulty in establishing appropriate monitoring and evaluation arrangements and a monitoring and evaluation plan for IndII was not approved until August 2009, 12 months after IndII operations commenced and eight months later than originally expected.

4.50 While achieving a predetermined rate of expenditure was not (and should not have been) a primary goal for IndII, the slow ramp up of expenditure reflected delays in establishing an appropriate operational environment for IndII and in identifying, designing and implementing the activities which were core of facility operations. Both internal and external reviews highlighted establishment delays, noting that start up had taken longer than expected. The first IAT report put these delays down to a number of factors, including initial program design, unexpected staff turnover in key facility positions, and the decision to add the Water and Sanitation Initiative component, which came at a time when IndII management was under stress.

4.51 Early planning identified a number of the key risks that might impact on timely implementation. The potential for decisions on the staffing of key facility positions to lead to delays in activity implementation was identified, as was the potential for a lack of AusAID and contractor experience in the infrastructure sector in Indonesia to contribute to implementation delays. It is notable that responsibility for managing these risks was assigned to the Managing Contractor and Facility Director. While it is appropriate that they carry responsibility for risks associated with general facility staffing, risks associated with key personnel (such as the Facility Director) or the level of AusAID's sectoral experience are more appropriately managed jointly by AusAID and the Managing Contractor.

4.52 While AusAID worked closely with IndII to address matters relating to and affected by the pace of implementation, it is clear that IndII did not achieve an effective level of operations until into its second year of operations. This delay, combined with Phase I's three year timeframe, presented considerable challenges for AusAID in assessing IndII performance, taking an informed decision in relation to facility extension, and subsequently managing the transition to a second phase of IndII operations.

4.53 As the first IAT report noted, the delays left only two years 'of operational time, which is an extremely short period for matters related to infrastructure'. The second IAT, in June 2010, also emphasised the difficulty in

making an assessment of performance in light of the slow start up. The shortened timeframe also created pressure on IndII to increase the rate at which funds were disbursed, which was in turn compounded by the broadening of the scope of IndII operations and the allocation of additional funding described at paragraph 4.15. Both the first and second IATs noted that the IndII faced continuing pressure to increase spending.

4.54 As a consequence, AusAID was presented with the prospect of taking decisions on IndII's effectiveness and possible extension within a compressed timeframe and with limited evidence of achievement. The first IAT mission, in 2010, recommended that AusAID as soon as possible adopt in principle a one year extension until June 2012 to allow AusAID to focus on refining governance and other processes, and to provide a more sustained period of operations against which to make a decision on the facility's long term future. AusAID chose not to accept the recommendation, but accepting 'the IAT's concern that an extension decision be relayed quickly and necessary contracting and design work be undertaken well within time to allow for planning and staffing stability'.

4.55 The October 2010 EAM report recommended AusAID extend the IndII (and SMEC's contract) to June 2015, and recommended that work on designing activities for 2011–12 and 2012–13 start as soon as possible. It also recommended that AusAID give SMEC immediate notification of its intent to extend the contract, so that SMEC could mobilise the necessary resources. The need to act early to preserve continuity was recognised in the original contract between SMEC and AusAID, which noted that AusAID should 'notify the Facility Manager in writing of its decision in relation to the option to extend at least ninety days before the end of the contract'.

4.56 However, while AusAID communicated its intention to extend the term of operations early, there were significant delays in obtaining formal approval for the extension and in executing a formal contract extension. These delays led to a dramatic slowing of IndII activity as, under the contract between SMEC and AusAID, SMEC was unable to formally commit to expenditure beyond the life of the current contract.

4.57 AusAID commenced contract negotiations with SMEC in January 2011, following the October 2010 EAM. Negotiations were complicated by the release of revised imprest account guidelines, which required adjustments to the terms of the contract. In addition, the release of the new adviser remuneration framework in March 2011, which affected the rates of

remuneration of a number of IndII personnel, further delayed the finalisation of negotiations with SMEC. Accordingly, it was not until 3 May 2011 that AusAID approached the Minister seeking formal approval for Phase II of IndII, and 31 May 2011 that the Director General of AusAID approved both the provision of funding for Phase II along with the extension of the contract with SMEC. It took a further 28 days to execute the Deed of Amendment to extend the IndII Facility Contract.

4.58 At the time of audit fieldwork, IndII had yet to recover the momentum lost during the transition from its first phase of operations. The impact on activity implementation and expenditure is discussed at paragraph 4.27 and is clearly visible in the monthly expenditure pattern shown in Figure 4.1. This loss of momentum creates the risk that facility expenditure will again be heavily biased toward the latter stages of this phase of operation.

4.59 The management of the transition between the phases of facility operations was one of the only areas of IndII administration to draw adverse commentary from stakeholders but nonetheless has the potential to significantly impact on overall effectiveness. AusAID will need to establish a clear strategy for more effectively managing the transition at the end of Phase II, providing for an early decision which will provide certainty in planning and administration for key stakeholders and facility management. In January 2013, AusAID advised the ANAO that it recognised 'the need for a clear strategy for managing the end of Phase 2 operations of IndII' and was considering options for minimising disruption at that time.

Evaluation model

4.60 During its first phase of operations, IndII has been subject to a significant amount of both internal and external review, including:

- Quality at Entry and Quality at Implementation reviews (internal to AusAID reviews);
- extensive monitoring and evaluation arrangements internal to and managed by IndII, including through the FRPD;
- three IAT reports;
- an EAM, and
- contractor performance assessments.

4.61 This program of activity has assisted AusAID in its management of IndII, positioned AusAID to work closely with SMEC and the GoI to address issues as they arose, and informed AusAID's reporting to key stakeholders. However, there remains scope to refine its approach to evaluation in Phase II, particularly in relation to the operation of its independent IAT reviews.

4.62 The IndII Subsidiary Arrangement (SA) defined the nature and function of the IAT:

The Impact Assessment Team (IAT) will be established towards the end of Year 3 for the purposes of preparing independent evaluations of the impact of IndII activities and the effectiveness of the adopted implementation arrangements. Based on these assessments it will also make recommendations to AusAID concerning possible future GOA support for Indonesia's infrastructure development. The IAT will conduct a first assessment during Year 3 and a second assessment at the end of Year 4. The Team will be headed by an independent external expert to be selected by AusAID, and will seek inputs from partner agencies as well as from AusAID, Bappenas, the Board, and the Contractor's personnel.⁹⁸

4.63 In practice, the IAT conducted three reviews, between March 2010 and June 2011. The IAT reviews generally entailed broad terms of reference and limited time for fieldwork and reporting. The Third IAT mission, for example, was designed to take four weeks, including prior preparation and briefing, travel, in-country consultation and field visits, and including four days for report preparation. Approved expenditure was \$70 000 (less than 0.1 per cent of program funds) and length of the final mission report was set as a maximum of 5 pages (less than the length of the terms of reference) plus appendices.

4.64 The ANAO's review of the IAT reports and records of associated consultation suggests that addressing the terms of reference within the timing and resource constraints imposed upon the process presented significant challenges. The reports themselves were necessarily brief and subjective in nature (there being little scope to present detailed evidence within the confines of the reporting framework). In respect of the third IAT report in particular, there was disagreement over both the appropriateness of the review's terms of reference and once the report had been drafted, its content. The short

⁹⁸ *Subsidiary Arrangement between the Government of Australia and the Government of the Republic of Indonesia relating to the Indonesia Infrastructure Initiative—Facility (IndII)* dated 11 August 2008.

timeframe for the third IAT meant that when these differences emerged, there was little time in which to resolve them. At the time of audit fieldwork, consultation with both AusAID and IndII staff indicated the review had been a difficult process and that, while the review's recommendations had been accepted by all parties, general agreement had not been reached on the report's content.

4.65 In addition, the ANAO observed that IAT selection, operations and reporting were closely overseen by AusAID personnel who were also involved in the day-to-day administration of IndII and in the selection, design and guidance of IndII activities. The role of the IAT has been to prepare 'independent evaluations of the impact of IndII activities and the effectiveness of the adopted implementation arrangements'. Any comprehensive assessment of IndII's effectiveness will necessarily include, to at least some extent, a reflection on the performance of these elements of AusAID. A clear separation between those persons responsible for IndII performance and those overseeing the external reviews would reinforce the independence of the evaluations and increase the level of assurance that stakeholders are able to derive from the external review process.

4.66 It is a matter for AusAID to determine the direction of, and the extent of its investment in, external review activity. The ANAO's assessment of the reports is consistent with the advice from AusAID that the reviews provided valuable insights that have informed ongoing strategic and operational management of the facility. However, the ANAO notes that AusAID's management of the review process has differed in important respects from that observed, for example, in regard to EINRIP. In particular:

- the reviews have not been publicly released in accordance with AusAID's Transparency Charter; and
- no formal management response was prepared at the time the reviews were presented to AusAID to inform stakeholders and guide the agency's response to the recommendations.⁹⁹

4.67 As part of its Transparency Charter, AusAID committed to 'publish detailed information on AusAID's work—our policies, plans, process, the

⁹⁹ During the course of the audit, AusAID formalised its response to the three IAT reports. The submission seeking approval of the proposed management response did not propose that the response be distributed to staff or stakeholders, but that it 'be held in reserve should there be any inquiry regarding AusAID's response to these three reports'.

results of Australian aid activities and our evaluations—on AusAID’s website to explain where Australia’s money is spent and its impact on reducing poverty’. Publication of reports on the implementation of particular projects, particularly when accompanied by advice from management of their views of, and response to, the report, provides valuable assurance to stakeholders and the broader public. When taken together, evaluations and the associated management responses provide insight into the agency’s view on the status of the initiative, its achievements and actions that need to be taken to improve performance.

4.68 The ANAO acknowledges that decision as to whether to publish program assessments of this nature needs to be made on a case-by-case basis, and that the potential impact on individuals, companies and external agencies must be carefully considered. However, the decision not to bring the review reports to a point where they could be broadly shared with stakeholders, and the decision not to finalise a contemporary management response to guide the agency actions, reduced the potential value able to be derived from the reports. AusAID has advised the ANAO that ‘future IAT reports will be published consistent with the Transparency Charter’.

4.69 The second phase of IndII operations provides an opportunity for AusAID to improve the level of assurance that external reporting provides to stakeholders, while preserving its value for AusAID and its management of IndII. This may involve AusAID giving consideration to the balance between the frequency and depth of reviews, allowing for a more substantive exploration of issues and for full engagement with stakeholders prior to, during and following the conduct of reviews.

Conclusion

4.70 During its first phase of activity, IndII provided targeted grants and technical assistance, project preparation and implementation support to a range of GoI agencies valued at around \$50 million. In addition, AusAID has reported that, through \$25 million in output-based water and sanitation grants, IndII has supported the provision of 77 000 new freshwater connections and 4826 new sewerage connections to low income households.

4.71 Stakeholders, including representatives of the GoI and of multilateral agencies operating in Indonesia, advised the ANAO that they considered IndII to have made significant contributions to a number of important infrastructure development issues. However, IndII has faced substantive difficulties in its

establishment and early operations, and there are ongoing challenges that AusAID will need to address if the planned objectives for the project are to be achieved.

4.72 Significant delays in IndII's establishment and early commencement of operations resulted in more activity expenditure in the last five months of Phase 1 operations than had occurred in the first 30 months. Such a rapid increase in late-term activity, following start-up delays, is not desirable as it makes it more difficult for project governance to give full and proper consideration to spending decisions and to manage activities to achieve planned objectives.

4.73 The late build-up in activity was followed by a significant loss of operational momentum, caused when AusAID was unable to secure an early and actionable decision on IndII's extension. This adversely impacted on project continuity and saw new operational activity in the first year of the extension well below forecast levels. AusAID will need to be closely engaged in the development and initiation of new activity in 2012–13 if the planned rates of project activity are to be achieved and if the momentum of the engagement, when regained, is to be sustained in the longer term.

4.74 Initial arrangements for IndII's governance did not operate as anticipated during Phase I, and did not provide timely strategic input to guide IndII operations. This has been recognised by AusAID and GoI partner agencies, who in 2011 implemented revised arrangements at both the strategic and operational levels. At the time of the audit, it was not yet clear that the revised arrangements would effectively address the issues identified in the first phase of IndII operations, with the activity plan for 2012–13 not approved until half way through its implementation. AusAID will need to monitor and refine the revised arrangements so that IndII is provided with appropriate and timely strategic guidance and performance oversight.

