



# General Conference

**GC(61)/10**  
Date: 3 July 2017

**General Distribution**  
Original: English

## Sixty-first regular session

Item 12 of the provisional agenda  
(GC(61)/1 and Add.1)

# Appointment of the External Auditor

## Summary

1. The term of office of the Agency's current External Auditor — the Audit Board of the Republic of Indonesia — will expire upon the completion of the audit of the Agency's financial statements for 2017. It will therefore be necessary for the General Conference, at its forthcoming regular session, to appoint an External Auditor to audit the Agency's financial statements for the financial years 2018 and 2019.
2. In the Note by the Secretariat, 2016/Note 111, dated 14 November 2016 (Attachment 1), Member States were invited to nominate candidates for consideration by the General Conference at its 2017 regular session. The Note specified that nominations should include: a curriculum vitae of the nominee; details of the national and international activities of the office of the Auditor General of the Member State submitting the nomination; an indication of the range of the audit activities envisaged and of the audit specialities that could be of benefit to the Agency; a presentation of the approach to the audit; the number and level of staff to be involved in the audit; a proposed audit fee (expressed in Euros) and an estimate of the total number of auditor-months which would be devoted to the audit of the Agency's financial statements for 2018 and 2019.
3. The Secretariat has received the nomination of the Audit Board of the Republic of Indonesia (Attachment 2). No further nominations have been submitted to the Secretariat. Attachment 3 gives a summary of the details of the nomination.
4. On 13 June 2017, the Board of Governors considered this information and agreed to recommend to the General Conference the appointment of the Audit Board of the Republic of Indonesia as the External Auditor to audit the Agency's financial statements for the financial years 2018 and 2019.

## Recommended Action

The General Conference may wish to endorse the recommendation of the Board as set out in paragraph 4 above and appoint, in accordance with Financial Regulation 12.01, the Audit Board of the Republic of Indonesia as the External Auditor to audit the Agency's financial statements for the financial years 2018 and 2019.





**IAEA**

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International Atomic Energy Agency

Agence internationale de l'énergie atomique

Международное агентство по атомной энергии

Organismo Internacional de Energía Atómica

GC(61)/10  
Attachment 1

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**2016/Note 111**

## **NOTE BY THE SECRETARIAT**

### **Appointment of the External Auditor**

The Secretariat has the honour to notify Member States that the present term of office of the Agency's External Auditor (Audit Board of the Republic of Indonesia) expires with the completion of the audit of the financial statements for the financial year 2017. It will be necessary for the General Conference at its sixty-first regular session, in September 2017, to appoint an External Auditor to audit the financial statements for the financial years 2018 and 2019. The appointment is traditionally made for a period of two years, but may be extended.

Member States are invited to nominate candidates whom they wish the General Conference to consider at its sixty-first regular session for appointment as the External Auditor of the Agency. The full text of Article XII of the Agency's Financial Regulations and the additional terms of reference governing audits of the Agency's financial statements are enclosed herewith.

The nominations should include the following:

- a) a curriculum vitae of the nominee and details of the national and international activities of the Auditor-General's office, with an indication of the range of audit activities envisaged and of the audit specialities that could be of benefit to the Agency;
- b) a presentation of the approach to the audit and the number and level of staff to be involved in the audit; and
- c) a proposed audit fee (expressed in Euros) and an estimate of the total number of auditor-months which would be devoted to the audit of the financial statements for 2018 and 2019.

The proposed audit fee should cover the audit related salaries, secretarial and other support costs, travel costs and living expenses of the External Auditor and his/her staff. Travel costs should cover travel between the Auditor-General's office and the Agency's Headquarters in Vienna and – if deemed necessary for audit purposes – other Agency offices.

Nominations should reach the Director General as early as possible, and in any case not later than 30 December 2016, in order to allow sufficient time for further inquiries and subsequent forwarding of a proposal by the Board of Governors for consideration by the General Conference in September 2017. The Agency's Division of Budget and Finance would be pleased to provide any further information or clarification that may be required.



14 November 2016

To all IAEA Member States

## **ARTICLE XII. EXTERNAL AUDIT**

### **APPOINTMENT OF EXTERNAL AUDITOR**

#### **Regulation 12.01**

An External Auditor, who shall be Auditor-General (or an officer exercising an equivalent function) of a Member State, shall be appointed by the General Conference for a period determined by it.

### **TENURE OF OFFICE OF EXTERNAL AUDITOR**

#### **Regulation 12.02**

If the External Auditor ceases to hold office as Auditor-General (or equivalent function) in his/her own country, his/her tenure of office as External Auditor shall thereupon be terminated and he/she shall be succeeded as External Auditor by his/her successor as Auditor-General. The External Auditor may not otherwise be removed during his/her tenure of office, except by the General Conference.

### **CONDUCT OF AUDIT**

#### **Regulation 12.03**

Subject to any special direction of the General Conference or the Board, each audit which the External Auditor is required to make shall be conducted in accordance with the Additional Terms of Reference set out in the Annex to these Regulations.

### **RESPONSIBILITY OF EXTERNAL AUDITOR**

#### **Regulation 12.04**

The External Auditor shall be completely independent and solely responsible for the conduct of the audit.

### **SPECIFIC EXAMINATIONS**

#### **Regulation 12.05**

The General Conference and the Board may request the External Auditor to perform certain specific examinations and to issue separate reports on the results.

### **PROVISION OF FACILITIES TO EXTERNAL AUDITOR**

#### **Regulation 12.06**

The Director General shall provide the External Auditor with the facilities required for the performance of the audit.

## **USE OF LOCAL AUDITORS**

### **Regulation 12.07**

Whenever it is necessary to make a local or special examination the External Auditor may arrange for the services of any national Auditor-General who is eligible to be appointed as External Auditor or of commercial public auditors of known repute.

## **TRANSMISSION OF AUDIT REPORT**

### **Regulation 12.08**

The report of the External Auditor shall be transmitted to the Board for its observations and the Board shall transmit the report to the General Conference in accordance with Regulation 11.03. A representative of the External Auditor shall be present when his/her report is first under consideration by the Board or by a subsidiary body of the Board. In addition, the Director General shall arrange for such representation during subsequent consideration by the Board or during consideration by the General Conference, if so requested by a Member State, if the Director General considers it desirable or if the External Auditor considers it essential.

**ADDITIONAL TERMS OF REFERENCE GOVERNING THE AUDIT OF THE  
INTERNATIONAL ATOMIC ENERGY AGENCY**

1. The External Auditor shall perform an audit of the accounts of the Agency, including all Trust and Special Funds as he/she may deem necessary in order to satisfy himself/herself:
  - (a) That the financial statements are in accord with the books and records of the Agency;
  - (b) That the financial transactions reflected in the statements have been in accordance with the Financial Rules and Regulations, the budgetary provisions, and other applicable directives;
  - (c) That the securities and moneys on deposit and on hand have been verified by certificate received direct from the Agency's depositories or by actual count.
2. Subject to the provisions of the Financial Regulations, the External Auditor shall be the sole judge as to the acceptance in whole or in part of certifications by or on behalf of the Director General and may proceed to such detailed examination and verification he/she chooses of all financial records, including those relating to supplies and equipment and materials of the Agency or for which the Agency is responsible.
3. The External Auditor may affirm by test the reliability of the internal audit, and may make such reports with respect thereto, as he/she may deem necessary, to the Board or to the Director General for transmission, where appropriate, to the General Conference.
4. The External Auditor and staff working under his/her direction shall subscribe to such oath as may be approved by the Board. Thereupon he/she shall have free access, at all convenient times, to all books of account and records which are, in his/her opinion, necessary for the performance of the audit. Information classified as confidential in the records of the Secretariat, and which is required by the External Auditor for the purposes of the audit, shall be made available on application to the Director General. In the event that the External Auditor is of the opinion that a duty rests on him/her to draw to the attention of the Board or of the General Conference any matter respecting which all or part of the documentation is classified as confidential, direct quotation shall be avoided.
5. The External Auditor, in addition to auditing the accounts, may make such observations as he/she may deem necessary with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls, and, in general, the financial consequences of administrative practices.
6. In no case, however, shall the External Auditor include criticism in his/her audit report without first affording the Director General an opportunity of explanation of the matter under observation. Audit objections to any items arising during the examination of the accounts shall be immediately communicated to the Director General or the Director, Division of Budget and Finance.
7. The External Auditor shall prepare a report on the accounts which shall include:
  - (a) The extent and character of his/her examination and of any important changes in the extent and character of such examination, including whether he/she has obtained all the information and explanations he/she has required;
  - (b) Matters affecting the completeness or accuracy of the accounts, such as:
    - (i) Information necessary to the correct interpretation of the audit;
    - (ii) Any amounts which ought to have been received but which have not been brought to account; and
    - (iii) Expenditures not properly substantiated.
  - (c) Other matters which should be brought to the notice of the Board and, where appropriate, of the General Conference, such as:

