

AUDITED PROJECT FINANCIAL STATEMENTS

Project N° 1100001706

Loan/Grant: 2000001446
2000001445

Period covered: 1st January 2017 – 31st December 2017

INTEGRATED PARTICIPATORY DEVELOPMENT AND MANAGEMENT OF THE IRRIGATION SECTOR PROJECT

Prepared by Badan Pengawasan Keuangan Dan Pembangunan

Received on 30th June 2018

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**BADAN PENGAWASAN KEUANGAN DAN PEMBANGUNAN
DEPUTI BIDANG PENGAWASAN INSTANSI PEMERINTAH
BIDANG PEREKONOMIAN DAN KEMARITIMAN
DIREKTORAT PENGAWASAN PINJAMAN DAN BANTUAN LUAR NEGERI**

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**INDEPENDENT AUDITOR'S REPORT
ON
INTEGRATED PARTICIPATORY DEVELOPMENT AND MANAGEMENT
OF IRRIGATION PROJECT (IPDMIP)
IFAD GRANT NO. 2000001446
UNDER
DIRECTORATE OF WATER RESOURCES AND IRRIGATION
NATIONAL DEVELOPMENT PLANNING AGENCY
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017**

**NUMBER : LAI – 27/D104/01/2018
DATE : JUNE 28, 2018**

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**BADAN PENGAWASAN KEUANGAN DAN PEMBANGUNAN
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Number : LAI - 27/D104/01/2018

June 28, 2018

A. Independent Auditor's Report

To:

1. Director of Water Resources and Irrigation, National Development Planning Agency
As NPIU Integrated Participatory Development and Management of Irrigation Project (IPDMIP)
2. Director General of Budget Financing and Risk Management,
Ministry of Finance

Jakarta

Opinion

We have audited the accompanying Financial Statements of the Integrated Participatory Development and Management of Irrigation Project (IPDMIP) under IFAD Grant Number 2000001446 as at December 31, 2017 and for the year then ended, which comprise of cumulative of Project Sources and Uses of Funds and Special Account Activity Statement, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, (a) the financial statements referred to above, and the appended notes, present fairly in all material respects, the financial position of the Integrated Participatory Development and Management of Irrigation Project (IPDMIP) under IFAD Grant Number 2000001446 as at December 31, 2017 and for the year then ended in conformity with the accounting basis described in note B.2.b; (b) Director of Water Resources and Irrigation, National Development Planning Agency as NPIU has utilized all proceeds of the grant withdrawn from the IFAD only for the purpose of the project in accordance with the financing agreement; and no proceeds of the grant have been utilized for other purposes; and (c) Director of Water Resources and Irrigation, National Development Planning Agency was in compliance as of the end of the financial year with all financial covenants of the financing agreement.

In addition:

- a. With respect to the Statement of Expenditures, adequate supporting documentation has been maintained to support claims to the International Fund Agricultural Development (IFAD) for

replenishment of expenditures incurred, and all expenditures incurred are eligible for financing under IFAD Grant Number 2000001446.

- b. The Special Account Activity Statements of IFAD Grant Number 2000001446 gave a fair view of the receipts collected and payments made during the year ended December 31, 2017, and these receipts and payments support special account liquidation/replenishments during the year.

Basis for Opinion

We conducted our audit in accordance with the auditing standards prescribed by the Indonesian Institute of Certified Public Accountants that referred to International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Project in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Indonesia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters to communicate in our report.

Responsibilities of Management

These financial statements are the responsibility of the Director of Water Resources and Irrigation, National Development Planning Agency.

Management is responsible for the preparation and fair presentation of the financial statement for the Integrated Participatory Development and Management of Irrigation Project (IPDMIP) and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards prescribed by the Indonesian Institute of Certified Public Accountants that referred to ISAs will always detect a material

misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards prescribed by the Indonesian Institute of Certified Public Accountants that referred to ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Directorate for Audit
of Foreign Loans and Grants
Director,



Amdi Veri Darma
Accountant, State Register RNA-6443 

B. Financial Statements

Financial Statements of Integrated Participatory Development and Management of Irrigation Project (IPDMIP) Grant No. 2000001446 comprised of :

1. Project Sources and Uses of Funds
2. Notes to Financial Statements
 - a. General Description of the Project
 - b. Accounting Policies
 - c. Explanation of the Cumulative Project Uses of Funds by Category
3. Special Account Activity Statement IFAD Grant No. 2000001446