Recommendation No.3

4.75 To support more effective and efficient management of IndII, improve assurance for stakeholders and better manage transitional risks, the ANAO recommends that AusAID:

- (a) monitors the effectiveness of reforms to IndII governance and administration;
- (b) refines its external review strategy to enhance transparency in regard to IndII's performance and AusAID's management of the initiative; and
- (c) develops appropriate arrangements to manage the risk of loss of continuity and momentum at the end of the second phase of IndII operations.

AusAID's response: *Agreed (see Appendix 1 for further comment).*

5. Evaluation and Management of Risk

This chapter examines AusAID's arrangements for monitoring and evaluating the performance of Indonesian infrastructure programs, as well as its approach to identifying, monitoring and reporting on risk. The examination of risk management includes consideration of AusAID's approach to the management and reporting of the risks posed by fraud and corruption and the risks associated with the expansion of the Indonesian program over future years.

Introduction

5.1 Effective monitoring and evaluation provides performance information that is crucial for maintaining aid effectiveness. Such information also informs project and program management, assisting managers to make sound planning and management decisions for individual projects, within programs and across the agency generally. It is also a key support to AusAID meeting accountabilities to its Minister and the Parliament and to other key stakeholders including the Australian public, beneficiary communities, implementing partners, other Australian government agencies, and partner governments.

5.2 Similarly, AusAID's management of risk, including activity and program risks and the risks to aid effectiveness posed by fraud and corruption, are central to ongoing program management and organisational learning, and to the nature and level of assurance available to agency executives and key stakeholders. Accordingly, in examining AusAID's management of infrastructure aid to Indonesia, the ANAO considered:

- the effectiveness of current arrangements for monitoring and evaluation, including both internal and external review and the capacity to use information to provide assurance to stakeholders and support ongoing management; and
- AusAID's management of program and activity risk, including:
 - the management and reporting of the impact of fraud or corruption on activity effectiveness; and
 - the management of risk associated with the planned expansion of the country program.

Monitoring and evaluation

5.3 Arrangements for monitoring and evaluation of AusAID’s Indonesian country program and initiatives are set out in AusAID’s *Performance Management and Evaluation Policy*, dated 15 March 2012. The Policy outlines a number of key responsibilities for country program and activity managers, which are summarised in Figure 5.1.

Figure 5.1

Performance Management and Evaluation Framework

	Program Level	Initiative / Activity Level
Policy and direction setting	Regional / country strategies Thematic and global program strategies	Delivery strategy / delivery strategy appraisals Program management plans Business unit plans
Planning and design	Delivery strategy / delivery strategy appraisals Program management plans Business unit plans	Quality assurance processes for concepts and designs, including peer review, independent appraisal and/ or Quality at Entry reports
Implementation and monitoring	Program health checks	Quality at implementation (QAI) reports Contractor and advisor performance assessments
Review and Evaluation	Annual Program Performance Reports Australian Multilateral Assessment	Independent Evaluation QAI - Final

Source: AusAID, *Performance Management and Evaluation Policy*, Canberra, 2012.

5.4 The ANAO observed a high degree of compliance with the core elements of the performance management and evaluation framework. In particular:

- the Annual Program Performance Reports are comprehensive and provide significant insight into overall program performance;
- quality assurance of activity development is thorough and generally informs subsequent development;
- annual QAIs provide a thorough appraisal of activity performance; and
- independent evaluations in relation to EINRIP were thorough and well targeted, providing valuable support for activity management and assurance to stakeholders.

5.5 Nevertheless, there is potential for AusAID to continue to refine its monitoring and evaluation strategy in the Indonesian program. For example, as discussed in Chapter 2, the development of a delivery or sectoral strategy for infrastructure would support a more strategic approach to the evaluation and reporting of performance in that sector. In addition, as discussed in Chapter 4, there is scope to enhance the external review strategy during the second phase of IndII. AusAID could also focus on finalising management responses to independent evaluations more promptly.¹⁰⁰ While AusAID may act upon the findings of independent evaluations at any time, a formal management response provides a clear foundation for action by both AusAID and contractor personnel, and signals to stakeholders AusAID's views on the report and its intended response.

Information management

5.6 A key counterpart to effective performance management and evaluation, particularly given AusAID's operating model, is effective information management. Effective information management is necessary to support activity and program management, particularly in environments characterised by a high degree of staff mobility. It is also notable that the activities and programs administered by AusAID generate a comparatively high volume of data, which must be captured and maintained in an ordered and accessible fashion to be of use in activity and program management.

5.7 In February 2012, an AusAID internal audit identified record keeping (both paper and electronic) at the Jakarta Post as requiring greater focus.¹⁰¹ During audit fieldwork, the ANAO observed that there remained scope to significantly improve practice. In particular:

- electronic and paper files were often incomplete or poorly organised;
- hard-copy files containing records dating back more than five years showed signs of having only recently been created, with documents neither numbered nor in date order;

¹⁰⁰ The management response to the Independent Progress Review of EINRIP took 10 months to finalise, while management responses to the IndII IATs, which were conducted between March 2010 and June 2011, were not finalised until August 2012.

¹⁰¹ AusAID, *Compliance Audit of Indonesia Aid Program Management*, Canberra, February 2012.

- in the electronic document storage system, clearly labelled document folders were often empty, with related documents located elsewhere in unsorted directories; and
- important project documents (such as technical compliance audits) were held off-site by contractors and not known to, or accessible by, AusAID staff.

5.8 During audit fieldwork, the ANAO saw evidence of management awareness of the need to improve information storage and handling, and of several initiatives that had been pursued following the February 2012 internal audit. However, it was also apparent that there remained considerable scope to improve practice and provide more effective support for program management. In January 2013, AusAID advised the ANAO that it agreed that ‘record keeping at AusAID’s Jakarta Post should be improved’.

Risk management

5.9 In examining AusAID’s administration of infrastructure aid to Indonesia, the ANAO also reviewed arrangements in place in AusAID’s Jakarta office for identifying and managing both general and project specific risk. This included the approach taken to working in partner government systems, and arrangements for identifying and reporting on fraud and corruption.

Identifying and managing risk

5.10 AusAID’s current risk management framework was released in December 2011, and incorporates:

- a statement of agency risk management policy;
- an allocation of risk management responsibilities to key staff and categories of staff; and
- a description of AusAID’s approach to risk management, including its relationship to other key elements of agency administration and planning.

5.11 The framework describes an approach to risk management underpinned by three principles that:

- everyone responsible for achieving an objective is also responsible for managing the risks associated with that objective;

- staff will either manage risks or escalate them; and
- risk management should be integrated with other management activities.

5.12 The framework sets out a cascading approach to risk assessments and risk registers incorporating an enterprise level risk plan, divisional business plans / risk plans, post risk and fraud plans and program / project risk plans. In addition, issues and programs of higher than usual risk are monitored by the agency's executive committee at its monthly meetings.

5.13 The framework is comprehensive and contemporary. In the course of the audit, the ANAO observed a high level of compliance with current risk management policy. Project development had a focus on risk identification, project design paid attention to strategies for risk mitigation, and risks were monitored closely through project and post risk management registers, which were regularly updated and reported on. There were effective linkages to both divisional and enterprise level risk plans. Senior management generally had a high level of visibility over program risks.

5.14 Chapters 3 and 4 discussed in greater detail the assessment and management of the risks associated with EINRIP and IndII, both of which pre-date the current risk management framework. In both instances, it is notable that the project design processes were generally successful in identifying key risks. However, as noted, subsequent experience has indicated scope for:

- more appropriate weighting of project risks; and
- more effective mitigation strategies in program design and implementation.

5.15 In particular, while specific risks for EINRIP in relation to project scope, timing and quality and the barriers to sustainability were identified early, implementing effective risk treatments has been challenging. Similarly the risk of loss of momentum in moving from IndII Phase I to Phase II was anticipated but, in practice, not well managed.

5.16 The difficulty in effectively managing the risks in the infrastructure sector must be considered in light of the inherent and substantial challenges in the aid sector generally and in the infrastructure sector particularly. When implementing programs jointly with foreign governments, the full range of options available to agencies working in a domestic context are not necessarily available, or are not able to be used in the same manner. For example, the

framework of remedies and sanctions available under EINRIP did not provide AusAID with the management capability originally anticipated, with the potential that invoking even modest sanctions could adversely impact on bilateral relations. In January 2013, AusAID advised the ANAO that:

The remedies and sanctions available under the adopted World Bank loan agreement are not well suited for assistance programs that are intended to foster bilateral relations (and) should there be further loan programs, careful consideration should be given to defining more graduated or progressive remedies.¹⁰²

5.17 In addition, donor agencies need to strike an effective balance between risk management and aid effectiveness. The OECD / UNDP has noted that:

... intense concerns about accountability for public spending that have led to a heavy focus on compliance and a risk-averse culture. These tendencies have hampered good practice and frustrated many of the changes called for in the Declaration. But to try to avoid all risks in development cooperation is to risk irrelevance.¹⁰³

5.18 In this context, what emerges is the need not to avoid all risk but rather to promote a realistic dialogue with decision makers and other key stakeholders regarding the uncertainties and risks associated with development and aid work. AusAID's approach to risk identification and management, along with its comprehensive framework for program monitoring and evaluation, means AusAID is well placed to advise on the extent of risk and the effectiveness of mitigation strategies. It can also assess the extent to which the operational environment or aspects of activity design may limit AusAID's ability to exercise control over activity delivery in a manner consistent with stakeholder expectations.

5.19 In both EINRIP and IndII, effective risk mitigation has been challenging. In EINRIP in particular, the risks to project schedule, quality and sustainability have required intensive and ongoing engagement, and some controls, such as the remedies and sanctions framework, have been less

¹⁰² These limitations were not clearly identified in internal briefings and, at various times, not broadly appreciated within AusAID. For example, in approving revisions to project scope and timing in September 2009, the relevant AusAID delegate noted the approval was conditional on the development of a plan for managing and responding to any additional scope or timing changes which 'must entail benchmarks for achievement which if not met result in termination and redirection of funding.' In January 2013 AusAID confirmed this was not done and advised that the directions 'did not reflect a full understanding by the delegate of the remedies available under the loan agreement'.

¹⁰³ Organisation for Economic Co-operation and Development, *Evaluation of the Paris Declaration, Policy Brief No 1: Transparency, risk management and mutual accountability*, available from <<http://www.oecd.org/dac/evaluation/dcdndep/48316105.pdf>> [accessed 6 May 2013].

effective than anticipated. In IndII, measures to address identified risks in relation to activity scheduling and continuity have generally not been effective. In both instance, the levels of residual risk remains high. At the time of the audit, the level of residual risk (that is, the risk remaining after the implementation of AusAID's risk mitigation strategies and controls) associated with the Indonesian country program was generally well reflected in internal planning and reporting. However, the level of residual risk associated with individual infrastructure initiatives, and the implications both for program management and outcomes, was not clearly reflected key public accountability documents, such as the AIPCS¹⁰⁴ or the Indonesian Annual Program Performance Report.¹⁰⁵ Similarly, AusAID's annual report, in discussing the Indonesian program and risk management generally¹⁰⁶, provides information on actions taken to mitigate risk but little insight into the resultant level of risk faced by AusAID in delivering elements of the aid program with substantive residual risks, such as EINRIP.

5.20 A clearer description of levels of residual risk would assist stakeholders in assessing the adequacy of AusAID's efforts to manage risk in infrastructure initiatives in the Indonesian aid program, and in considering the appropriateness of the balance adopted between risk management and aid effectiveness. AusAID may also wish to consider whether an enhanced discussion of residual risk is warranted in regard to other programs or operating environments, in particular where the environment or delivery model is similarly characterised by lower levels of administrative or legal control.

Working in partner government systems

5.21 The Paris Declaration on Aid Effectiveness (to which Australia is a signatory) includes a commitment by donors to use partner government systems and procedures to the maximum extent possible. The use of partner government systems and procedures (PGS) in aid delivery creates opportunities for enhanced aid outcomes through increased ownership of outcomes as well as opportunities for institutional strengthening. However, there are additional risks involved in working through PGS that require proper

¹⁰⁴ AusAID, *Australia Indonesia Partnership Country Strategy 2008–13*, Canberra, 2008.

¹⁰⁵ AusAID, *Indonesia Annual Program Performance Report 2011*, Canberra, July 2012.