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## Financial Regulations

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- (i) Cases of fraud or presumptive fraud;
  - (ii) Wasteful or improper expenditure of the Agency's money or other assets (notwithstanding that the accounting for the transactions may be correct);
  - (iii) Expenditures likely to commit the Agency to further outlay on a large scale;
  - (iv) Any defect in the general system or detailed regulations governing the control of receipts and expenditure or of supplies, equipment and materials of the Agency or for which the Agency is responsible;
  - (v) Expenditure not in accordance with the purpose of the appropriation concerned, after making allowance for duly authorized transfers between appropriation sections.
  - (vi) Expenditure in excess of appropriations, as amended by duly authorized transfers between appropriation sections; and
  - (vii) Expenditure not in conformity with the authority which governs it.
- (d) The accuracy or otherwise, as determined by stocktaking and examination of the quantitative records relating to supplies, equipment and materials of the Agency or for which the Agency is responsible; and
- (e) Transactions accounted for in a previous financial year, concerning which further information has been obtained, or transaction in a later financial year concerning which it seems desirable that the Board or the General Conference should have early knowledge.

8. The External Auditor, or such officers as he/she may designate, shall express and sign an opinion on the financial statements which shall:

- identify the financial statements examined; and
- describe the scope and extent of audit procedures; and

which shall address, as appropriate, whether:

- (a) The financial statements present fairly the financial position of the International Atomic Energy Agency as at the end of the financial year and the results of its operations in that year;
- (b) The financial statements were prepared in accordance with the stated accounting principles;
- (c) The accounting principles were applied on a basis consistent with that of the preceding financial year;
- (d) Transactions were in accordance with the Financial Regulations and legislative authority.

9. The External Auditor shall have no power to disallow items in the accounts, but shall draw to the attention of the Director General for appropriate action any transaction concerning which he/she entertains doubt as to legality or propriety.



PERMANENT MISSION OF THE REPUBLIC OF INDONESIA  
TO THE UNITED NATIONS AND OTHER  
INTERNATIONAL ORGANIZATIONS IN VIENNA

No. 00981/TI/12/2016/POL

The Permanent Mission of the Republic of Indonesia to the United Nations and Other International Organizations in Vienna presents its compliments to the Secretariat of the International Atomic Energy Agency (IAEA) in Vienna and with reference to the latter's note ref. N3.00/030405 (2016/Note 111) dated 14 November 2016, has the honour to present the nomination of the Supreme Audit Board of the Republic of Indonesia to continue its term as the External Auditor to audit the financial statements of the IAEA for the financial years 2018 and 2019.

In this regard, the Permanent Mission kindly submits the attached letter from the Chairman of the Supreme Audit Board of the Republic of Indonesia to the Director General of the IAEA, presenting a proposal to provide audit services for the IAEA's financial statements for the financial years 2018 and 2019.

The Permanent Mission of the Republic of Indonesia to the United Nations and Other International Organizations in Vienna avails itself of this opportunity to renew to the Secretariat of the International Atomic Energy Agency in Vienna the assurances of its highest consideration.

Vienna, 9 December 2016



Secretariat  
International Atomic Energy Agency  
in Vienna





**Chairman  
The Audit Board  
Republic of Indonesia**

Number : 130 /S/I/12/2016

December 2, 2016

Mr. Yukiya Amano  
IAEA Director General  
Vienna International Centre  
PO BOX 100 1400 Vienna  
Austria  
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Dear Mr. Amano,

It is a great honor that the Audit Board of the Republic of Indonesia (BPK) currently performs as the External Auditor of The International Atomic Energy Agency (IAEA) for the financial years 2016 and 2017. We are resolving our current audit engagement professionally and effectively for the sake of governance and accountability of the IAEA.

Continuing our commitment to contribute the achievement of the IAEA's vision and mission, we would like to present the following proposal for upcoming external auditor of the IAEA for financial years 2018 and 2019.

With the balanced combination of experiences, resources and competencies, we do believe that BPK could deliver the quality auditing process and results as a role of the external auditor. The strengths which may be considered are as follow:

- The position of current external auditor of the IAEA for the financial years 2016 and 2017
- Being the external auditor of the International Anti Corruption Academy (IACA)
- BPK as a Supreme Audit Institution of the Government of Indonesia with generating annually almost 1800 audit reports which consist of the Financial, Performance and Special Purpose Audit
- Well-established SAI's performance evaluation through periodic international peer reviews by other SAIs (SAI New Zealand, SAI Netherland and SAI Poland)
- Holding international certification such as CA, CPA, CIA, CFE and CISA for the BPK's auditors

- Active roles in the professional association debut, among other, the chair of INTOSAI Working Group on Environmental Audit (WGEA), ASOSAI governing Board as well as the Secretary of ASEANSAI.
- Experiencing with audit of relevant nuclear activities in Indonesia: the National Nuclear Energy Agency and the Nuclear Energy Regulatory Agency.

BPK is committed to perform the audit function the best we can serve as the External Auditor in term of quality, timeliness and accuracy. BPK has what it takes to be the external auditor for the financial years 2018 and 2019.

Should you need further information, we will happily provide it to you.

Sincerely,



Harry Azhar Azis,  
Chairman

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# PROPOSAL

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**FOR THE RENEWAL OF PROVISION  
OF EXTERNAL AUDITOR SERVICES  
TO THE INTERNATIONAL ATOMIC  
ENERGY AGENCY (IAEA)  
FINANCIAL YEAR 2018 - 2019**

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**AUDIT BOARD OF  
THE REPUBLIC OF  
INDONESIA**

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## FOREWORD

As the current External Auditor of the International Atomic Energy Agency (IAEA) for the financial year 2016 – 2017, I would like to continue our contribution by presenting the proposal in respect of the appointment of External Auditor for the financial year 2018 - 2019 for their deliberations. This proposal contains all the essential information requested by the IAEA Secretariat through its Note Ref.: N3.00/030405 dated 14 November 2016 regarding Appointment of the External Auditor.

This proposal also elaborates our commitment, expertise and plan to meet requirement as stated in the Article XII of the Agency's Financial Regulations and the additional term of reference governing audits of the Agency's financial statement in order to provide reasonable assurance on the opinion we render.

In the midst of financial challenges and Member State's expectation, we learned the IAEA as a prominent international organizations had maintained a more transparent and efficient efforts in providing the services to Member States. As part of oversight function, the role of the external auditor with its mandate and expertise has contributed significantly to the organization's performance improvement.

Based on our current experience as the external auditor of the IAEA for Financial Statement 2016 and 2017, we do believe that our qualified auditors who are customarily working with Risk-Based and IT Audit Approach, experiencing international audit assignments and audit of National Nuclear Energy Agency and Regulatory Agency, holding of international audit certifications as well as their involvement in many international activities, will perform efficiently and effectively the audit engagement.

I assure high quality of audit, communication and cooperation so that during our tenure, we can promote a high degree of fairness and reliability of financial statements, thus maintaining stakeholder trust on the IAEA organization.

I am looking forward to providing our services to you.