A. Project Sources and use of funds

Integrated Participatory Development and Management of Irrigation Program (KMC-IPDMIP)

IFAD Grant No. 2000001446

Project Sources and Uses of Funds

For the Year Ended Desember 31, 2017

No.	Sources and Uses of Funds	Actual			Planned			Variance in %		
		Cummulative up to 2016	Year to date	Cummulative up to Year 2017	Cummulative up to 2016	Year to date	Cummulative up to Year 2017	Previous Year	Year to date	Cummulative up to Date
		Rp	Rp	Rp	Rp	Rp	Rp	Rp	Rp	Rp
		1	2	3	4	5	6	7=1/4	8=2/5	9=3/6
1	Sources of Funds (by Category) IFAD Grant No. 2000001446	-	286,896,800.00	286,896,800.00		500,000,000.00	500,000,000.00	-	57.38	57.38
	Sub Total Loan/Grant	-	286,896,800.00	286,896,800.00	-	500,000,000.00	500,000,000.00	-	57.38	57.38
2	Government of Indonesia	-	-	-		-	-	-	-	-
	Total Sources of Funds	-	286,896,800.00	286,896,800.00	-	500,000,000.00	500,000,000.00	-	57.38	57.38
1	Uses of Funds (by Category) Equipment and Material	-	-	-	-	15,450,000.00	15,450,000.00	-	-	-
2	Consultancies	-	58,000,000.00	58,000,000.00	-	291,000,000.00	291,000,000.00	-	19.93	19.93
3	Training and Workshop	-	216,930,800.00	216,930,800.00	-	107,116,640.00	107,116,640.00	-	202.52	202.52
4	Operating Cost	-	11,966,000.00	11,966,000.00	-	86,433,360.00	86,433,360.00	-	13.84	13.84
	Total Expenditures	-	286,896,800.00	286,896,800.00	-	500,000,000.00	500,000,000.00	-	57.38	57.38

2. Notes to Financial Statements

a. General Description of the Project

In line with the national development program in irrigation which is stated in the target of Medium Term of National Development Plan (*RPJMN-Rencana Pembangunan Jangka Menengah Nasional*) 2015-2019 in order to improve and strengthen food sovereignty, Integrated Participatory Development and Management of Irrigation Project (IPDMIP) is designed to support Government of Indonesia's efforts to overcome barriers and increase agricultural productivity reducing rural poverty, promoting gender equality and improving nutrition, through revitalizing agricultural extension services and upgrading irrigation systems through rehabilitation and improvement of irrigation system management.

In this activity the Director of Water Resources and Irrigation, National Development Planning Agency/*Bappenas (Badan Perencanaan Pembangunan Nasional)* became one of the National Project Implementation Unit (NPIU) which has a role as National Steering Committee on Water Resources (NSCWR) by establishing Knowledge Management Center (KMC). KMC activities uses the budget with funding from the International Fund for Agriculture Development (IFAD) grant of EUR1.41 million

1) Goals and Objectives

KMC IPDMIP aims to support the overall government IPDMIP programs by implementing the development coordination function as well as encouraging the improvement of pro-smallholders policies by taking the following steps:

- a) Identifying potential policy issues and thematic studies by task forces involving pool of expert;
- b) Conducting Thematic studies on priority issues;
- c) The results of policy analysis and assessment are reviewed by the pool of experts for the resulting policy brief;
- d) Policy recommendations submitted to NSCWR;
- e) Conducting documentation of Data, Information, Knowledge and Other Documents related to the IPDMIP project and other irrigation issues;
- f) Implementation of thematic studies by implementing partners

The objectives of KMC IPDMIP Bappenas activities are as follows:

- a) The resulting policy recommendations are submitted to the authorized institution;
- b) Empirical evidence for policy improvement and improvement of the planning process, based on quality analysis or review results; and
- c) Policy dialogue is implemented by involving stakeholders related to water resources and irrigation

2) Project Specification

Project financing comes from IFAD Grant No. 2000001446 with the specification as follow:

- Grant Number : 2000001446
- Grant Register Number : 2E6LVHNA
- Date of Signing : February 13, 2017
- *Effective date* : February 13, 2017
- *Closing date* : March 31, 2023
- Grant Amount : EUR1,410,000
- Initial deposit : Maximum amount EUR300,000
- Special Account Number : XXXXXXXXXX
- *Executing Agency* : Directorate General of Water Resources, Ministry of Public Works and Housing

- Implementing Agency* :
 - Directorate of Irrigation and Swamp, Ministry of Public Works and Housing.
 - Directorate of Operation and Maintenance, Ministry of Public Works and Housing.
 - Directorate of Water Resources and Irrigation, National Development Planning Agency/Bappenas
 - Directorate General of Regional Development, Ministry of Home Affairs.
 - Agency for Agricultural Extension and Human Resource Development, Ministry of Agriculture.