¹⁰⁶ AusAID, *Annual Report 2011–12*, pp. 72-78, 220-221, and 232-234.

consideration during the development of both country and delivery strategies and in the design of individual projects.

5.22 AusAID's general approach to the use of PGS is outlined in the 23 February 2011 instruction '*How do I assess and use partner government systems for public financial management and procurement?*' The instruction outlines a stepped approach including:

- initial consideration of whether the use of PGS is an option in the country in question;
- for countries where the use of PGS is considered an option, a formal assessment of national systems, undertaken by AusAID, which is to be reviewed and updated every two years; and
- if the assessment of national systems supports the use of PGS, a second tier of rigorous assessments at the sector / agency level.

5.23 At the time of audit fieldwork, AusAID had not undertaken an ANS for Indonesia, nor had AusAID undertaken a PGS assessment for the infrastructure sector or for key agencies within the infrastructure sector. In May 2012, the Director General of AusAID was advised that:

Advice from Jakarta Post is that the Indonesia program intends to do sector specific assessment, rather than an overall assessment of national systems, and there are presently no plans to complete an assessment of national systems for Indonesia.

5.24 AusAID staff in Jakarta advised the ANAO that, in many cases, even sectoral assessments were too broad to provide meaningful input into program design; and targeted assessments to address specific risks associated with activities under consideration were able to provide better support for program design and delivery.

5.25 In developing both EINRIP and IndII, AusAID had a clear regard to the risks inherent in working through PGS, and incorporated strategies in program design targeted at effectively managing those risks. This consideration was not informed by either national or sectoral assessments, but by assessments conducted by other agencies (such as the World Bank) and by AusAID's experience to date in working with related GoI agencies. While the assessments relied upon in program design have not since been updated, AusAID has relied upon its own engagement with relevant sectors of the Indonesian government to identify and respond to emerging issues.

5.26 AusAID's approach to assessing the risks of working in PGS in the infrastructure sector in Indonesia resulted in program design elements which provided useful tools for seeking to mitigate risk. However, the approach adopted by AusAID Jakarta is not aligned with current agency policy. Given that the extent to which the Indonesian program makes use of PGS in program delivery, both in the context of the country program and in the context of the use of PGS by AusAID generally¹⁰⁷, a closer alignment of agency policy and practice would improve transparency and provide a clearer basis for considering program performance. On 25 January 2013, AusAID advised the ANAO that:

AusAID agrees ... that current practice and agency policy should be more appropriately aligned.

Managing the risk of fraud and corruption

Background and context

5.27 Indonesia faces considerable challenges in addressing corruption, including within government procurement.¹⁰⁸ The President of the Republic of Indonesia has recently acknowledged the continuing challenges faced by Indonesia, highlighting procurement, licensing, budgeting and taxation as being areas continuing to be troubled by corruption, and calling for further efforts 'to establish a clean bureaucracy'.¹⁰⁹

5.28 AusAID adopts a multilayered approach to working with Indonesia to reduce the impact of corruption. Through the Australia Indonesia Partnership *Anti-corruption for development plan 2008–13*, AusAID aims to support Indonesia's anti-corruption efforts by mainstreaming anti-corruption assistance across the aid program. This includes a commitment to respond positively to requests to work with the GoI on initiatives to address corruption

¹⁰⁷ In 2011–12, \$131 272 880 (more than 30 per cent) of Australian aid to Indonesia was expensed through Indonesian Government systems. This represented 34 per cent of all AusAID expenditure through partner government systems.

¹⁰⁸ In the Corruption Perceptions Index 2012, which ranks perceived levels of public sector corruption, Transparency International rank Indonesia 118th out of 176 countries, with a score of 32 out of 100. (Transparency International, *Corruption Perceptions Index 2012*, Transparency International, 2012, available from <<http://www.transparency.org/cpi2012>> [accessed 7 December 2012].

¹⁰⁹ Bagus BT Saragih, "I am not yet satisfied with the country's anti-corruption efforts," SBY says', *The Jakarta Post*, 27 November 2012, available from <<http://www.thejakartapost.com/news/2012/11/27/i-am-not-yet-satisfied-with-country-s-anti-corruption-efforts-sby-says.html>> [accessed 5 December 2012].

broadly¹¹⁰ as well as a commitment to include anti-corruption measures in project design.

5.29 In EINRIP, where Australian funding (albeit loan funding) is used for procurement activity undertaken at arm's length from AusAID, there are significant risks. These risks were acknowledged in program design, and a range of important measures implemented to manage that risk, including:

- completion of a detailed final engineering design for each package of work prior to tendering;
- preparation of a comprehensive owner's estimate of cost as a basis for assessing tenders (tenders in excess of the owners cost estimate are ruled out); and
- independent professional oversight to ensure the requirements of the design are met.

5.30 In developing IndII, AusAID incorporated a range of measures designed to minimise the potential for corruption or fraud to adversely impact on aid outcomes. In IndII, the increased use of output-based aid combined with a comprehensive program of base-line and completion reviews (for example through the Water Hibah) provides strong incentives for local partners to more effectively manage risk and at the same time significantly limits the risk that fraud or corruption may adversely impact on the effectiveness of Australian aid.

5.31 In both EINRIP and IndII, features of program design provide incentives and control mechanisms intended to reduce the risk of fraud or corruption. However, such measures cannot entirely remove the risks to program integrity. For example, in 2012, the Independent Progress Review of EINRIP advised AusAID that:

... corrupt practices are endemic in Indonesia, and it would be optimistic to assume that an absence of complaints proves an absence of corruption ...

Collusion between RSC staff and contractors was identified as a risk, and is believed to have occurred (though firm evidence is lacking) – some staff have been dismissed, it is not clear that this action has eliminated the practice ...

¹¹⁰ AusAID's Indonesia Annual Program Performance Report 2011 provides details of AusAID's work in this area (AusAID, *Indonesia Annual Program Performance Report 2011*, Canberra, July 2012.)

The broad conclusion must be that correctly identifying risks does not eliminate them and when working through third parties (using government systems), mitigation measures cannot be guaranteed to be effective.¹¹¹

5.32 AusAID's initial approach to identifying risks and incorporating mitigation strategies in the design of EINRIP and IndII was generally consistent with broader AusAID policy and gave appropriate recognition of the risks in the operational environment. However, particularly in relation to EINRIP, there have been gaps in the implementation of mitigation measures and AusAID's visibility over compliance with elements of the anti-corruption strategy has been limited. The ongoing risk that fraud or corruption will adversely affect AusAID's infrastructure programs has been highlighted by independent evaluations. In such circumstances, AusAID should address gaps in implementation and oversight, maintain a clear view of the potential fraud risk within the environment within which it operates, and communicate this clearly to agency management and external stakeholders.

Identified fraud in the Indonesian program

5.33 Consistent with broader agency policy, AusAID's management of the risk of fraud within the Indonesian program is integrated into its broader enterprise risk framework and is a significant element of the responsibilities of line managers at AusAID's Jakarta Post. In September 2011, support for risk management and fraud mitigation was strengthened with the establishment of a Risk and Fraud Unit, which included a dedicated risk and fraud manager.

5.34 While all reported or alleged cases of fraud are required to be reported to AusAID's Central Office, Jakarta-based personnel retain primary responsibility for monitoring progress in the resolution of identified fraud in relation to the Indonesian aid program. This has included, between 2007–08 and 2011–12, 68 cases of alleged, suspected or detected fraud against the Australian Government and 14 alleged cases of fraud against aid partners.¹¹²

5.35 The 68 cases of alleged, suspected or detected fraud against the Australian Government included 49 closed cases and 20 active investigations. In 19 of the closed cases, AusAID concluded that fraud against AusAID could not be established. The gross value of notified and quantifiable fraud in the

¹¹¹ AusAID, *Eastern Indonesia National Road Improvement Project: Independent Progress Review*, Canberra, 2012, pp. 5, 18, 20.

¹¹² AusAID has advised the ANAO that, between 2009–10 and 2012–13, the fraud case load for the Indonesian aid program has been either the second or third largest for a bilateral program administered by the agency.

remaining 30 closed cases was calculated by AusAID to be around \$179 000, although \$161 000 had been recovered. AusAID also estimated that the loss of a further \$18 000 through attempted fraud had been prevented. In relation to the 20 open cases, AusAID estimates that:

- fraud valued at \$255 380 was reported, with nearly \$117 000 having been recovered; and
- fraud valued at nearly \$300 had been prevented.

5.36 The net value of established fraud (including the estimated liability of open cases) nearly \$130 000, or around 0.006 per cent of ODA between 2007–08 and 2011–12. AusAID estimates the loss to fraud in the overall Australian aid program has been equivalent to 0.024 per cent of ODA over the same period.

5.37 In addition to the above, AusAID was also monitoring 14 alleged cases of fraud against AusAID development partners (rather than directly against AusAID) relating to the period 2007–08 to 2011–12. This included:

- five instances where fraud has been alleged to have occurred in relation to programs of AusAID development partners to which AusAID grant funds have been directed. At the time of audit fieldwork, AusAID had yet to establish the extent, if any, to which AusAID funding associated with the activity had been impacted; and
- nine instances where fraud is alleged in regard to a program funded by concessional loans under the AIPRD. The value of fraud against AIPRD loan programs was estimated to be \$240 000, of which \$10 000 had been recovered.

5.38 AusAID has advised the ANAO that where fraud is identified or alleged to have occurred against programs of AusAID development partners rather than directly against AusAID (for example, multilaterals, NGOs or foreign governments), the case is monitored by AusAID but is not included in aggregate fraud reporting until AusAID is able to determine, in consultation with the development partner, the extent to which the losses are attributable to AusAID funds.

5.39 AusAID has also advised the ANAO that fraud against programs funded by the \$500 million AIPRD loan is not included in the AusAID's overall public reporting of fraud loss. AusAID has advised the ANAO that Australia 'is repaid the loan regardless of fraud losses suffered by the borrower, the GoI. AusAID does not suffer a financial loss if the GoI is defrauded of funds it has borrowed' and, accordingly, the loss of funds through fraud against a loan

program is considered not to constitute fraud against AusAID. This is particularly relevant to the public presentation of the potential impact of fraud on the Indonesian aid program, where concessional loans have been a significant element of the AIPRD, but has no current impact beyond the Indonesian program.

5.40 The level of identified fraud in relation to AusAID's infrastructure activities in Indonesia is low. Only three cases, involving either loan or grant funded activity, were identified in the period 2007–08 to 2011–12. Total funds involved were less than \$11 000, and all have been recovered. In addition to these three cases, AusAID is continuing to consult with the RSC prime contractor in relation to a possible fraud notified to AusAID in February 2012. These matters were not formally referred to AusAID in Canberra until 3 December 2012 and as a consequence, are not included in the reported information described in paragraphs 5.33 to 5.36. AusAID has advised the ANAO that, while the case is still open and under assessment by AusAID, the matters identified were generally related to unprofessional conduct and not fraud.¹¹³

AusAID's inclusion of identified Indonesian program fraud in agency reporting

5.41 AusAID prepares detailed internal reporting of identified or alleged instances of fraud, including the distribution, character and aggregate value of active cases in its aid program on a quarterly basis.¹¹⁴ This reporting includes information on fraud against partners, and fraud control activities undertaken by AusAID. The quarterly report includes information on the number and value of new fraud cases and the number of ongoing investigations relating to the Indonesian aid program, and identifies the number of cases of fraud against partners where the aid partner is the Government of Indonesia.

5.42 A Fraud Control Report is provided annually to the Minister for Foreign Affairs. Consistent with the requirements of the *Commonwealth Fraud Control Guidelines 2011*, the Fraud Control Report provides the Minister with

¹¹³ AusAID advised the ANAO on 15 February 2013 that while the company had initially noted that some staff had been dismissed due to 'evident fraud, non-performance and non-compliance with the Conditions of the Contract', the dismissals were instead due to unprofessional behavior. This included misuse of vehicles and office equipment, unjustified use of petty cash, financial accounting misreporting, a failure to follow instructions, respond to phone calls and emails, and unjustified absences. It was not believed to extend to fraudulent activities in relation to matters such as materials testing, quantities supplied or payments made.

¹¹⁴ At 30 June 2012, AusAID estimated the net potential loss of 160 currently active fraud cases at over \$2.2 million although in 33 active cases the potential loss had yet to be quantified. The 160 active cases include cases extending back to 2005–06. In addition, at 30 June 2012, AusAID reported that they had been advised of a further 55 matters which were still being assessed to determine if there was a verified attempted or actual fraud.

advice on the extent of identified and quantified fraud as at the end of the reporting period, and includes advice on the overarching fraud control environment, major risk, and major fraud cases.