**Yours sincerely,**

**Harry Azhar Azis**  
**Chairman**

## Table of Contents

Foreword .....	ii
Table of Contents .....	iii
Curriculum Vitae of Board Members .....	iv
I. Maintaining the Governance and Accountability of IAEA .....	1
II. Reasons to Select BPK as the External Auditor .....	4
III. Audit Experiences and Contributions .....	11
IV. BPK and International Activities .....	14
V. Audit Experience in Nuclear Related Entities .....	17
VI. Capabilities and Competencies BPK is Able to Offer .....	19
Appendix 1. Awards Received	
Appendix 2. Audit Fees	

## **CURRICULUM VITAE OF BOARD MEMBERS**

### **THE AUDIT BOARD OF THE REPUBLIC OF INDONESIA**

The Audit Board of the Republic of Indonesia is a Supreme Audit Institution that adopts Board System. It consists of Chairman, Vice Chairman and 7 board members. Here are their profiles:



#### **Chairman, Harry Azhar Azis, Ph.D.**

Harry Azhar Azis, Ph.D. was appointed as Chairman since October 2014. He was a prominent parliament member (2004-2014) such as Chairman of budget commission as well as Vice Chairman of the finance and economy commission. His education background was Master Degree in Public Economic Policy, University of Oregon, USA, (1990) and Doctoral Degree in Economics of the Oklahoma State University in Stillwater, Oklahoma, USA (2000). Working as a economist in USAID in Jakarta (2002-2003), he was also a reviewer at Journal of Asian Business, University of Michigan, USA (1995-2003).



#### **Vice Chairman, Drs. Sapto Amal Damandari, Ak, CA, CPA**

Drs. Sapto Amal Damandari, Ak, CA, CPA has assumed Vice Chairman since October 2014. He has wide and long experience as Board Members. He has been a Board Member VI in 2007-2010, Board Member V in 2010 – 2013 and Board Member II in 2013 – 2014. Mr. Damandari is an accountant by professional and is an active member of the Indonesian Charter of Accountant (IAI). He has been a Chairman of the Consultative Board of the Compartment of the Public Sector Accountant, IAI in 2008-2014 and now is a member of the Advisory Board of the IAI.

Graduated in Accounting from University of Gadjah Mada, he pursued his career both in private and public sector accounting. He has been a senior partner in public accounting firm, lecturer and subject matter expert in budgeting for the House of Representatives. As a Vice Chairman, Mr. Damandari is responsible for BPK internal management and administration covering such areas as Audit and Institutional Planning, Evaluation and Development; Legal Affairs; Quality Assurance and Internal Audit; Human Resources and Training, and other supports functions. Considering his professional background and portfolios, he holds responsible, on behalf of BPK, for bidding the external audit services for the International Atomic Energy Agency.



**Board Member I, Dr. Agung Firman Sampurna, SE, MSi.**

Dr. Agung Firman Sampurna, SE, MSi. holds a doctoral degree in Public Administration and Policy. His expertise and broad knowledge in public sector leads to his career as the Board Member of BPK since 2011.

Dr. Sampurna is responsible for auditing Defence, Security, Law and Politic Affairs, such as the Indonesian Armed Forces, Police Department, Ministry of Defence, and Ministry of Foreign Affairs.



**Board Member II, Mr. Agus Joko Pramono, M.Acc., Ak.**

Mr. Agus Joko Pramono, M.Acc., Ak. was appointed as Board Member of BPK RI on October 2014. He holds a Master Degree in Government Administration. He is also a member of Advisory Board of Indonesian Charter of Accountant (IAI) and Director of Study Center of Investment and Finance Education.

Mr. Pramono is responsible for auditing Central Bank, Ministry of Finance, and other Financial Institution.



**Board Member III, Prof. Dr. Eddy Mulyadi Soepardi, SE, MM, Ak, CFr. A, CA**

Prof. Dr. Eddy Mulyadi Soepardi, SE, MM, Ak., CFr.A, CA was appointed as the Board Member since October 2014. Mr. Soepardi is also a member Indonesian Charter of Accountant (IAI). He obtained his doctoral degree in Accounting from Padjajaran University in 2005. Prof. Soepardi is responsible for audit on State Institutions, Public Welfare, Secretary of State, and Research and Technology.



**Board Member IV, Prof. Dr H. Rizal Djalil, MM**

Prof. Dr H. Rizal Djalil, M.M. was appointed for a second five-year term as a Board member in October 2014. Before joining BPK, he was a Parliament Member responsible for Finance and Economic Affairs. He holds a doctoral degree from Padjadjaran University in 2008. Prof. Djalil is responsible for audit on Environment, Natural Resources, Maritime and Fisheries, Forestry and Agriculture, and Infrastructures.



**Board Member V, Dr. Moermahadi Soerja Djanegara, SE, Ak., MM, CPA**

Dr. Soerja Djanegara was appointed for a second five-year term as a Board member in October 2014. He obtained a Doctoral degree in Accounting from Padjadjaran University in 2005. Dr. Soerja Djanegara is responsible for audit on Ministry of Religion Affairs, Ministry of Internal Affairs, Regional and Local Governments in Region I covering Sumatra and Java.



**Board Member VI BPK RI, Prof. Dr. Bahrullah Akbar, M.B.A., C.M.P.M.**

Prof. Akbar was appointed for a second-five year term as Board Member in October 2014. He holds a Master Degree in Public Sector Management, University of Leicester, United Kingdom (2000) and a Doctoral Degree in Government Sector from Padjadjaran University in 2013. Prof. Akbar is responsible for auditing Regional and Local Governments in Region II covering eastern Indonesia Provinces (Bali, Nusa Tenggara, Kalimantan, Sulawesi, Maluku, dan Papua). He also conducts audit on Ministry of Health, Ministry of Education, Ministry for the Development of Disadvantage Regions, Food and Drug Agency.



**Board Member VII, Mr. Achsanul Qosasi**

Mr. Qosasi was appointed as Board Member since October 2014. He holds his Master Degree in Economics from Jose Rizal University, Philippines. Before joining BPK, he was a Parliament Member responsible for Finance and Economic Affairs. He is now in charge of the audit of State Owned Enterprises, including Banking Sector, Oil and Gas Sector, Forestry Sector, Transportation Sector and other strategic

## CHAPTER I

### MAINTAINING THE GOVERNANCE AND ACCOUNTABILITY OF IAEA

As one of the United Nations Specialized Agency, the IAEA has been playing active roles response to the deep fears and expectations resulting from the discovery of nuclear energy since established in 1957. Its fortunes are uniquely geared to this controversial technology that can be used either as a weapon or as a practical and useful tool.

The IAEA Statute states the obligation of the Agency to “seek to accelerate and enlarge the contribution of atomic energy to peace, health and prosperity throughout the world,” while ensuring, “so far as it is able,” that this does not “further any military purpose” (IAEA, 1956: Art. II). Balancing these two goals has presented the Agency with its greatest challenge.

Growing demands from Member States for requesting Agency’s services in relating to nuclear energy and technologies proves the existence of the IAEA is a fact that well-established management should be a highest priority. 133 out of 168 Member States are participating in the Agency’s technical cooperation programme.

The role of Agency in assisting Member States is performed through three pillars, namely promoting High Standards for Nuclear Safety and Security, promote the use of nuclear energy for peaceful purposes, applying safeguards to verify that nuclear energy is not used for military purposes.

In carrying out those pillars, the Agency through related departments had already well-prepared plans and mechanism coordination on relevant programs. Like three of the IAEA's six Departments are principally charged with promoting the

peaceful uses of nuclear energy. The Department of Nuclear Energy focuses on providing advice and services to Member States on nuclear power and the nuclear fuel cycle. The Department of Nuclear Sciences and Applications focuses on the use of non-power nuclear and isotope techniques to help IAEA Member States in the areas of water, energy, health, biodiversity, and agriculture.

Also, the Department of Technical Cooperation provides direct assistance to IAEA Member States, through national, regional, and inter-regional projects through training, expert missions, scientific exchanges, and provision of equipment.

### Managing resources

In the midst of challenging environment and complexity of the issues to be taken, the IAEA has already have a systematic and well-structure budgeting process. From the thematic and strategic views of the Mid Term Strategies which its for 6 years to the range of the Biennium Budget and Annual Budget. All level of governance structure in Agency refers to those hierarchy budgets.



The Medium Term Strategy (MTS) covers the period 2012–2017 and was developed through a process of interaction between the Secretariat and an open-ended

Working Group established for this purpose by the Board of Governors.