3) Project Components

IPDMIP consists of 4 components as follows:

- a) Component 1: Strengthening Policy and Institutional Frameworks for Irrigated Agriculture implemented by Ministry of Public Works and Housing (MPWH), National Development Planning Agency/*Bappenas* and Ministry of Home Affairs (MOHA) at the national level and provincial/district planning agencies (*Bappeda*) at the regional levels. It focuses on: (a) strengthening the capacity of government institutions and staff; and (b) supporting the executing and implementing institutions at national and regional levels to undertake project supervision. Improving coordination between the different government institutions is an important element of this component. It includes:
 - Sub-component 1.1 strengthens the regional level policy, regulatory and

institutional framework. It comprises support to government line agencies at the provincial and district levels. The sub-component identifies specific policy issues and determines how these should be approached. Support is provided to *Bappeda* to undertake analysis and synthesis of knowledge from various sources. It then informs the policy dialogue between line agencies and *Bappeda*.

- Sub-component 1.2 is for the establishment (or revitalization) of water management knowledge and training centres at the provincial level. This includes i) recruitment of personnel; ii) procurement of office; and iii) training equipment and facilities.
 - Sub-component 1.3 improves policy coordination for irrigated agriculture. It supports, with IFAD grant funding, establishment and operations of a Knowledge Management Centre (KMC) at *Bappenas*. The KMC is intended to coordinate support for smallholder irrigated agriculture, promote policy dialogue among domestic stakeholders and strengthen national and local policy processes. The KMC's remit is related to knowledge management and policy development. It enables GOI to foster the continuity between development projects and policies for smallholder irrigated agriculture by drawing out lessons. It also bridges knowledge from different initiatives, promotes coordinated approaches for policy dialogue among domestic stakeholders, and supports national and local policy processes.
 - Sub-component 1.4 is dedicated to project management and implementation support. It contains support to the executing and implementing agencies at national and regional levels to undertake overall Project supervision. It also strengthens the agencies planning, implementation and management capacities. Community Empowerment, Development and Resource Management
- b) Component 2: Improving Irrigation System Management implemented by MPWH and MOHA. It strengthens irrigation water delivery at the scheme level
- c) Component 3: Improving Irrigation Infrastructure implemented by the MPWH. It supports rehabilitation and upgrading of primary and secondary irrigation systems and drainage infrastructure.
- d) Component 4: Increasing Irrigated Agricultural Incomes implemented by MOA. It improves farm and market systems for rice and high value irrigated crops. The component includes: i) human resources development for the extension service and farmers; ii) farmer's saving and loan group mobilization, training and finance; iii) improved rice seed production and distribution; and iv) financial literacy, value chain and financial services support.

The scope of the KMC IPDMIP Bappenas activity is the IFAD grant fund measured in sub-component 1.3

4) Category of Financing and Budget Allocation

The implementation of the four components is classified into financing categories set forth in Schedule 2 Allocation Table - Financing Agreement, and Regulation of the Director General of Treasury Number: S-1130/PB/2017 dated December 19, 2017, with the following description:

- a) Category 1 *Equipment and Material*
- b) Category 2 *Consultancies*
- c) Category 3 *Workshop and Training*
- d) Category 4 *Operating Costs*

IPDMIP Bappenas funding comes from IFAD Grant No. 2000001446 with allocation are as follows:

Category Code	Category Description	IFAD Grant in Total		FY 2017 Allocation	
		(EUR)	(IDR)	(EUR)	(IDR)
1.	<i>Equipment and Material</i>	140,000	2,218,720,000	975	15,450,000
2.	<i>Consultancies</i>	650,000	10,301,200,000	18,362	291,000,000
3.	<i>Workshop and Training</i>	260,000	4,120,480,000	6,759	107,116,640
4.	<i>Operating Costs</i>	360,000	5,705,280,000	5,454	86,433,360
Total		1,410,000	22,345,680,000	31,550	500,000,000

IFAD Grant No. 2000001446 of EUR1,410,000 is all budgeted in the DIPA of National Development Planning Agency/Bappenas. In accordance with DIPA No. SP. DIPA-055.01.1.017312/2017 grant budget allocation for fiscal year 2017 is EUR31,550, but the initial deposit was withdrawn in amount of EUR36,538 that was more than the ceiling that was predetermined to be EUR31,550. This excess fund is due to the administrator of withdrawal application mistakenly translated the rupiah to the euro instead of the US Dollar.