5.43 With its focus on high level reporting of fraud-related agency activity in the current year, the Fraud Control Report provides advice on the number, although not the value, of new cases arising in relation to the Indonesian program. However, the value of new cases of fraud against AusAID in respect of the Indonesian aid program is included in AusAID's estimate of overall fraud loss, which in 2011–12 amounted to \$583 071. AusAID advised the Minister that this represented 0.012 per cent of total ODA in 2011–12, less than half of the figure for the previous year. The potential loss of \$583 071 comprised:

- a potential loss from 112 new cases of \$1 395 366 (a further twelve new cases were found by AusAID not to have involved fraud or not to have involved AusAID); offset by
- amounts totalling \$812 295 either prevented from being lost or subsequently recovered.

5.44 Neither the internal quarterly fraud reporting nor the annual Fraud Control Report are publicly available documents and there is no public reporting of the nature and extend of identified fraud in relation to the Indonesian aid program. However, AusAID does include some high-level reporting on the impact of fraud in its Annual Report and other public documents.¹¹⁵ For example, AusAID's 2011–12 Annual Report notes that AusAID 'estimate potential losses in 2011–12 equate to 0.012 per cent of the aid budget—less than half the figure for the previous financial year.'¹¹⁶ This is repeated in the 2011–12 Annual Review of Aid Effectiveness, which notes a 'halving of estimated potential losses from our aid spend due to fraud from the previous year, to 0.012 per cent of Australia's total aid'.¹¹⁷ It is also included in the April 2013 AusAID publication *Fraud Management in AusAID*, which notes that:

¹¹⁵ For example, on its website, AusAID annually publishes a 'Fraud Control at AusAID Fact Sheet', which for 2011–12 includes detail about fraud statistics and the types of fraud typically identified. See <http://www.ausaid.gov.au/Publications/Documents/fraud-management-ausaid.pdf>.

¹¹⁶ AusAID, *Annual Report 2011–12*, p. 4.

¹¹⁷ AusAID, *2011–12 Annual Review of Aid Effectiveness*, Canberra, p. 6. The estimate of 0.012 per cent is also repeated at pages 31 and 33 of this document.

- Estimated fraud loss for 2011–12 represents 0.012 per cent of the total aid budget, equating to 12 cents in every \$1,000; and
- Estimated fraud losses over the last five full financial years have been no higher than 0.05 per cent of the total aid budget.¹¹⁸

5.45 However, the public documents referred to in paragraph 5.44 do not provide the reader with a clear basis for the overall estimate of fraud loss. The 2011–12 Annual Report does detail, at page 234, the value of potential loss to AusAID from cases of alleged, suspected or detected fraud reported to AusAID during 2011–12, but does not relate this to the overall estimate of potential loss through fraud of 0.012 per cent of ODA used earlier in the report.

5.46 Without clear reference to the approach adopted, the ANAO considers that there is considerable scope for misinterpretation of the publicly reported aggregate data on ‘estimated potential losses’ to the aid budget arising from fraud and corruption. In particular, it is not clear that this estimate of potential fraud loss included in public documents does not include any provision for the potential loss arising from unreported or undetected fraud. AusAID’s annual Fraud Control Report and its internal Quarterly Fraud Reports clearly describe the methodological underpinnings of the overall estimate of potential loss through fraud but, as noted above, neither of these documents are publicly available.

5.47 The very low levels of fraud identified in the Indonesian aid program, and particularly in relation to AusAID’s infrastructure initiatives, are difficult to interpret and AusAID should continue efforts to build its understanding of the nature and potential scale of the risk of fraud and corruption to its programs, drawing from international experience.

5.48 Whether AusAID should seek to estimate the potential impact of unreported fraud on the aid program is a complex issue, and a detailed consideration of the potential value and difficulties of undertaking a more comprehensive estimate of the potential impact of fraud and corruption on the Australian aid program is beyond the scope of this audit. While this matter has been subject to recent debate in relation to the United Kingdom’s overseas aid

¹¹⁸ AusAID, *Fraud Management in AusAID*, Canberra, 2013, available from <<http://www.ausaid.gov.au/Publications/Documents/fraud-management-ausaid.pdf>> [accessed 18 April 2013].

program,¹¹⁹ and is likely to continue to attract scrutiny, the ANAO has not sought to form a view on the value or practicality of attempting such an estimate. Rather, in this audit, the ANAO has focused on improving transparency with respect to the current disclosures in relation to fraud.

Opportunities for improving transparency in the public reporting of fraud

5.49 The scope of this audit did not extend to a broader examination of overall agency policy or performance in relation to fraud management and reporting. However, having considered the reporting of fraud within the Indonesian program, the ANAO considers there is scope for AusAID to examine options for providing greater transparency in the presentation of aggregate fraud data. In particular, AusAID could, as noted above, provide greater clarity regarding whether it includes unreported fraud within its estimates of potential loss through fraud, and could also:

- consider options for improving reporting of fraud against partners, particularly in relation to loan programs should these again be employed in Indonesia or elsewhere; and
- update point in time data in relation to fraud to reflect ongoing developments in individual cases.

Fraud against partners and in loan programs

5.50 Ensuring that stakeholders have a clear appreciation of AusAID's reporting of fraud against partners is particularly significant in the context of Australia's program of aid to Indonesia and in view of the use of point in time estimates of fraud loss. Australian aid to Indonesia makes extensive use of

¹¹⁹ In October 2011, the UK House of Commons Committee of Public Accounts reported on the financial management of UK's Department for International Development (DFID). The Committee noted that DFID 'does not estimate levels of leakage through fraud and corruption, which undermines its ability to make informed investment decisions and gain assurance that it has appropriate and effective controls in place' and recommended that DFID 'assess the level of leakage across each of its programmes in its 27 priority countries' (<http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1398/139804.htm>).

The UK's National Audit Office has also observed that DFID 'does not attempt to quantify its estimated likely losses' from fraud and 'cannot provide Parliament and the taxpayer with a clear picture of the extent, nature and impact of leakage' (National Audit Office, *Department for International Development—Financial Management Report, Report by the Comptroller and Auditor General, HC 820, Session 2010–2012, 6 April 2011*, NAO, London, 2011).

In 2012, in assessing the performance of the UK's overseas aid program in Afghanistan, the UK's Independent Commission for Aid Impact (ICAI) suggested that more reliable estimates of the level of leakage would allow DFID to 'inform and improve its option appraisal in business cases and the development of controls' (Independent Commission for Aid Impact, *The Department for International Development: Programme Controls and Assurance in Afghanistan, Report 6—March 2012*, ICAI, London, 2012).

A subsequent study, commissioned by DFID, recommended against attempts to measure total fraud in the DFID budget as too complex and expensive to achieve, and suggested further work was necessary to develop resilience checks for the overseas aid fraud context and to create models for predicting range of likely fraud losses (<http://r4d.dfid.gov.uk/Output/190139/Default.aspx>).

partnerships with third party deliverers, including GoI agencies, and has also, through the AIPRD, made extensive use of development loans.

5.51 It can take some time for AusAID and development partners to clarify whether fraud against partners is directly related to Australian funding and accordingly whether the fraud will be included in aggregate public fraud reporting. The use of annual point in time estimates of fraud loss as a basis for public reporting means that fraud against partners which is not quantified or identified as attributable to AusAID funding in the year that the fraud is initially reported may not be included in public reporting.

5.52 In relation to the reporting of fraud against loan programs, the ANAO notes the level of identified fraud against AIPRD loan programs in Indonesia has been significantly higher than that identified against other AusAID programs, and the rate of recovery has been lower. If AusAID were to again utilise development loans in the context of aid to Indonesia, it would be appropriate for AusAID to consider opportunities for improving stakeholder visibility of identified fraud in relation to these programs.

Updating point in time data

5.53 As noted above, AusAID's annual Fraud Control Report, and the aggregate fraud statistics included in AusAID's annual report, have a current rather than historical focus. The net loss described represents an aggregate of known fraud against AusAID that is able to be quantified at the time the briefing is prepared (which, at the time of the preparation of the 2011–12 Fraud Control Report accounted for around 50 per cent of active or notified cases of fraud or theft) and does not bring up to date estimates of fraud provided in earlier reports, to reflect the current status of investigations.

5.54 The overall low value of estimated loss through reported fraud means that the inclusion or exclusion of individual cases may significantly impact on publicly reported aggregate fraud data. Given the scope for delays in the verifying and quantifying fraud against AusAID, or for clarifying whether instances of fraud against partners should, or should not, be included in public reports, there is also a risk that that some cases may not be reflected in public reporting.¹²⁰ In May 2013, AusAID advised the ANAO that it will publish point

¹²⁰ For example, AusAID advised the ANAO of a case which was originally categorised as a fraud against a partner when reported in 2010–11. In 2011–12, the case was reclassified as an active case when the partner advised that a loss of \$526 059 was attributable to AusAID funds. While the loss to AusAID was included in the aggregate potential loss from active cases at 30 June 2012 in internal AusAID reporting, the value of the loss was not reflected in the publicly available estimates of loss through fraud for either 2010–11 or 2011–12.

Footnote continued on the next page...

in time updates of its annual fraud loss figures, commencing with an update of 2010-11 figures.

Risks to meeting anticipated program expansion

5.55 The Australian Government has indicated that, in line with overall growth in the aid program, ODA to Indonesia may reach \$950 million a year by 2015–16.¹²¹ This will require the country program to grow by more than \$120 million (or nearly 25 per cent) each year for the next four years. The Government has also indicated a commitment to further growth in the overall Australian aid program beyond 2015–16, from 0.41 per cent of GNI (an estimated \$7.1 billion) in 2015–16 to 0.5 per cent of GNI in 2017–18, which would add another \$1.3 billion a year to ODA for two years.¹²² While the Government has not indicated whether this is to be achieved through further growth in country programs such as Indonesia, it would be prudent for program planning to consider that possibility.

5.56 Aid activities typically have a long gestation period. Initiatives such as EINRIP and IndII have taken a number of years between initial conception and the achievement of substantial program expenditure. At the same time, not all activities for which initial development work is undertaken will be implemented. Thorough analysis during planning may identify technical issues or risks which cannot be addressed satisfactorily in project design. At the same time, changing partner government priorities may result in otherwise viable proposals being deferred and not all ODA is delivered by AusAID. Historically, AusAID administered expenditure has accounted for 81 per cent of ODA to Indonesia, with the remainder administered by other government departments, although in recent years this figure has risen and in 2012-13 reached 88 per cent.

5.57 Accordingly, country programming is a complex matter, needing to accommodate the requirements of the development pipeline, potential changes in composition and partner government priorities, and a degree of budget

For 2010–11, AusAID reported a potential net loss from fraud of \$1 264 125. Including a loss of \$526 059 in a revised estimate for 2010–11 has the potential to increase this figure markedly, although it would need to be offset by any reductions in the estimates loss associated with the remainder of the portfolio of cases under management. AusAID has advised the ANAO that an unpublished reassessment of the net loss to fraud in 2010–11 following the inclusion of this case saw an overall fall in losses, with reductions more than offsetting the inclusion of an additional \$526 059.

¹²¹ Commonwealth of Australia, *Helping the World's Poor through Effective Aid: Australia's Comprehensive Aid Policy Framework to 2015–16*, Canberra, 2012, pp. 11-14.