The MTS 2012–2017 provides overarching guidance and serves as a “roadmap” for the Agency’s activities during this period by identifying priorities among and within programmes based on such considerations as recent technological trends, emerging needs and the political, economic and social background.

It seems that the Agency faces the challenging tasks to develop the best fit in converting the long-term budget into the biennium budget. It is shown by the budget allocation for two biennium 2014-2015 and 2016-17 which is slightly lower from €1020 million to €996.6 million. The Agency’s total resources which consist of the regular budget, extrabudgetary resources and resources for the technical cooperation programme.

## **Challenges**

The Agency continues to rely on extra budgetary funds, mostly from Member States, to carry out some of its activities. For 2016, €50.0 million are expected to be implemented. The Agency has been experiencing limited growth in its Regular Budget for some time.

This situation reflects the overarching economic situation and the challenges Member States face. Simultaneously, the demand for the Agency’s services continues to increase with the growing number of Member States, their desire to draw more benefit from the peaceful uses of nuclear technology, and the increasing verification activities.

This proposal was prepared taking into account the fact that the global financial situation continues to affect the ability of

Member States to fund the Agency’s activities. Therefore, a strict prioritization effort was undertaken to identify activities that will be discontinued, reduced in scope or postponed and efficiency measures that will be pursued in the coming biennium.

The Secretariat continued to pursue further efficiency improvement initiatives and austerity measures. The following ongoing initiatives continue to be addressed: Stricter prioritization of travel, including that of senior managers; Expanded use of standard equipment in all areas, in particular Safeguards instrumentation, making use of economies of scale and lower maintenance costs; Review of computer assets in use with a view of reducing the number of software licenses paid;

The Agency recognizes the importance of internal and inter-organizational synergies to ensure efficient and effective programme delivery. Major programmes will make a concerted effort to leverage interactions and cooperation within the Agency and with external counterparts. In doing so, the Agency will continue to take advantage of strategic directions, core competencies, and lessons learned, and to avoid duplication of programmatic effort.

## **Enhancing Accountability**

Like other international organizations, the IAEA has its own internal audit and review processes, including those conducted by the Office of Internal Oversight and Services, which cover not just financial matters, but also management and administration. The Agency is also subject to continuous external audit by a national auditor chosen for a two-year term by the GC from among its membership. States actively compete for the position. For the past eight years it has been Germany,

with the United Kingdom and India among previous auditors. The Auditor is required to operate on the Single Audit Principle: that is, the audit is conducted according to the Agency's audit procedures, not those of the state conducting it (otherwise auditing chaos would ensue).

## CHAPTER II REASONS TO SELECT BPK AS THE EXTERNAL AUDITOR

### A. Giving an assurance for improving the performance

Increasing the demand and expectation from the Member States has been the challenging issues encountered by the Agency to be solved. The efforts to be taken could be part of the oversight function carried out by the External Auditor. It has been shown by the fact that all previous auditors delivered the recommendation to improve the performance of Agency.

BPK as the current external auditor through the auditing helps to create suitable conditions and reinforce the expectation that the Agency will perform their functions effectively, efficiently, ethically and in accordance with the applicable laws and regulations.

Both financial and performance auditing is essential in that it provides Member States with information and independent as well as objective assessments concerning the stewardship and performance of the Agency policies, programmes or operations.

BPK serves this aim as important pillars of the Agency business process and governance mechanisms and play an important role in enhancing the principles of transparency, accountability, governance and performance, which emphasizes on:

- providing Member States with independent, objective and reliable information, conclusions or opinions based on sufficient and appropriate evidence relating to the Agency;
- enhancing accountability and transparency, encouraging continuous improvement and sustained confidence

in the appropriate use of Member States funds and assets and the performance of public administration;

- creating incentives for change by providing knowledge, comprehensive analysis and well-founded recommendations for improvement.

To enable an accountable assurance realized, BPK has already had capacities to concretize a constructive and valuable audit recommendation for improving the Agency in delivering services to all related stakeholders. Those capacities consist of the institutional capacities and organizational capacities, as well as the professional capacities.

### B. Strong Institutional Capacity

As a call of Lima Declaration for having an independent auditing institution, The Audit Board of the Republic of Indonesia, literally known as BPK: *Badan Pemeriksa Keuangan*, was established in 1947 as mandated by Indonesian Constitution 1945. It stipulates in article 23 E that “to audit the management and accountability of state finances, there shall be a single Supreme Audit Board which shall be free and independent”.

The board is a collegial body consisting of 9 members in which they select among themselves a Chairman and Vice Chairman. The board members serve a 5-year term and can be reelected for another 5 year with a retirement age at 67 years.

The audit function of BPK stipulated by the Indonesian Constitution is to audit the management and accountability of state finance at all government levels – central, provincial and local governments, including state and local owned companies.

The Constitution establishes a high standing position to BPK in Indonesian administration system and structure. BPK is not part of executive, legislature nor judicial branch and therefore, they have a same level of position under the Constitution.

The Constitution, Audit Act and BPK Act assure the independence at both operational and financial aspects, as well as autonomy of BPK to perform audits. None can interfere and direct BPK's audit work and results. Government, Parliament and public at large may request BPK to conduct an audit but the decision may rest at BPK's disposal.

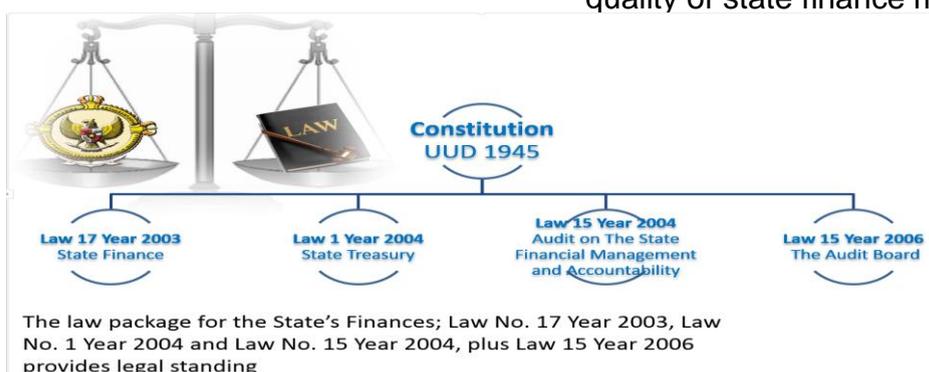
BPK does not report but renders its audit results to Government and Parliament at national and subnational levels for a follow up action in accordance to law. Once tabled at Parliament, the audit reports become a public domain and thus people at large may participate in controlling BPK's product as well as government work in managing and using public money.

## C. Prerequisite for functioning a robust audit

### 1. The existence of an effective legal framework

In strengthening the power and role of BPK as stated in the Constitution, the implementation of audit function is supported by a series of clear legal framework. It includes the Law 17 Year 2003 of State Finance, the Law 1 Year 2004 of State Treasury, the Law 15 Year 2004 of Audit of the State Financial Management and Accountability, as well as the Law 15 Year 2006 of the Audit Board.

By having those laws, BPK has an effective foundation in performing public-sector audit function in which they cover the definition and scope of state finance; the process of state financial management, and the mechanism of the audit process, as well as the board itself. As a result, BPK could exercise effectively its function to generate a valuable and beneficial audit results to improve the quality of state finance management.



BPK's independency and autonomy is indeed in line with the desired independence and autonomy of the state audit institutions as envisaged by the Lima and Mexico Declaration of INTOSAI.

### 2. An comprehensive and integrated audit strategy

The ability of SAI in determining the audit strategy in term of the content, timing, human capital development

and budget has to be in place to ensure the direction of audit will come to the accomplishment of the public expectation with the manageable audit resources. It can be realized by having a soundness strategic plan as the main reference for SAI in running the audit process.

BPK has realized the existence of a well-established strategic plan is a must to be able to cope with the growing demand from stakeholders. The effort to have well-structured strategic plan has been escalated since 2006 with focused strategic plans for 2006-2010, 2011-2015, and 2016 – 2020.

BPK’s organizational development is focused on developing organizational capacity, particularly developing the regulations that are required to implement the Law No. 15 of 2006 about BPK, including the required implementing regulations and systems and procedures, as well as establishing representative offices in all provinces in Indonesia.