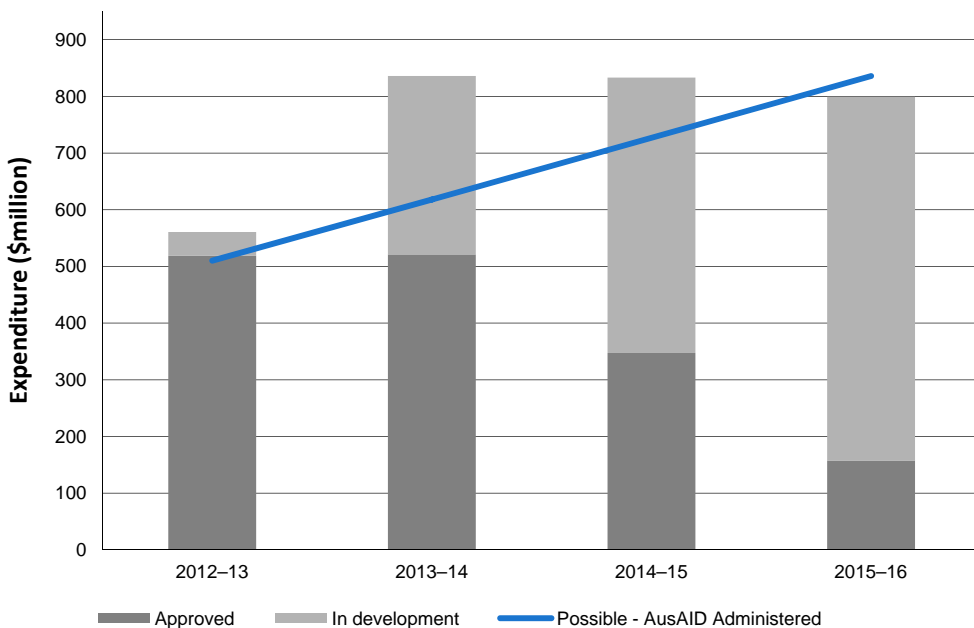
¹²² Commonwealth of Australia, *Australia's International Development Assistance Program 2013–14*, Statement by the Hon Bob Carr Minister for Foreign Affairs, 14 May 2013, p. 11.

uncertainty.¹²³ The development pipeline needs to provide a degree of over-programming (allowing for programs that do not proceed) and has to be forward weighted (allowing for program slippage). Management of the forward program is a key task for AusAID’s Jakarta office.

5.58 An examination of key planning documents suggests that the current development pipeline provides over-programming of 7 to 10 per cent over the forward estimates period (depending on underlying assumptions) and includes considerable forward weighting (with over-programming of 30 per cent in 2013-14) (see Figure 5.2).

Figure 5.2

Planning pipeline versus possible expenditure growth scenario



Source: Approved and planned expenditure based on AusAID Program Management Plan September 2012. Growth scenario is based on target of \$950 million for ODA in 2015-16 and current split of ODA between AusAID and other government departments.

¹²³ Recent changes to budget planning within AusAID, including a four-year funding envelope for country programs have provided a firmer foundation for medium-term country program planning.

5.59 The ANAO has not assessed the development status of the individual initiatives included in the development pipelines, nor the status of the delivery of currently approved initiatives. Ongoing management of the development pipeline will need to respond to program slippage – for example, the current forecast expenditure pattern includes completion of EINRIP in the 2012–13 financial year, which is unlikely (see Chapter 3).

5.60 Discussions with senior management at AusAID’s Jakarta office indicate AusAID is aware of the risks to growth and the challenges in maintaining an adequate planning pipeline. The current planning framework, if carefully managed, should provide AusAID with a sound foundation for meeting the anticipated scale up in country program expenditure.

Conclusion

5.61 In the design and implementation of infrastructure aid initiatives, AusAID has acted to identify and document risks, design mitigation strategies and monitor their implementation. EINRIP has piloted revised arrangements for activity design, implementation supervision and independent assurance which are consistent with international best practice for promoting quality, and reducing the opportunity for collusion and corruption in civil works. Risk mitigation strategies were also inherent in the design of individual IndII activities. In particular, IndII’s use of output-based grant programs, which provide for a partial reimbursement of GoI costs after sustained delivery to agreed standards has been demonstrated, reduces the potential for fraud or corruption to impact on program outcomes.

5.62 Nonetheless, in both EINRIP and IndII, effective risk mitigation has been challenging. In EINRIP in particular, the risks to project schedule, quality and sustainability have required intensive and ongoing engagement, and some controls, such as the remedies and sanctions framework, have been less effective than anticipated. There have also been some significant omissions in regard to certain provisions of the ACAP. In IndII, measures to address identified risks in relation to activity scheduling and continuity have yet to prove effective. In both instances, the level of residual risk remains high. A clearer description of levels of such residual risks in public documents, such as country program performance reports or Annual Reports, would assist stakeholders in assessing the adequacy of AusAID’s efforts to manage risk in the Indonesian aid program.

5.63 The risk to infrastructure aid posed by fraud and corruption is managed at an initiative level and the levels of identified and reported fraud are very low. Fraud and corruption remain a significant concern for the GoI and for AusAID. The risk that fraudulent or corrupt activities would impact on AusAID initiatives in the infrastructure sector was acknowledged during project development, and AusAID has incorporated controls to reduce opportunities for fraudulent or corrupt behaviour. In the past five years, there have been no reported losses through fraud in its infrastructure initiatives in Indonesia. Over this period, AusAID reported losses in the Indonesian country program that are equivalent to only 0.006 per cent of ODA, well below the level reported for Australia's aid program generally.

5.64 In arriving at publicly reported losses through fraud and corruption, AusAID does not estimate the potential loss to the Indonesian aid program of unreported fraud or corrupt activity. Fraud against AIPRD loan programs has not been included in reported estimates of potential loss through fraud, and fraud against development partners is only included once AusAID has determined, in consultation with that partner, that losses are attributable to AusAID funds. Public reporting of potential loss through fraud, for example in AusAID's annual reports, is based on point in time estimates and has not previously been updated to reflect changes in the status or quantification of fraud cases. However, AusAID advised the ANAO that it will now publish point in time updates of its annual fraud loss figures, commencing with an update of 2010-11 figures.

5.65 Without clear reference to the approach adopted, the ANAO considers that there is considerable scope for misinterpretation of the publicly reported aggregate data on 'estimated potential losses' to the aid budget arising from fraud and corruption. In light of the acknowledged ongoing risk that fraud and corruption will affect the aid program in the environments in which it operates, it would be appropriate for AusAID to provide greater clarity as to the basis of its aggregate fraud reporting, to reduce the potential for misunderstanding.

Recommendation No.4

5.66 To support greater stakeholder awareness of risks in aid delivery, the ANAO recommends AusAID considers options for:

- (a) more clearly reporting the levels of residual operational risk in infrastructure initiatives in Indonesia or when operating in environments or with delivery models which are similarly characterised by lower levels of AusAID administrative or legal control; and
- (b) improving transparency in the public reporting of aggregate fraud estimates.

AusAID's response: *Agreed (see Appendix 1 for further comment).*



Ian McPhee
Auditor-General

Canberra ACT
28 May 2013

Appendices

Appendix 1: Agency response

AusAID welcomes the ANAO's finding that the Eastern Indonesia Roads Improvement Project (EINRIP) and the Indonesia Infrastructure Initiative (IndII) are well aligned with, and supportive of, AusAID's strategic objectives for the bilateral country program and Australia's aid program generally. AusAID welcomes the ANAO's findings that the current management of AusAID's two largest infrastructure investments in Indonesia, EINRIP and IndII, is effective; that these projects are highly valued by Government of Indonesia and are considered to have made significant contributions to a number of important infrastructure development issues; and are delivering tangible benefits for a large number of poor Indonesians.

The report notes that in recent years AusAID has invested the necessary resources to ensure effective management of a complex aid program in a challenging environment. This is reflected in AusAID's staffing profile in Indonesia, including the establishment of a dedicated Risk and Fraud Unit in Jakarta in 2011. The impact of this investment is evidenced in the report's findings that AusAID maintains a high degree of visibility over key project outcomes, has established strong relationships with Government of Indonesia agencies, and has the necessary internal capacity to manage the projects closely.

AusAID welcomes the ANAO's recognition of the robust systems and processes AusAID has in place to manage these programs effectively. ANAO observed a high degree of compliance by AusAID with core elements of AusAID's performance and evaluation framework and with current risk management policy. Since project implementation on EINRIP commenced in late 2008 ANAO has found that on both EINRIP and IndII, AusAID has acted to identify and document risks, design mitigation strategies and monitor their implementation – for example that EINRIP has piloted revised arrangements for activity design, implementation supervision and independent assurance which are consistent with international best practice for promoting quality and reducing opportunities for collusion and corruption in civil works.

The report draws heavily on AusAID's own internal reviews including project monitoring reports, independent reviews and Annual Program Performance Reports. There are repeated (29, including at least 16 in the Chapter on EINRIP) references to the findings of AusAID reviews and the actions taken in response to these findings. The report confirms that AusAID has a comprehensive performance management and evaluation framework that

provides thorough quality assurance of activity development and performance.

The report notes that AusAID is aware of the risks of the growing aid program to Indonesia and the challenges in maintaining an adequate planning pipeline. We welcome the ANAO's finding that AusAID has in place a solid foundation for meeting the anticipated scale up in country program expenditure.

The summary concludes with an assessment of AusAID's public reporting of fraud and the methodology applied. These paragraphs leave scope for readers to infer that AusAID may be publishing something short of what it should. AusAID's rigorous fraud control framework is in full compliance with the Commonwealth Fraud Control Guidelines and currently exceeds these Guidelines by publicly reporting fraud data. Only a limited number of government agencies do this.

***ANAO comment:** The ANAO has not sought to form a view as to whether AusAID's broad control framework is in full compliance with the Commonwealth Fraud Control Guidelines. Rather, in this audit, the ANAO has focused on improving transparency with respect to the current disclosures in relation to fraud reporting. As noted in paragraph 5.46, without clear reference to the approach adopted, the ANAO considers there is considerable scope for misinterpretation of the publicly reported aggregate data on 'estimated potential losses' to the aid budget arising from fraud and corruption.*

AusAID's responses to recommendations are set out below:

Recommendation No. 1:

To support improved program planning, delivery and evaluation, the ANAO recommends that AusAID progresses the development of a sector strategy for infrastructure aid to Indonesia, with a view to finalising the strategy as soon as possible.

AusAID response: Agreed

An infrastructure sector delivery strategy for the Indonesia country program is under development and will be completed by 31 October 2013. The strategy will guide AusAID's investment in the development of Indonesian infrastructure over the next five years.

In this regard we welcome the ANAO's finding that AusAID has acquired the institutional capability and sectoral understanding to support ongoing engagement in the infrastructure sector.

As acknowledged by the ANAO, key infrastructure partners in the Government of Indonesia value AusAID assistance for the expertise it can source, its responsiveness and flexibility to accommodate the needs of the Government and its willingness to work cooperatively with other donors. These qualities will be core principles informing the development of the infrastructure sector delivery strategy to ensure we continue to consolidate the partnership between the two countries.

Recommendation No. 2

To maximise the potential return from its investment in EINRIP, the ANAO recommends that AusAID:

- (a) puts in place the necessary structural and administrative arrangements to support the timely completion of EINRIP;
- (b) explores further opportunities for working with the Government of Indonesia to promote institutional strengthening in road management, address risks to project sustainability, and monitor compliance with EINRIP's anti-corruption framework.

AusAID response: Agreed

AusAID welcomes the ANAO's findings that since implementation commenced in 2008, AusAID has put in place the key structural and administrative elements to support project implementation, that civil works are achieving the quality standards set in project design and that the rate of implementation is consistent with the completion date of December 2014. AusAID is pleased to report that as of May 2013 progress continues to be on track with 8 of EINRIP's 20 road projects having reached substantive completion and 18 on track to be completed by early 2014.

The ANAO recognises that EINRIP was developed in a unique and challenging set of circumstances as part of Australia's response to the Indian Ocean tsunami of 26 December 2004, under the Australia Indonesia Partnership for Reconstruction and Development (AIPRD) announced by then Prime Minister Howard on 5 January 2005. As an AIPRD initiative, initial development work for EINRIP was undertaken outside of usual AusAID development processes. Early project development was accelerated; the decision to proceed, and an accompanying announcement regarding its

objective, scope and timing were made by the Australian Government in December 2005. This was earlier in the project development process than would normally occur.

AusAID notes that the ANAO has nevertheless found that issues related to implementation progress, construction quality and land acquisition, which were faced by the project in its early phases, have been overcome in recent years through continuous close cooperation between AusAID and the Indonesian Directorate General of Highways.

The ANAO recognises (paragraph 3.41) that comprehensive changes to the scope of EINRIP transformed the nature of the project as compared to that initially envisaged in 2005. These changes have resulted in a more complex civil works program with a substantially different risk profile and greater inherent unpredictability than originally anticipated. That said, AusAID believes the report's references to the length of roads to be completed under EINRIP do not demonstrate a full understanding of the changed nature and scope of the project, and risk giving a misleading picture of its deliverables and results. For instance, the report gives insufficient attention to the greater width and higher quality of the roads being improved under EINRIP. By way of background, in 2006 (ie, following the initial announcement of EINRIP by the Australian Government in 2005) the Government of Indonesia introduced more rigorous road standards. Complying with these standards required that the scope of EINRIP change from undertaking betterment and periodic maintenance to more substantial civil works which impacted on project scope and timing. These changes were agreed between the Australian and Indonesian Governments during loan negotiations in 2006 and 2007, with the loan agreement finalised in September 2007. The scope of EINRIP was also affected by increases in input costs. The request of the Indonesian Government was that EINRIP comply with new Indonesian Government standards which for width alone were estimated to increase project costs by 40 per cent. At the same time, the market price of key inputs was rising sharply; the cost of bitumen increased by 167 per cent between 2003 and 2007.