Meanwhile, the audit development focus is the commencement of financial audits and investigative audits as well as laying of the foundations for performance audits in accordance with INTOSAI best practices.



In the 2006—2010 Strategic Plan, Indonesia’s public administration was marked by the laying of foundations for good governance in the implementation of the three national laws on state finances. In that period, BPK set the vision:

**“Becoming a state audit institution that is free, independent and professional as well as playing an active role in creating accountable and transparent public administration”.**

Upon entering the period of 2016—2020 Strategic Plan, BPK’s development focus in supporting better public administration will be shifted from the administrative assurance in state financial management to a more substantive results assurance in development programs (outcomes and impacts).

In the future, it is expected that the utilization of BPK audit results will bring a greater impact for the life of the nation. In order to improve public

policies and the quality of spending to achieve the State's goals.

Therefore, BPK is required to strengthen the use of accrual accounting in financial audit; to strengthen the use of performance audit on national development priority programs as specified in the National Development Plan; to focus the special purpose audits on actual issues and request/demand from stakeholders; as well as synergizing the three types of audits to support the quality of public administration in order to achieve the State's goals.

BPK's organizational development policy is directed towards improving the operational aspects of audits, the quality of stakeholders' relations, corporate governance, and optimizing BPK resource utilization which includes human resources, means and facilities, information technology, knowledge management and organizational culture, as well as financial resources.

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## **BPK's VISION 2016—2020**

Fostering public administration to achieve State goals through the provision of beneficial and high quality audits

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To meet its vision and mission conveyed in the Strategic Plan 2016-2020, BPK keeps its high standing profile by exercising three organizational core values namely Integrity, Independence, and Professionalism. They can be elaborated as follow:

### **a. Integrity**

We build integrity by being honest, objective and firm in applying our principles, values, and decisions.

### **b. Independence**

We uphold institutional, organizational, and individual independence. In all matters pertaining to audits, we are free, in our mental attitude and appearance, from any personal, external, and/or organizational intervention that may affect our independence.

### **c. Professionalism**

We build professionalism by applying the principles of precautionary, accuracy, and precision, and abide by the applicable standards.

BPK establishes a panel of code of ethics to safeguard the implementation of code of ethics by all auditors. This independent panels comprises representatives of academy, professionals and Board Members.

## **3. Well-structured Internal Governance**

BPK main role is to promote transparency and accountability of state finance by conducting audits, providing recommendations and opinions, and exercising a quasi-judicial roles. Not many Supreme Audit Institutions have a strong and unique roles like BPK in both audits and quasi-judicial function systems.

### **a. Audit Coverage**

BPK conducts audits on state finance at national and sub-

national levels covering more than 2,400 central and local entities including state and local-owned enterprises. BPK, furthermore, conducts three types of audit namely financial audit, performance audit and special purpose audit, including compliance and investigative audits.

**b. Recommendation**

Based on audit results, BPK provides strategic and national recommendations on management and accountability of state finance, including providing considerations to the development of Government Accounting Standards (GAS) and the design of Internal Control System (ICS) at all levels of governments.

**c. Quasi-Judicial function**

BPK assesses and/or determines the amount of state losses due to unlawful actions committed by treasurers and government officials. In addition, BPK also provides considerations to settlements of state/local losses and expert statements in court proceedings regarding state/local losses.

**d. Dealing with State Loss and Criminal Offense**

BPK may conduct an investigative audit if there is an indication of state loss and or criminal offense. Should an audit disclose matters which give rise to suspicion that a criminal offence or an act detrimental to the State Finance has been

committed, BPK shall present such a case to law enforcement institutions such as the National Police, the Attorney General and the Corruption Eradication Commission.

**e. Human Resources**

People are the valuable investment in BPK and we prioritize the capacity development of our auditors and supporting staff through various programs such as scholarship for master, doctoral degree and professional certification.

We also engage bilateral cooperation with 18 supreme audit institutions for the capacity building in both financial and performance audit.

Cooperation with the Australian National Audit Office (ANAO), for example, aims to share knowledge, skills and practices in performance audit and accrual based financial audit. In addition, similar cooperation has been conducted with the Office of the Controller and Auditor- General of New Zealand (OAG NZ) through secondment program on accrual based financial audit practice.

As per December 2016, the total number of BPK's employees is 6.346 people. Among those, there are of total number of 4,200 auditors.

- 11 staffs holding Ph.D.,
- 1.091 staffs holding Master degrees.
- 200 staff currently pursue a higher degree such as Master and Ph.D.,

Rest of staffs is majority holding bachelor and diploma.

BPK is also continuously providing opportunity for its staffs to pursue other international certification and contribute to the development of international public sector auditing

Currently, we have:

- Eight Certified INTOSAI Development Initiatives (IDI)-ASOSAI Audit Training and Capacity Building.
- Seven INTOSAI Standard of Supreme Audit Institutions (ISSAI) Facilitators,
- Two IDI certified IntoSAINT trainers,
- Two Certified Knowledge Managers (CKM).

There are many auditors with international audit certifications, as follows

- 1,674 Chartered Accountant (CA- member of IFAC);
- 31 auditors hold Certified Public Accountant (CPA);
- 17 auditors hold Certified Internal Auditor (CIA);
- 135 auditors hold Certified Fraud Examiner (CFE);
- 14 Auditor hold Certified Government Auditing Professionals (CGAP)
- 14 auditors hold Certified Information System Auditor (CISA).
- 36 auditors hold Certified Forensic & Audit Analyst (CFrA)

***f. Capacity Building and Training Facility***

BPK employs staffs with a wide array of academic backgrounds including accounting, economics, law, information technology, BPK supports the ongoing development of its workforce by providing raining and professional development opportunities both locally and internationally through a network of international partners and stakeholders including universities and other SAIs. BPK adopts the Capacity Building Model developed by the INTOSAI Capacity Building Committee (CBC) and the INTOSAI Development Initiatives (IDI).

BPK recognizes that many complex changes are reshaping its internal and external environment at all levels, and is committed to develop the management systems and capacity to respond accordingly and turn challenges into opportunities for excellence.

The Human Resource Department and the Training Centre of BPK runs excellent learning centers and knowledge management to facilitate and sustain the dissemination of knowledge gained form the certification programs and secondment programs hosted by counterpart SAIs. The forms of knowledge management programs are workshop, training and seminar named Knowledge Transfer Forum. BPK Training Centre has conducted a number of trainings for internal and external

stakeholders, namely:

### **1. Internal Training**

Training for internal users is designed based on the Knowledge, Skills and Attitude (KSA) model for each employee category:

- a. Induction training for all new employees.
- b. Leadership and Managerial Training for managers at levels and positions.

Auditor Training which falls into two categories: (i) functional audit training for auditors at all levels or roles and (ii) technical training on specific topics depending on the needs. For example: disaster-related audit, infrastructure audit, procurement audit, analytical procedure, Geographic Information System (GIS) for audit, and human resource management and administration.

### **2. External Training**

As part of its contribution to enhance the capacity of internal audits as well as management of audited entities, Training Center has conducted many training, including the following:

- Training in Public Sector Audit for Public Accountants;
- Government Procurement for government officers;
- Finance and Asset Management for government officers;

### **3. International Trainings for other SAIs**

International Training is conducted under BPK's own programs as well as in cooperation with INTOSAI bodies and concerned SAIs. The following topics are provided in our training programs:

- Forensic Accounting;
- The Use of GIS and Remote Sensing in Audit;
- Performance Audit of Tax Arrears;
- Environmental Audit, including Environmental Audit in specific areas such as Oil and Gas Sector;
- Forestry Audit;
- Audit in IT Environment, and
- Investigative Audit.

All trainings are conducted internally in BPK Training Facility. They are equipped with training rooms and halls with modern facilities, laboratory, and dormitory. BPK Training Centers are located in four cities: Jakarta, Yogyakarta, Medan and Makassar to accommodate four geographical areas of the country

## CHAPTER III

### AUDIT EXPERIENCES & CONTRIBUTIONS

#### A. AUDIT ACTIVITIES

BPK's audit on state finance covers all state finances in national and sub-national governments as well as state and local-owned companies.