***ANAO comment:** As outlined in paragraphs 3.31 to 3.47, the initial scope and timing of EINRIP was announced well ahead of the substantive work necessary to clearly establish project parameters and to validate the assumptions that underpinned initial advice to government. Advice provided to the AIPRD Joint Commission and Ministers in 2005 regarding the scale of work achievable within the proposed funding envelope was based on assumptions that were not clearly identified, and did not describe the potential*

risks to achieving the scale of announced works if the assumptions proved to not be robust.

As noted by ANAO, project scope has remained stable since 2009, all major institutional and governance frameworks are in place, and project implementation is proceeding consistent with the anticipated project completion date. AusAID agrees with the ANAO's assessment that EINRIP's engineering and design standards are resulting in higher quality and more durable roads that are benefiting poor people in Eastern Indonesia.

AusAID welcomes the finding that since project implementation commenced in 2008 EINRIP has piloted arrangements for design, supervision and independent assurance that are consistent with international best practice for promoting quality and reducing corruption and collusion in civil works (paragraph 5.61). AusAID has clear regard to the risks involved in working through partner government systems and has incorporated strategies to manage these risks. AusAID's current approach to risk identification and management, along with its comprehensive framework for program monitoring and evaluation means AusAID is well placed to advise on the extent of risk and the effectiveness of mitigation strategies. In the past five years there have been no reported losses through fraud on AusAID infrastructure initiatives in Indonesia.

AusAID welcomes the report's finding that the administration of EINRIP was generally compliant with the majority of the key provisions in the Anti-Corruption Action Plan (ACAP). Annual audits of the ACAP by the Indonesian Government's Audit Agency (BPKP) in 2009, 2010 and 2011 rated compliance with the ACAP as either good or very good against all assessment criteria. Decisions by AusAID on the implementation of the ACAP were informed by AusAID's comprehensive approach to risk monitoring and management. The decision to discontinue financial audits and expand technical audits was based on an assessment of nine consecutive EINRIP financial audits in 2010 and 2011 that did not identify any substantive issues of non-compliance, misappropriation, fraud or corruption. The expansion of technical audits and the consequent enforcement of rectifying any defects has ensured that all EINRIP roads are built to the required quality standards of the Indonesian Government and has removed any financial incentives for sub-standard delivery. Competitive tendering of all road projects under EINRIP ensures that road contractors are held to account to deliver quality roads for their competitively tendered price. AusAID has worked diligently with the Government of Indonesia since 2008 to resolve complaints. Most complaints

received during implementation of EINRIP have not been lodged through the formal web-based or telephone-based means made available under the ACAP, but rather through direct communication with project staff, Directorate General of Highways area managers or during field visits from AusAID staff. The Government of Indonesia has recently confirmed it will employ an EINRIP Community Liaison Officer to further assist in registering community complaints and disseminating project information.

***ANAO comment:** As noted in paragraphs 3.63 to 3.88, the ANAO found AusAID's monitoring of compliance with the ACAP was limited and there was evidence of significant omissions in regard to certain provisions of the ACAP, including public information dissemination, complaint handling and the conduct of financial audits.*

At the time of the audit, the most recent audit of the ACAP by the Indonesian Government's Audit Agency (BPKP) confirmed deficiencies in relation to the provision of public information and the establishment of complaint treatment mechanisms. Furthermore, while the requirement to undertake financial audits has been retained in the ACAP, no such audits have been undertaken since October 2011. The decision to discontinue financial auditing was not documented by AusAID and the ANAO was informed that it was taken without the involvement of AusAID senior management at post.

AusAID agrees with the ANAO report's assessment that institutional reform is incremental and takes time. Since project implementation commenced in 2008, AusAID has been working closely with the Government of Indonesia to ensure that EINRIP provides a lasting legacy through high quality long-standing roads. Evidence demonstrates that AusAID assistance is helping to leverage important policy changes and institutional reforms in the delivery of national roads including: the adoption of improved road design standards in 2012 for longer life pavements similar to those introduced under EINRIP; the use of full engineering designs (as opposed to simplified designs) in the preparation of other donor-funded programs; and expansion of the use of independent technical audits to aid improved supervision of capital works programs funded by both the Asian Development Bank and the World Bank. These changes to institutional practices and approaches to road construction are all innovations first introduced through EINRIP which will be sustained through both their continued application under EINRIP, and complementary AusAID assistance delivered through IndII.

AusAID has managed risk to outcomes posed by issues such as the Government of Indonesia's road maintenance practices and vehicle overloading by ensuring that EINRIP road works are built to a standard to accommodate large axle loads and are consistent with best practice safety standards. In this regard, AusAID notes that the design life for roads under EINRIP is 20 years as opposed to existing 10 year design lives for Indonesian national roads.

Recommendation No. 3

To support more effective and efficient management of IndII, improve assurance of stakeholders and better manage transitional risks, the ANAO recommends that AusAID:

- (a) monitors the effectiveness of reforms to IndII governance and administration;
- (c) refines its external review strategy to enhance transparency in regard to IndII's performance and AusAID's management of the initiative; and
- (d) develops appropriate arrangements to manage the risk of loss of continuity and momentum at the end of the second phase of IndII operations.

AusAID response: Agreed

AusAID welcomes the finding by ANAO that since August 2008 IndII has made significant contributions to a number of important infrastructure development issues and is highly regarded by Government of Indonesia partners and other agencies operating in Indonesia such as the World Bank and USAID. AusAID's support for water grants through IndII, for instance, is recognised by ANAO as a well-designed innovative approach that increases access to water for low-income Indonesians, builds capacity in local water authorities and effectively minimises fraud risks. The ANAO report finds that IndII provides "a model of good practice" for grant aid and the management of transfers between different levels of government. IndII has also made significant contributions to infrastructure development through its technical assistance and project preparation and support.

AusAID acknowledges the delay in securing approval for Phase 2 of IndII in May 2011. However AusAID stands by the reason for this delay which was to ensure that the IndII contract complied with the Government's new policy on adviser remuneration - the Adviser Remuneration Framework (ARF). The ARF was introduced to reduce the cost of advisers and by doing so ensure value for

money when engaging international experts. Given IndII hires a significant number of international advisers to provide technical assistance, AusAID's insistence on compliance with the ARF was necessary to discharge our responsibility to ensure value for money to the Commonwealth. The introduction of the ARF in early 2011 has seen the average daily rate for short term advisers fall by 37% and the monthly rate for long term advisers fall by 22% across the Australian aid program. Savings from the introduction of the ARF and the phasing out of adviser positions as a result of the Joint Adviser Review amount to an estimated \$92 million over the first two years of implementation.

***ANAO comment:** At paragraphs 4.45 to 4.59, the ANAO notes a number of factors that delayed the formal decision to extend IndII to a second phase of operations, which in turn adversely affected project momentum. At paragraph 4.57, the ANAO notes that the introduction of the new adviser remuneration framework in March 2011 was one of the contributing factors.*

AusAID does not agree with the finding by ANAO that recent reforms to IndII's governance arrangements are yet to prove effective. AusAID is confident that these reforms are already enabling the IndII Management Committee to operate more effectively. The report does not acknowledge that the approval delay for the 2012-13 work program was due to the IndII Management Committee, which is co-chaired by the Indonesian Government, requesting criteria to assess budget allocations against programming priorities. The request for and application of these criteria has enabled the Management Committee to provide more informed program and budget decisions regarding the work plan priorities and contribute directly to the longer term strategic direction and programming for Phase 2 of IndII.

***ANAO comment:** As noted in paragraphs 4.32 to 4.39, the ANAO observed ongoing difficulty in securing timely approval by the IndII Management Committee of the IndII Facility Review and Planning Document (FRPD). The FRPD is the principal tool for guiding the strategic direction of the IndII and is prepared by the Managing Contractor for consideration and endorsement by the IndII Management Committee. Neither of the FRPDs relating to IndII's second phase of operation had been finalised prior to the commencement of the periods to which they relate. The FRPD for 2012–13, which covered programmed work for the period July 2012 to June 2013, was not finalised until 12 December 2012, midway through the period to which it related.*

AusAID launched its Transparency Charter on 23 November 2011. In accordance with the Charter, AusAID provides transparent, publicly available information on how aid program money is being spent effectively, achieving results and helping people to overcome poverty. The Charter makes Australia one of the most transparent aid donors in the world. AusAID will publish future IAT reports and our management responses in a timely fashion consistent with the AusAID Transparency Charter.

Recommendation No. 4

To support greater stakeholder awareness of risks in aid delivery, the ANAO recommends AusAID considers options for:

- (a) more clearly reporting the levels of residual operational risk in infrastructure initiatives in Indonesia or when operating in environments or with delivery models which are characterised by lower levels of AusAID administrative or legal control; and
- (e) improving transparency in the public reporting of aggregate fraud estimates.

Recommendation No.4 (a)

AusAID response: Agreed

AusAID notes the positive comments made by the ANAO on its current risk management framework, policy and compliance – that the framework is comprehensive and contemporary; and there is a high level of compliance with current risk management policy. AusAID's risk management policy and framework ensures the agency is well placed to articulate residual risk in all our programs. We note the Indonesia program has completed an updated Post Risk and Fraud Management Plan under this new policy.

The ANAO points out that the inherent challenges of delivering the aid program must be considered in assessing effective risk management. Further, the ANAO notes that when implementing projects jointly with foreign governments, the full range of risk management options available to agencies working in a domestic context are not necessarily available, or are not able to be used in the same manner. AusAID strongly endorses these observations.

As the ANAO notes, AusAID has put in place important measures to manage the risks of fraud and corruption that exist when a procurement activity is undertaken at arm's length from AusAID's own systems, as is the case with EINRIP. Similarly, in IndII, AusAID has incorporated a range of measures

designed to minimise the potential for corruption or fraud. AusAID adopts a multilayered approach to working with Indonesia to reduce the potential for and impact of corruption, including mainstreaming anti-corruption assistance across the aid program.

The report notes that despite the complexity of country programming, which is subject to changes in partner government priorities and budget uncertainty, AusAID's current planning framework provides a sound foundation to manage the Government's commitment to increase the aid program to Indonesia.

Recommendation No.4 (b)

AusAID response: Agreed

Consistent with its Transparency Charter, AusAID is setting new standards for transparency in its public reporting generally, and on fraud control in particular. Examination of fraud figures published by other international aid agencies shows that AusAID is a leader in this area. AusAID welcomes opportunities to build on its current reporting.

AusAID has already decided to publish point in time updates of its annual fraud loss figures, commencing with an update of 2010-11 figures. Additional information on fraud control in the aid program, including an update of 2011-12 figures, will be published early in the next financial year.

AusAID notes that, in its reporting and calculation of aggregate potential losses to the Commonwealth, it has consistently met the requirements of the Commonwealth Fraud Control Guidelines. This adherence to the Guidelines predates the commencement of the audited programs. Indeed AusAID has exceeded the Guidelines in some areas. For example, while the Guidelines do not specifically require publication of fraud figures, AusAID provides annual reports on fraud control and outcomes on its website.

AusAID notes that it has invited ANAO specifically to review AusAID's risk management and fraud control arrangements to identify areas where the agency can make further improvements.