BPK assesses the appropriateness of financial operation, the fairness of financial statements, the soundness of administration, the compliance to laws and regulations, and the appropriateness of funds utilization.

In accordance to Audit Act 2004 and BPK Act 2006, BPK conducts three types of audits as follow:

##### 1. Financial Audit

It provides the basis for an opinion on the fairness of financial information presented in the state financial reports.

##### 2. Performance Audit/Value for Money Audit (VFM)

It assesses the economy and efficiency of state financial resources and effectiveness of government programs and report findings to the stakeholders.

##### 3. Special Purpose Audit

It addresses specific areas of concern outside the scope of financial and performance audits such as:

- Compliance audits,
- Financial related audits,

- Investigative audits,
- Audits of internal control systems
- Audit of information technology.

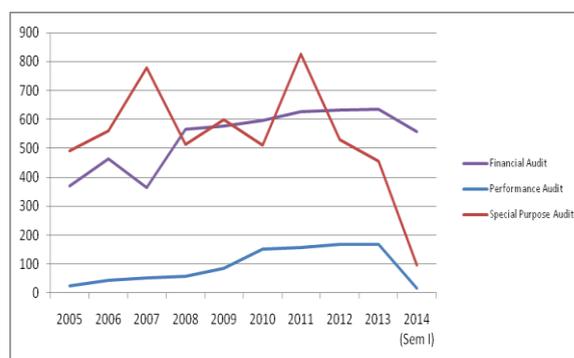
In five years (Period Semester II /2009 until Semester I 2014), BPK has issued 6.900 report, consists of:

- 3.243 financial audit reports,
- 740 performance audit reports, and
- 2.917 special purpose audit reports.

Financial audit is the statutory audit Mandate to be performed annually on National and Sub-national governments (provincial and districts), including state-owned and local owned companies. The latter is in majority conducted by public accounting firms in which their audit reports are submitted to BPK. In 2014, BPK has issued 630 financial audit reports, consist of:

- 86 central government entities,
- 524 local government entities,
- 19 other agency, and
- One consolidated state financial report which covers State Revenue and Grants amounted of 1.438 trillion rupiah (USD 120 billion) and the State Expenditure amounted of Rp1.650 trillion rupiah (USD 138 billion) in 2013.

#### Number of Audits Conducted since 2005 until 2014 (First Semester)



As a professional institution, BPK is continuously improving its institutional, organizational and professional staff capacity in accordance to the development of the subject matters and audit practices to deliver high quality audit and zero error in reports. These are in line with the needs of stakeholders. In order to guarantee the quality of audits, BPK establishes quality control system to provide reasonable assurance that its audit work satisfies statutory provisions, audit standards and guidelines.

BPK's quality control system consists of quality control and quality assurance. Quality control process is implemented in the audit process hierarchically from the audit team to the high level audit manager before the report was published. While quality assurance is the process of monitoring and reporting BPK's compliance with applicable auditing standards to provide the high level audit manager with greater confidence in the issued report.

BPK also actively participates in the corruption eradication. The law enforcer like Police, Prosecutor's Office and the Corruption Eradication Commission (KPK) can propose audit to BPK. Of total investigations by KPK, more than 60% of it came from findings on BPK's Audit reports.

Internally, BPK is pioneering in the design and implementation of Fraud Control Systems (FCS). It is a part of a comprehensive Internal Control Systems aiming to focus more on prevention and detection of internal as well as external fraud. As BPK leads on

this initiative, it is expected that Government institutions will do the same initiatives.

## **B. STANDARD SETTING BODY**

### **1. Auditing Standards**

BPK is a standard setter of the National Auditing Standards. The Standards adopt INTOSAI Auditing Standards as well as other related international auditing standards in combination with national contexts. A dedicate national committee on Auditing Standards is now working on the INTOSAI Standards of Supreme Audit Institutions (ISSAI) Framework adopted by INTOSAI in its 2010 International Congress.

Furthermore, to operationalize and ensure highly consistent implementation of the Auditing Standards, BPK has developed at least

48 audit and technical guidelines for all three types of audits. For example, its products in the field of financial audit includes National Financial Auditing Standards and guidelines for risk assessment, statistical sampling, and working papers.

### **2. Government Accounting Standards and Internal Control System**

According to the Law, BPK is also mandated to provide considerations on the development of the Government Accounting Standard and the design of Internal Control System at national and sub national governments.

Starting in 2015, Government of

Indonesia is implementing Full Accrual Accounting Basis after around 10 years' implementation of Cash toward Accrual Basis. BPK has been instrumental in providing advises to government on both types of accounting bases.

### **C. PEER REVIEW**

To acquire objective opinions on how BPK is functioning, every four years BPK is peer-reviewed by other Supreme Audit Institutions based on international standards. Peer review aims to examine whether BPK design and implement adequately the quality control system in line with National Auditing Standards, and to evaluate BPK's efforts in following up recommendations of the previous peer reviewer.

In 2009, BPK was reviewed by the Netherlands Court of Audit; whereas SAI of Poland carried out this task in 2014. Both SAIs concluded that BPK Quality Control System and Practices are in line with international standards and provides positive organizational and procedural capacity development.

### **D. PUBLIC ACKNOWLEDGEMENT**

As one of the state institution, BPK has received numbers of acknowledgments from other institutions as well as the public for both its work and its existence. In 2008, the Indonesian Community for Remote Sensing (or MAPIN: *Masyarakat Penginderaan Jauh Indonesia*) named BPK as the best governmental entity that introduces and develops the use of

Geographic Information System (GIS) and Remote Sensing (RS) in its audit tasks.

Also, the Ministry of Health (MoH) awarded BPK as one of the best offices in implementing the MoH's program in promoting a healthy and clean work environment. Beside these two awards, BPK also receive several other awards, namely:

- Award on performance accountability ranked "A" for Year 2011-2014;
- Award on High Quality Financial Reporting for Financial Year 2011-2013; and
- Award Bureaucracy Reform ranked "A" from Ministry of State Apparatus Award.

A copy of some awards received by BPK can be found in the Appendix 1.

## **CHAPTER IV**

### **BPK AND INTERNATIONAL ACTIVITIES**

BPK has engaged in international audit activities and cooperation to share knowledge as well as build capacity. These activities have positively generated pools of various expertise and professionals. They have been exposed to the international audit standards and practices.

#### **A. International Audit Assignments**

BPK is enjoying its cooperation with other Supreme Audit Institutions to contribute in international audits as well as building international audit capacity. Some of them are as follow:

- In cooperation with the *France' Cour des Comptes*, BPK participated in audits on UN audit missions in Kinshasa, Congo (UNHCR), Eritrea (UNMEE), Kosovo (UNMIK), Aceh (UNICEF, UNHCR, UNOCHA), and New York (UNICEF, UNOCHA, UNJSPF).
- In cooperation with the Commission on Audit of the Philippines, BPK already trained its auditors on the international audit assignments of UN bodies.
- In cooperation with the INTOSAI Development Initiatives (IDI), BPK conducted international cooperative audits and capacity building programs on several audit topics, such as Public Debt and Forest Audit.

In addition to that, BPK is also experienced in performing foreign-funded projects under several international development agencies, projects funded by international donors agencies in Indonesia, namely Asian Development Bank (ADB) and World Bank (WB)

#### **B. INTOSAI (International Organization of Supreme Audit Institutions)**

BPK's leadership on the INTOSAI Bodies:

- INTOSAI Working Group on Environmental Auditing (WGEA)  
Currently, BPK is the Chair of INTOSAI Working Group on Environmental Auditing (WGEA). WGEA is the largest working group in INTOSAI by having 78 members in 2014. BPK has responsibility to manage and ensure that all projects are accomplished.  
With regards to WGEA project, BPK is the project leader of two projects; renewable energy research project and review of 4 ISSAIs related to the environmental auditing. Aside from becoming the project leader, BPK also involved as subcommittee members of three other research projects.
- INTOSAI Working Group on Audit of Disaster-related Aid (WGAADA).  
BPK was co-chaired the working group. Under WGAADA framework, BPK led the project on the development of ISSAI 5520 - Audit on Disaster Related Aid and a

Parallel Audit on Audit of Disaster Related Aid.