Appendix 2: EINRIP – list of packages

Road Sections		Length km	Owners' Cost Estimate (inc VAT) IDR bn	Original Contract Price (inc VAT) IDR bn	Contract Value Nov. 2012 (inc VAT) IDR bn
Bali					
EBL-01	Tohpati – Kusamba	10.8	211.1	180.8	189.0
EBL-02	Tohpati - Kusamba Stage 2	8.2	193.2	175.6	187.3
West Kalimantan					
EKB-01	Pontianak – Tayan	31.5	181.2	137.4	156.8
West Nusa Tenggara					
ENB-01AB	Sumbawa Besar Bypass	11.2	89.9	67.0	74.9
ENB-01C	Pal IV - Km 70	31.8	155.2	145.6	172.8
ENB-02	Km 70 - Bts. Cabdin Dompou	14.1	80.7	68.3	82.6
ENB-03	Bts. Cabdin Dompou - Banggo	23.6	112.1	102.0	146.6
East Nusa Tenggara					
ENT-01	Ende – Aegela	15.6	182.7	132.4	141.9
South Kalimantan					
EKS-01	Martapura - Ds. Tungkup	18.9	122.4	85.4	98.6
EKS-02	Banjarmasin - Bts.Kalteng	12.9	115.6	89.0	98.2
Central Sulawesi					
ESH-01	Lakuan – Buol	16.2	138.3	102.5	110.6
South East Sulawesi					
ESR-01	Tinanggea - Kasipute	33.8	152.7	115.7	142.5
ESR-02	Bambaea – Sp. Kasipute	23.9	130.1	95.6	117.2
South Sulawesi					
ESS-01	Sengkang-Impalmpa-Tarumpakkae	24.2	125.8	100.7	113.6
ESS-02	Bantaeng - Bulukumba	26.9	158.7	124.6	133.7
ESS-03	Janeponto - Bantaeng	25.8	131.2	99.7	103.8
ESS-04	Bulukumba - Tondong	20.7	127.4	95.4	101.2
ESS-05	Bulukumba - Tondong	20.0	133.4	97.6	97.6
ESS-06	Bulukumba - Tondong - Sinjai	24.5	165.4	126.7	126.7
	Total	394.6	2707.2	2141.9	2395.5

Road Sections		Length km	Owners' Cost Estimate (inc VAT) IDR bn	Original Contract Price (inc VAT) IDR bn	Contract Value Nov. 2012 (inc VAT) IDR bn
Bridge Only Packages (length in metres)					
ESU-01	Molibagu - Mamalia - Taludaa (North Sulawesi)	490	51.0	42.7	53.6
ESB-02	Prefabricated Steel Bridges (various provinces)	895	51.2	50.5	50.5
	Total	1385	102.2	93.2	104.1
Dropped Packages					
South Kalimantan		Length km	Engineer's Estimate \$AUD million		
EKS-03	Jl. A.Yani (Martapura – Ds. Tungkap)	23.1	21.0		
EKS-04	Ds.Tungkap – Rantau	27.0	20.4		
EKS-05	Barabai – Mantimin	24.1	17.1		
EKS-06	Mantimin – Dahai	23.6	19.8		
	Total	97.8	78.8		

Source: AusAID advice.

Note: An Owners' Cost Estimate was not completed for the dropped packages as they did not proceed to procurement.

Appendix 3: Indll approved activities

Title	AusAID Approval (\$AUD)
Phase I	
Senior AusAID Infrastructure Adviser	1 178 838
Technical Advisers for Success Fee Mechanism Workshop	24 625
2010 UNESCAP Ministerial Conference on PPP for Infrastructure Development	8 500
Support to Water and Sanitation Initiative – Stage 1: Scoping Work	87 605
Radio Spectrum Management and Pricing Reform	499 715
Institutional Development of The Indonesia Infrastructure Finance Facility (IIFF)	669 230
Proposals for an Improved Railway PSO Scheme	47 935
Rapid Diagnostic and Scoping Review for Strengthening and Streamlining Procurement in DG Highways	87 139
Bappenas Support Team for Indll Facility	393 541
Financial Reform of 20 PDAMs	1 700 000
Implementation of Action Plan for Strengthening Internal Audit Function	359 533
Environmental Impact Assessment (EIA) for Wastewater Treatment Plant in the Losari Area	408 387
WSI-Preparatory Technical Assistance	139 247
Road Safety Audit	757 300
Preparation of Detailed Engineering Design (DED) for Regional Solid Waste Development for Mamminasata, South Sulawesi	1 404 694
Development of Medium Term Expenditure Framework (MTEF) in Road Sector	384 300
GIS Definition Study (for Bappenas)	78 775
Scoping Study to Identify Institutional Support Needs for Urban Water Supply in NTB and NTT	99 175
Public Service Obligation Policy Reform in Infrastructure Provision Study	334 147
Success Fee Mechanism for PPP Project Preparation and Transaction Advisers	67 926
Assessment of Infrastructure Policy Reform	160 000
Infrastructure Planning and Capacity Building for Papua and West Papua Provinces	1 500 000
National Port Masterplan stage 1	104 125
Community Based Water Supply Service Supervision	874 492

Title	AusAID Approval (\$AUD)
Master Plans for Wastewater Treatment Plans in 5 Cities (Stage 1: Scoping Study for Waste Water; Stage 2: Preparation of Wastewater Investment Master Plans)	101 590
Designing Regional Grants Management to Support Local Infrastructure Development	299 290
WSI - Water Hibah Socialisation and Public Awareness (Baseline Survey and Socialisation)	593 268
National Railway Master Plan Stage 1	95 311
Assistance to the Directorate General of Highways and other relevant GoI agencies to determine the potential for AusAID to support initiatives in the road transport sector, and to identify specific design activities	54 234
Activity Preparation and Design Fund	903 517
Umbulan Spring PPP Project - Stage 1	647 500
National Railway Master Plan Stage 2	721 081
Water Hibah and Waste Water Design	612 410
Developing a vision for Indonesia's Ports: Forecasting demand for port services (NPMP 2b)	118 496
Capacity building for the Ports Masterplan Team (NPMP 2a)	88 288
Indll's Financial Supprt for the Public Private Partnership in the Transport Sector Technical Tour	36 000
Padang Earthquake Assistance Assessment	34 143
Lead Roads Advisor, Directorate General for Highways	209 859
Bus Rapid Transport Development in Select Cities	170 634
Technical Assistance Support for Provincial and Kabupaten Road Maintenance Management Plans	970 224
Jatiluhur – Jakarta Pipeline and Water Treatment Plant	90 663
Assessment of Air Traffic Management Strategic Policy	577 116
Lead advisers (Policy Advisory Unit) at the Vice-Minister's office at the Ministry of Transport - Stage 1 and 2	425 022
National Port Master Plan (Stage 3) and NPMP Refinement	705 701
Improving Support Needs for Urban Water Supply in NTB and NTT	950 000
Radiofrequency Spectrum Management and Pricing	720 000
BLUD pilot and development. Stage 2	81 770
IT Strategy - Radiofrequency Spectrum Program (Stage1)	75 011
Finance Management - Radiofrequency Spectrum Program (Stage 1)	75 000
Support for Area Traffic Control System (ATCS) in Surabaya	244 035

Title	AusAID Approval (\$AUD)
Preparation of an Investor Guide for PPP Infrastructure in Indonesia	87 850
National Strategy for The Implementation of ASEAN Open Sky Policy	70 000
Kota Bandung Waste Energy Project - Stage 1	89 365
Official Travel	100 000
Road Safety Program - Stage 2a (Road Safety Audit and Crash Reduction Program)	1 588 025
Road Safety Program - Stage 2b (Road Safety Manuals and Training DVD)	1 200 000
Assistance on the establishment of Guidelines for Special Purpose Railway operation (Stage 1)	77 000
PPSP Facilitators for Sanitation Development Acceleration Program	147 901
Publications for the UNESCAP Conference	75 700
Port Authorities (Stage 1)	102 887
Support to DGH for the preparation of the 2011-2013 MTEF and Performance Based Budget; and a manual to guide future budget development and implementation	350 000
Support to DGH to Review Road Design Standards and Prepare a Guideline for Application of Design Standards to each Class of National Road	712 442
Support to DGH to Identify, Develop and Use Performance Measures in Support of the MTEF - PBB Process	295 000
Institutional Structuring and Establishment of an Indonesian Highways Development Authority (IHDA)	532 746
Development of a National Road Master Plan	950 254
Review Procurement and Contracting Including Potential Use of PBC at Regional or Sub-regional Level	380 000
Project Management (DGH Cooperation Activity)	1 291 529
Road Safety Scoping INTP-MOT	89 247
Bali Airport Development (Stage 1)	86 612
Internal Audit at MPW Stage 2	379 985
Regional Grants Management to Support Local Infrastructure Development Stage 3	351 449
Evaluation of IEG Proposals from Local Governments	50 000
Land Acquisition of Infrastructure PPP Projects	390 930
Bus Improvement Project Phase II	1 480 219
BLUD Stage 3	99 550
Financial Reform of 20 PDAMs - Stage 2	953 752

Title	AusAID Approval (\$AUD)
Jatiluhur – Jakarta Pipeline and Water Treatment Plant (Stage 2)	1 088 096
National Strategy for the implementation of the ASEAN Open Sky policy (Stage 2)	491 194
Preparation for Establishment of Governance-oriented Local Government Water Supply and Sanitation Index	90 851
Sanitation IEG Implementation Supervision	6 000 000
Surabaya Urban Mobility Project (Stage 1)	245 488
Guidelines for Special Railways (Phase 2)	296 933
Internal Audit at MPW Stage 3	600 000
Solid Waste Scoping Study	77 642
Special Railway Phase-III	358 799
PSO-IMO-TAC (Phase 1)	97 497
Urban Drainage Scoping Study	95 150
Bappenas National Road Safety Master Plan	90 563
Jakarta Urban Mobility Project	107 180
Surabaya Urban Mobility (SUMP) Stage-2	116 369
Road Safety Scoping Assistance	97 030
Bus Operations Management Training	98 278
Surakarta Bus Corridor Monitoring	95 255
Road Safety Scoping Assistance to INTP	99 572
Road Safety – Implementation of IRAP (Stage 1)	98 864
Total Phase I	\$43 146 596
Phase II	
Activity Preparation and Design Fund (Phase 2)	644 340
Gender Mainstreaming in MoT	93 547
Leadership Training Water	36 300
Scoping Study to Improve MPW Internal Audit and Good Governance Functions	67 992
Bureaucracy Reforms in Internal Audit Function - MPW	1 239 932
Jatiluhur - Jakarta Pipeline and Water Treatment Plant (Stage 2)	467 936
Jatiluhur - Legal & Financial Aspects	720 000
Australian Indonesia Infrastructure Research Awards (AIIRA)	2 061 593
GAS Development Master Plan	1 037 672

Title	AusAID Approval (\$AUD)
Financial Reform of 20 PDAMs - Stage 3	560 733
Stage 3b - 5 PDAMs	784 059
Financial Reform of PDAMs Review Activity	124 826
Procurement Cost for Stage 3 PDAMs	9029
Rapid Appraisal of Potential Small Water Sector PPPs	125 000
Technical Assistance for Regional Hibah Process	15 600
Lead Advisers at Ministry of Transport	103 012
Project Management (DGH) Phase 2	416 117
National Roads Design Preparation	96 113
Bus Improvement Project (Phase 2)	145 808
Solo Urban Transport	74 990
Finalisation of an NPMP Decree	220 643
Preparation of a Port Administration Operation Toolkit	99 918
Assessment on Port Labour and Human Resources	49 903
Port Labour Reform Scoping Study and Operations Toolkits	34 994
Individual Port Master Plan - Pre FS/FS Work	97 061
Aviation Stocktaking	15 043
ATM Workshops	99 434
Airspace Sectorisation Study	99 475
Air Traffic Capacity Assessment Study	124 925
Urban Mobility Stocktaking	29 548
Urban Mobility - World Bank Project Preparation Support	49 482
Jakarta Urban Transport	124 954
Surabaya Urban Transport	99 758
Interim Support for Directorate General of Highways (DGH)	165 333
Traffic Control During Construction (Phase 2)	299 391
Road Safety Program (Stage 2b) - Phase II	58 444
Pre-Project Handover Road Safety Audits	483 614
RS Blackspot Program - Interim Support (Component 1)	388 962
RS Blackspot Program - Main Year Program (Component 2)	1 931 357
RS Blackspot Program - RS Program Management Support (Component 3)	527 695
Preparation of DGH Road Safety Master Plan	123 788

Title	AusAID Approval (\$AUD)
Sub-National Roads Design Preparation	114 790
PRIM-Interim Support	569 133
Indonesia National Traffic Police (INTP)	124 972
Road Safety Twinning Program	125 000
Road Safety AIIG	109 966
PSO-IMO-TAC Phase 2	53 223
Railway Safety Program	34 956
Development of Multimode Transport in the North Java Corridor	200 200
Identification and Preparation of LG Program	6410
Appraisal Consultant	6410
Baseline and Verification	6410
Oversight Consultant	6410
FY 2012 Preparation/Appraisal	328 549
IEG Review	124 300
Activity Preparation	97 010
Sanitation IEG Implementation Supervision	288 721
Support for EASAN 3	25 000
Water Hibah - USAID	411 693
Analysing the socio-economic impact of the Water Hibah (stage 1)	121 000
Support for Grant Implementation	580 548
Support with Institutional Development in Watsan sector	641 879
MoHA Scoping Study	84 309
Oversight On-going CBO Component	438 000
Preparation of CBO Review and Concept Note	34 056
Community Based Water Supply Service Supervision (Phase 2)	113 814
Review of NTT/NTB Water Governance Program	125 000
Pilot Test Implementation	124 798
Total Phase II	18 844 878

Source: Phase I AusAID approved activities are from the IndII Facility Review and Planning Document: January–June 2012. Phase II AusAID approved activities are from the IndII Facility Review and Planning Document July 2012 – June 2013.