Further, BPK also actively participate as a member and/or project leader on others INTOSAI Working Group, such as:

- Working Group on Public Debt. BPK is involved in the annual meeting and project organized by the WG;
- Working Group on IT audit. BPK is an active participant in the IT Project Planning and Detailed Audit Procedures to Review IT Controls, and involved in the development of Intosai IT Audit Guideline Handbook;
- Working Group on Financial Modernization and Regulatory Reform. BPK contributed in the preparation of the TOR and work plan of WGFMR;
- Working Group on the Fight Against Corruption and Money Laundering. BPK is an active participant on the development of the WG first guideline, Enhancing Integrity, Transparency, Accountability and Good Governance.
- Working Group on Key National Indicators. BPK contribute in designing concept and discussion on Key National Indicators.

BPK also actively involved in the ISSAI 30 - code of ethics Review Project led by SAI of Poland.

### **C. ASOSAI (Asian Organization of Supreme Audit Institution)**

As a chartered member of the ASOSAI since 1979, BPK is still performing its best endeavors to enhance ASOSAI activities and cooperation among its members, such as:

- Chairman of ASOSAI Governing Board (GB) for two periods;
- GB member for 6 periods, including the period of 2015 – 2018. As a member of ASOSAI Governing Board, BPK has a voice in determining ASOSAI's policies and regulations, strategic plans and action plans as well as the annual financial plan, appointing committees, and nominating the next Chair/Secretary General and ASOSAI representatives on the INTOSAI Governing Board; and
- Auditor of ASOSAI Secretariat;

Further, in order to strengthen and implement the ISSAI, BPK involve actively in the program of ASOSAI ISSAI facilitators sponsored by IDI. There are many auditors have been certified by the ISSAI facilitators.

### **D. ASEANSI (ASEAN Supreme Audit Institution)**

The establishment of ASEANSI, as an association of 10 SAIs at the South East Asia region was firstly initiated by BPK. BPK was elected as the first Chair and Secretariat in 2011-2013. With this role, BPK took a lead in setting the organization structure, developing its organ and running the first Secretariat

matters and since 2013, BPK became the Secretariat Function of ASEANSAI.

#### **E. Other International Cooperation in Public Sector Audit**

Within bilateral framework, BPK enjoys mutual benefits and cooperation with 18 SAIs, including the Australian National Audit Office (ANAO), the Office of the Auditor General of New Zealand (OAG New Zealand) and Audit Office of Malaysia.

In the context of bilateral cooperation, several activities have been done, including cooperative audits, secondment program, training and workshop. Similar activities are already in the pipe line for 2015 and following years.

Moreover, BPK sends its auditors every year to GAO-USA fellowship program as a part of financial audit team.

## **CHAPTER V**

### **AUDIT EXPERIENCE IN NUCLEAR RELATED ENTITIES**

BPK conducts annual financial audits on two major agencies, namely National Nuclear Energy and Nuclear Energy Regulatory Agency. In addition to that, BPK also performed performance and special purpose audits as mandated by Laws.

#### **A. Audit Approach**

BPK conducted risk-based audit approach to these entities. BPK review the organization risks, business risks as well as audit risk. It also included an evaluation of fraud risks and IT assessment and review. By doing so, BPK can identify the number of resources allocate in the audit works.

Electronic Audit (e-Audit) approach is used to generate link-and-match data into physical and logical data relationship where the auditor may identify and analyze irregularities and anomalies of data/information.

Further interrogation of data is being conducted by Computer Assisted Audit Techniques, including the use of IDEA or ACL Software.

#### **B. National Nuclear Energy in Indonesia**

One of the entities audited by BPK is the National Nuclear Energy Agency which was established to conduct

researches on the development and implementation of nuclear energy in Indonesia. The agency has received Unqualified Opinion for the past 5 years for its financial statements reporting from BPK.

In 2014, BPK published an audit report of the performance audit on the agency about Agency's Research and development Activities and the Utilization of Its Results within the year of 2013-2014.

There were 3 areas covered in this audit:

- research, development and utilization of nuclear science and technology;
- management of non-tax revenues; and
- nuclear waste management.

Based on this audit, BPK recommended the agency to, among others, review its policy especially in the research and development sector, the technology transfer mechanism and its relation to royalty patent and sanction mechanism.

#### **C. Nuclear Energy Regulatory Agency**

The Agency was established in 1998 to monitor all activities related to the implementation of nuclear energy in Indonesia.

BPK also holds regular financial statement audits on the Nuclear Energy

Regulatory Agency, where it received an unqualified opinion in 2014.

A performance audit on this agency was conducted to assess:

- Institutional and human resource management;
- Licensing service;
- Inspection; and
- Monitoring and evaluation of the radioactive facility and substances.

## CHAPTER VI

### CAPABILITIES AND COMPETENCIES BPK IS ABLE TO OFFER

This chapter is mainly concerning BPK's response to Financial Regulations of the IAEA pertaining to Article XII, XIII and additional Terms of Reference governing the audit of the International Atomic Energy Agency.

BPK is fully aware and positively complying to the above mentioned Financial Regulations of the IAEA as a basis of our high standard services to the IAEA.

BPK highly considers the ISSAI 1260 vis-à-vis ISA 260 that provides guidance on the importance of communication and cooperation between the auditors and those in charge of the IAEA Governance in order to render high quality audit process and results.

#### A. Audit Scope

BPK complies to the audit scope as it is regulated in the Financial Regulations of the IAEA, including those in the Additional Terms of Reference (Part V, Section 2, Annex 1).

In addition to conducting audit of the IAEA Financial Statements, on the basis of risk as well as potential improvement to the financial system and procedures, BPK will consider the efficiency of the financial procedures, the accounting system, the internal controls and in general the financial consequences of administrative process.

Special purpose audit, particularly investigative audit will be consulted with IAEA management in the events that BPK finds an indication of fraud and corruption.

#### B. Audit Standards and Methodology

BPK will conduct the audit in accordance with Generally Accepted Auditing Standards and the Financial Regulations of IAEA and Additional Terms of References governing the audit of the International Atomic Energy Agency, set out in the Annex to the Financial Regulations. The generally accepted common auditing standards consist of:

- The International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants (IFAC);
- The Auditing guidelines issued by the Panel of External Auditors of the United Nations, the Specialized Agencies, and the International Atomic Energy agency;
- The Auditing Standards of the International Organization of Supreme Audit Institutions (ISSAIs);
- The framework of UN accounting Standards/International Financial Reporting Standards (IFRS) and Accounting standards applicable to IAEA i.e. International Public Sector Accounting Standards (IPSAS) of the IFAC.

The audit will be performed

in accordance with those standards and is designed to provide reasonable assurance that the IAEA's financial report as a whole is free from material misstatement whether due to fraud or misstatements. Reasonable assurance is a high, but not absolute, level of assurance.

Considering its initial audit on the IAEA, BPK will allocate adequate time and resources on planning and a continued understanding of IAEA's business operations. This will enable BPK to identify critical audit components, tailor audit procedures, and perform audit in timely manner as per audit standard and agreement with the IAEA. BPK will conduct the audit based on the IAEA's risk assessment (risk based audit) and will focus on significant financial reporting and system within the IAEA and the manner in which the IAEA seeks to manage those risks. The main audit phases of BPK's approach are as follow:

### **1. Planning**

This phase consists of understanding IAEA's business operations, performing risk assessment, and developing audit plan.

Understanding IAEA's business operations, including its environments, IT system, and internal controls, would help BPK design the work needed, respond to significant risks and hence, prevent from audit failure. In addition to that, BPK also takes into account the findings of previous audits, including those of performance

audits, that provide potential impact on IAEA's financial statements.

In this phase, BPK performs risk assessment as an important part of this phase. The risk assessment process encompasses:

- An analysis of business and organization risks.
- An assessment of inherent risks, both at the financial statement and account balance levels.
- An evaluation of internal control structure and the subsequent assessment of control risk. This also includes IT Control Risk and Fraud Risk Assessment.
- An assessment of the effectiveness of analytical procedures in controlling and detecting risk.

BPK will accept a level of risk that a material misstatement in the financial statement will not be detected by the audit procedures. This risk, which is assessed as low, is accepted because of the significant costs and impracticability of performing an audit that accepts no, or an extremely low, level of risk.