Note: Activity proposals with no AusAID approved budget are not listed.

Index

A

Accra Agenda for Action (2008), 44, 50, 53, 56

An Effective Aid Program for Australia – Making a real difference – Delivering real results (July 2011), 39, 42

Anti-Corruption Action Plan, 64, 75, 78, 79, 80, 81, 82, 84, 85, 86, 87

Asian Development Bank, 16, 34, 35, 36, 54, 66, 94, 104

Australia Indonesia Partnership Country Strategy 2008–13, 47, 48, 49, 50, 51, 55, 124

Growth, 46, 48, 51, 55, 57

Staffing, 43, 44, 51, 52

Australia Indonesia Partnership for Reconstruction and Development, 34, 47, 58, 62, 63, 66, 67, 68, 72, 92, 93, 129, 134, 138

B

Badan Pengawasan Keuangan dan Pembangunan (BPKP), 79, 82, 86

C

Complaint handling, 78, 79, 81, 82, 86

Corruption, 49, 63, 67, 78, 79, 81, 84, 85, 86, 87, 94, 98, 118, 121, 126, 127, 128, 132, 133, 137, 138

E

Eastern Indonesia National Roads Improvement Project

Approvals, 63

Eastern Indonesia National Roads Improvement Project Monitoring Unit, 55, 64, 75

FIDIC model, 64, 74, 78, 90

Joint Commission of Australian and Indonesian Ministers, 47, 58, 63, 67, 68, 93

Land acquisition, 65, 68, 69, 72, 88

Objectives, 68, 73, 79, 89, 93

Project Preparation Consultant (URS Australia Pty Ltd), 63, 64, 65, 69, 87, 92

Quality, 60, 65, 66, 73, 74, 75, 76, 77, 78, 79, 89, 90, 91, 92, 93, 94, 122, 123, 137

Regional Supervision Consultant, 75, 76, 77, 88, 127, 130

Scope, 60, 62, 66, 67, 68, 69, 72, 73, 84, 93, 122, 123

Sustainability, 67, 74, 89, 90, 91, 92, 94, 122, 123, 137

Technical and Financial Audit Consultants, 74, 75, 76, 77, 85

Environmental and Social Safeguards, 63, 78, 87

F

Fraud control, 51, 130, 131

Fraud reporting, 129, 131, 134, 138

G

General Agreement on Development Cooperation between the Government of Australia and the Government of the Republic of Indonesia (GADC), 49, 50

Gross National Income, 31, 135

H

Helping the World's Poor through Effective Aid – Australia's Comprehensive Aid Policy Framework to 2015–16 (May 2012), 42, 50

I

Indonesia Infrastructure Initiative

Approvals, 100, 103, 106, 107, 108

Delays, 98, 99, 106, 108, 110, 111, 116

Expenditure, 54, 55, 96, 97, 99, 100, 102, 103, 107, 108, 109, 110, 111, 112, 113, 116

Extension, 96, 97, 99, 101, 102, 106, 108, 110, 111, 112, 116

Facility Review and Planning Document (FRPD), 101, 103, 106, 107, 108, 112

Phase I, 99, 100, 101, 102, 103, 104, 105, 106, 107, 108, 110, 112, 113, 116, 122

Phase II, 34, 96, 102, 103, 104, 105, 106, 107, 112, 113, 122

SMEC, 97, 100, 101, 102, 103, 106, 107, 111, 113

Technical Teams, 98, 101, 102, 103, 105, 106, 107

Transition, 99, 102, 103, 104, 108, 110, 112

Water Hibah, 98, 104, 127

Infrastructure for Growth Initiative (IFGI), 99, 100

M

Millennium Development Goals, 40, 45, 50, 56

Monitoring and Evaluation, 35, 63, 64, 65, 74, 91, 92, 97, 98, 99, 100, 101, 102, 103, 107, 110, 112, 118, 119, 120, 123

O

Official Development Assistance, 30, 31, 32, 34, 41, 42, 43, 44, 46, 47, 48, 49, 57, 129, 131, 132, 135, 136, 138

Growth, 32, 33, 46, 51, 55, 57, 99, 135

P

Paris Declaration on Aid Effectiveness (2005), 44, 50, 53, 56, 123, 124

Partner government systems, 50, 61, 121, 124, 125, 126

Program expansion, 135

R

Record keeping, 76, 120, 121

Residual risk, 124, 137

Risk management, 50, 51, 63, 121, 122, 123, 124, 128

W

World Bank, 16, 34, 35, 36, 63, 66, 70, 72, 85, 90, 91, 92, 94, 123, 125

Series Titles

ANAO Audit Report No.1 2012–13

Administration of the Renewable Energy Demonstration Program

Department of Resources, Energy and Tourism

ANAO Audit Report No.2 2012–13

Administration of the Regional Backbone Blackspots Program

Department of Broadband, Communications and the Digital Economy

ANAO Audit Report No.3 2012–13

The Design and Conduct of the First Application Round for the Regional Development Australia Fund

Department of Regional Australia, Local Government, Arts and Sport

ANAO Audit Report No.4 2012–13

Confidentiality in Government Contracts: Senate Order for Departmental and Agency Contracts (Calendar Year 2011 Compliance)

Across Agencies

ANAO Audit Report No.5 2012–13

Management of Australia's Air Combat Capability—F/A-18 Hornet and Super Hornet Fleet Upgrades and Sustainment

Department of Defence

Defence Materiel Organisation

ANAO Audit Report No.6 2012–13

Management of Australia's Air Combat Capability—F-35A Joint Strike Fighter Acquisition

Department of Defence

Defence Materiel Organisation

ANAO Audit Report No.7 2012–13

Improving Access to Child Care—the Community Support Program

Department of Education, Employment and Workplace Relations

ANAO Audit Report No.8 2012–13

Australian Government Coordination Arrangements for Indigenous Programs

Department of Families, Housing, Community Services and Indigenous Affairs

ANAO Audit Report No.9 2012–13

Delivery of Bereavement and Family Support Services through the Defence Community Organisation

Department of Defence

Department of Veterans' Affairs

ANAO Audit Report No.10 2012–13

Managing Aged Care Complaints

Department of Health and Ageing

ANAO Audit Report No.11 2012–13

Establishment, Implementation and Administration of the Quarantined Heritage Component of the Local Jobs Stream of the Jobs Fund

Department of Sustainability, Environment, Water, Population and Communities

ANAO Audit Report No.12 2012–13

Administration of Commonwealth Responsibilities under the National Partnership Agreement on Preventive Health

Australian National Preventive Health Agency

Department of Health and Ageing

ANAO Audit Report No.13 2012–13

The Provision of Policing Services to the Australian Capital Territory

Australian Federal Police

ANAO Audit Report No.14 2012–13

Delivery of Workplace Relations Services by the Office of the Fair Work Ombudsman

Department of Education, Employment and Workplace Relations

Office of the Fair Work Ombudsman

ANAO Audit Report No.15 2012–13

2011–12 Major Projects Report

Defence Materiel Organisation

ANAO Audit Report No.16 2012–13

Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2011

Across Agencies

ANAO Audit Report No.17 2012–13

Design and Implementation of the Energy Efficiency Information Grants Program
Department of Climate Change and Energy Efficiency

ANAO Audit Report No.18 2012–13

Family Support Program: Communities for Children
Department of Families, Housing, Community Services and Indigenous Affairs

ANAO Audit Report No.19 2012–13

Administration of New Income Management in the Northern Territory
Department of Human Services

ANAO Audit Report No.20 2012–13

Administration of the Domestic Fishing Compliance Program
Australian Fisheries Management Authority

ANAO Audit Report No.21 2012–13

Individual Management Services Provided to People in Immigration Detention
Department of Immigration and Citizenship

ANAO Audit Report No.22 2012–13

Administration of the Tasmanian Forests Intergovernmental Contractors Voluntary Exit Grants Program
Department of Agriculture, Fisheries and Forestry

ANAO Audit Report No.23 2012–13

The Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Victoria
Department of Regional Australia, Local Government, Arts and Sport

ANAO Audit Report No.24 2012–13

The Preparation and Delivery of the Natural Disaster Recovery Work Plans for Queensland and Victoria
Department of Regional Australia, Local Government, Arts and Sport

ANAO Audit Report No.25 2012–13

Defence's Implementation of Audit Recommendations
Department of Defence

ANAO Audit Report No.26 2012–13

Remediation of the Lightweight Torpedo Replacement Project
Department of Defence; Defence Material Organisation

ANAO Audit Report No.27 2012–13

Administration of the Research Block Grants Program
Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education

ANAO Report No.28 2012–13

The Australian Government Performance Measurement and Reporting Framework: Pilot Project to Audit Key Performance Indicators

ANAO Audit Report No.29 2012–13

Administration of the Veterans' Children Education Schemes
Department of Veterans' Affairs

ANAO Audit Report No.30 2012–13

Management of Detained Goods
Australian Customs and Border Protection Service

ANAO Audit Report No.31 2012–13

Implementation of the National Partnership Agreement on Homelessness
Department of Families, Housing, Community Services and Indigenous Affairs

ANAO Audit Report No.32 2012–13

Grants for the Construction of the Adelaide Desalination Plant
Department of Sustainability, Environment, Water, Population and Communities
Department of Finance and Deregulation
Department of the Prime Minister and Cabinet

ANAO Audit Report No.33 2012–13

The Regulation of Tax Practitioners by the Tax Practitioners Board
Tax Practitioners Board
Australian Taxation Office

ANAO Audit Report No.34 2012–13

Preparation of the Tax Expenditures Statement
Department of the Treasury
Australian Taxation Office

ANAO Audit Report No.35 2012–13

Control of Credit Card Use

Australian Trade Commission

Department of the Prime Minister and Cabinet

Geoscience Australia

ANAO Audit Report No.36 2012–13

Commonwealth Environmental Water Activities

Department of Sustainability, Environment, Water, Population and

Communities

ANAO Audit Report No.37 2012–13

Administration of Grants from the Education Investment Fund

Department of Industry, Innovation, Climate Change, Science, Research and

Tertiary Education

ANAO Audit Report No.38 2012–13

Indigenous Early Childhood Development: Children and Family Centres

Department of Education, Employment and Workplace Relations

Current Better Practice Guides

The following Better Practice Guides are available on the ANAO website.

Public Sector Internal Audit	Sep 2012
Public Sector Environmental Management	Apr 2012
Developing and Managing Contracts – Getting the right outcome, achieving value for money	Feb 2012
Public Sector Audit Committees	Aug 2011
Human Resource Information Systems – Risks and Controls	Mar 2011
Fraud Control in Australian Government Entities	Mar 2011
Strategic and Operational Management of Assets by Public Sector Entities – Delivering agreed outcomes through an efficient and optimal asset base	Sept 2010
Implementing Better Practice Grants Administration	Jun 2010
Planning and Approving Projects – an Executive Perspective	Jun 2010
Innovation in the Public Sector – Enabling Better Performance, Driving New Directions	Dec 2009
Preparation of Financial Statements by Public Sector Entities	Jun 2009
SAP ECC 6.0 – Security and Control	Jun 2009
Business Continuity Management – Building resilience in public sector entities	Jun 2009
Developing and Managing Internal Budgets	Jun 2008
Agency Management of Parliamentary Workflow	May 2008
Fairness and Transparency in Purchasing Decisions – Probity in Australian Government Procurement	Aug 2007
Administering Regulation	Mar 2007
Implementation of Program and Policy Initiatives – Making implementation matter	Oct 2006