Based on the understanding of IAEA's business operations and risk assessments, BPK will develop an audit plan, which includes tailoring audit programs and procedures specific to IAEA, agreeing on information to be provided by IAEA staff, arranging the exact time of fieldwork, and performing analytical procedures prior to the audit date.

This step ensures that all risks have been addressed.

## **2. Fieldwork**

Fieldwork is the critical part of the audit process and in this phase BPK will complete the assessment of the effectiveness of key controls for the entire year, conduct substantive test of material balances and transactions, check IAEA's compliance on law and regulations, review disclosures in the financial statements, and issue audit opinion on the IAEA's financial statements.

The quality control on the audit will be ensured through routine supervision to achieve effective execution of audit procedures with due regard to the auditing standards and adherence to the best practices.

## **3. Report Issuance**

BPK will deliver three types of audit reports to IAEA:

- Management Letters,
- Short Form Report or the Opinion on Financial Statements, and
- Long Form Report or Annual Audit Report.

BPK will immediately communicate to the IAEA the conditions that have been observed before completion of the audit, such as incompliance to laws and regulations, deficiencies, weaknesses and ineffectiveness of the internal control that affect the organization's ability to record, process, summarize and report financial data. The final report will be

issued after discussing with IAEA's top management.

BPK will ensure that Audit Report delivered to IAEA will be balanced, fair, accurate, and having constructive recommendations.

## **C. Risk-Based Audit and Internal Control Evaluation**

As it is explained earlier, BPK will employ a risk-based audit approach to design audit procedures on the financial statement accounts as well as transaction cycle system.

An internal control system, both manual and computerized controls, will be reviewed to determine the timing, nature and extent of the audits being performed.

Audit tools such as Business Risk Matrix, Audit Risk Matrix and Fraud Risk Matrix will be used to facilitate and ensure sufficient audit procedures. The use of audit tools is a complementary in nature to the professional judgment and skepticism of the auditors.

## **D. Communication with Those in Charge of Governance**

Communication between BPK and those in charge of governance – management, audit committee, internal audit, and other concerned parties is very critical for the success of the audit. BPK will collaborate closely with the Internal Auditor function within IAEA as well as with the Office of Internal Oversight Services. An IAE – EAI approach, standing for *Internal Assisting*

*External Audit and External Assisting Internal Audit will be used to provide optimum benefits of the work of BPK to the governance of the IAEA. By doing so, the external audit work could also promote an efficient and effective audit.*

*This model is also in line with INTOSAI Governance on the relationship between Internal Auditor and External Auditor.*

**E. Performance Audit Approach**

We propose previously the main audit objective: *“to assess results-based management effectiveness at the level of selected IAEA projects in respect of planning, monitoring & evaluation, and the achievement of cost-effectiveness; and to provide foresight so as to strengthen the Agency’s management effectiveness, thus streamlining its services to Member States”*.

In order to observe the implementation and short-term outcome or impact of BPK’s Audit Result, another two-year tenure as the IAEA’s External Auditor is necessary.

Based on our understanding and analysis, the business process of IAEA comprises two main stages. First, Product development is conducted by MP1, MP2, and MP3, on a regular basis through projects within the sub program. Second, Product delivery is delivered through a specific project to a specific member state within a region by MP6. Along these stages, MP5 will provide supports in terms of resources such as Human Resources, General Services, IT, Conference Arrangement,

Procurements, Oversights, etc. It can be illustrated in the following depiction.



The audit approach uses an integrated framework among MPs especially MP1, MP2 and MP3 with its respective programs and sub programs so that it would be able to give recommendations underlining added values to IAEA.

As stated in the Programme and Budget 2016-17 and to some extent continued to 2018-19, the main challenge of the Agency is the unbalance situation between the available resources to develop the products and the demand of member states for the product delivery.

In this context, our two-year performance audit approach will use three kinds of framework: the concept and practice of POAC; Value for Money regarding cost effectiveness; and Performance Evaluation using Monitoring and Evaluation Reports of TC Programmes within a time range of 2016 – 2019.

**F. Audit Teams**

The Audit Board will supervise directly the work of BPK audit teams on the IAEA.

At operational level, BPK will assign two

Principal Auditors who are at the same level as Director Generals in many other SAIs, to lead the audit and provide the audit quality controls.

The audit staffs to be assigned to the audit fall in to the following categories:

- Supervisors who hold Post Graduate Degrees in Economics including Accountancy and Auditing, ISSAI Certifications/ Facilitators, International Community Practices, and International Audit Certifications;
- Team Leaders and Team Members who also hold Post Graduate Degrees in Economics including Accountancy and Auditing, and other majors namely Engineering, Laws, and Social Sciences, International Secondment Recognition, and International Audit Certifications
- Senior IT Auditors who hold Post Graduate Degrees in Information System, and CISA.

BPK also considers highly a gender balance on its audit work in all position based on merit system and equal opportunity.

### **G. Estimates of Auditor – work – months**

We have assessed the audit effort that would be required for auditing operation at headquarter, including the regional offices, liaisons offices, and research laboratories. As mentioned earlier in this proposal, we propose to have an officer (Director of External Auditor) at IAEA Headquarter.

The audit at Headquarter will be periodically supplemented by interim audit and the final audit. The audit of the regional offices, liaisons offices, and research laboratories will be conducted at least once during the biennium. Based on this, we estimate that 47 auditor-work- months will be spent in conducting the audit of IAEA per biennium.

### **H. Audit Fees**

BPK proposes an audit fee of €457,000 for two years or €228,500 each year for the financial years of 2018 and 2019.

The fee quoted are based on the full recovery of the cost incurred on audit and included all traveling, secretarial and other ancillary costs as well as living expense/per diem of the auditors sent for audit work.

Annual fees of €228,500 covers an audit fee amounting at €126,500 per year and €102,000 to cover fixed, air fare and supplies expenditure.

Average fee per man per month is €2,530 for each 50 auditors.

## APPENDIX 1. AWARDS RECEIVED

1. Award on High Quality Financial Reporting for Financial Year 2011-2013.



2011



2013

2. Award on performance accountability ranked "A" for Year 2011-2014



2011



2014

3. Award the best offices in promoting a healthy and clean work environment



2014

## Appendix 2. AUDIT FEE

NO	Description	LOCATION	Number Person involved	Month	Man	Man/month	Fixed, airfare and office supplies expenses (In EURO)			
							FC	Airfare**	Office Supplies	Total
1	HQ	Viena	Dir/Manager, Auditor/Team Leader	4	10	40		60,000	2,000	62,000
			Supervisor	1	2	2		12,000	-	12,000
2	Liaisons Office Geneva	Geneva	Auditor/Team Leader	1	3	3		9,000	2,000	11,000
			Supervisor	1	1	1		3,000	-	3,000
3	Research Labs Seibersdorf, Austria	Seibersdorf, Austria	Auditor/Team Leader	1	3	3		9,000	2,000	11,000
			Supervisor	1	1	1		3,000	-	3,000
Total						50				102,000

Note to audit fee table (in EURO)

Annual Bidding value	228,500
Fixed, airfare and supplies expenditures	<u>102,000</u>
Amount allocated for audit fee	126,500
Total projected man/months	<u>50</u>
Average fee per man/month	2.530

Summary of the Nomination of the Audit Board of the Republic of Indonesia  
for Appointment of the External Auditor of the Agency for 2018 and 2019

Information requested <sup>1</sup>	Indonesia
Curriculum vitae of nominee	Provided profile of the Chairman, Vice-Chairman and Members of the Audit Board of the Republic of Indonesia
Details of national and international activities of Auditor General's Office	Included details of national and international auditing activities.
Indication of the range of audit activities envisaged	Included both scope of audit as well as range of audit activities.
Audit specialities to be available	Described a number of audit specialties that are available.
Proposed audit fee covering audit related salaries, secretarial and other support costs, travel costs and living expenses of external auditor and staff	Provided an audit fee of €228,500 per annum (€457,000 in aggregate) for 2018 and 2019.
Number of auditor-months to be devoted to the audit	Estimated at 100 auditor months for the assignment for 2018 and 2019

<sup>1</sup> Note by the Secretariat dated 14 November 2016.