5) Activities Locations

The location of KMC IPDMIP activities FY 2017 is in Jakarta.

6) Project Organizational Structure

KMC IPDMIP is under the direction of the National Steering Committee for Water Resources (NSCWR). In the implementation there are 3 parties that support the task of NSCWR Bappenas namely:

- a) Task Forces, consisting of various government-level decision-makers, tasked with identifying priority policy issues and constraints in the water resources and irrigation sector are as follows:
 - (1) Identify priority policy issues and constraints in related sectors;
 - (2) Discuss the study and policy analysis conducted by the pool of experts;
 - (3) Coordinate and supervise the formulation of policy planning and policy at both the central and regional levels;
 - (4) Submit task forces recommendations to the NSCWR.
- b) Secretariat of KMC, which will assist the task forces:
 - (1) Facilitating the task forces in order to synchronize the planning, coordination and synchronization of the program
 - (2) Prepare inter-agency program integration reviews

- (3) Reviewing the Annual Work Plan at the central, provincial and district levels
- (4) Reporting the results of activities to NSCWR

The KMC secretariat will be assisted by individual consultants and support personnel: Senior Agriculture and Irrigation Specialist, Senior System and Policy Development Specialist, Project Assistant, Water Resources Specialist and Administrative and Financial Personnel.

- c) Pool of Experts will conduct research and analysis and policy review on issues recommended by the task forces.

b. Accounting Policies

Principles of accounting policies applied in the preparation of the financial statements of IPDMIP, namely:

- 1) The financial statements are prepared based on cash basis, by which revenues and costs are recognized at the time of cash received and disbursed.
- 2) The Project accounting period begins on January 1 and ended on December 31, in accordance with the Government of Indonesia's fiscal year.
- 3) The denomination used is Rupiah (IDR), and conversion of foreign currencies into Rupiah are based on exchange rate at the time of fund withdrawal.
- 4) The Financial Statements constitutes the Integrated Participatory Development and Management of Irrigation Project (IPDMIP) accountability on the management of funds from foreign grants as well as GOI's counterpart funds.
- 5) Financing proceeds from foreign grant are recorded in the following manner:
 - a) Receipts of foreign grant that are withdrawn through the Special Account procedures are recorded pursuant to the Payment Order Letter (*SP2D*) issued, and disbursements are recorded pursuant to transaction evidences into their respective categories/component accounts.
 - b) Financing proceed by direct payments are recorded pursuant to Withdrawal Authorization (WA) issued by IFAD. Conversion of foreign currency into rupiah are based on the exchange rate of Bank Indonesia, as of the date of WA issuance.

c. Explanation of the Project Uses of Funds by Category

Total Uses of Funds **IDR286.896.800,00**

This amount represents the accumulated disbursement of funds for the implementation of KMC IPDMIP activities as of December 31, 2017 which are entirely derived from the IFAD grant, with details as follows:

1) Category 1: Equipment and Material **IDR0,00**

There is no realization of expenditures for Equipment and Material category in 2017. Comparison with Annual Work Plan and Budget 2017 is as follows:

Description	
AWPB 2017	IDR15,540,000
FY 2017 Realization	0,00
Percentage	0,00%

According to the management of IPDMIP Bappenas, the equipment and material expenditures have not been realized in 2017 because the members of KMC IPDMIP Consulting Team are not yet complete and the procurement was still in process.

2) Category 2: Consultancies IDR58.000.000,00

The amount is the realization of expenditure to finance individual consultants by 2017. Comparison with Annual Work Plan and Budget 2017 is as follows:

Description	
AWPB 2017	IDR291.000.000,000
FY 2017 Realization	IDR58.000.000,00
Percentage	19,93%

Total expenditures of 2017 amounting to IDR58,000,000.00 to finance three individual consultant services consists of:

- Payment of administration officer consultant for November - December 2017 amounting to: IDR15.000.000,00
- Payment of project assistant consultant for December 2017 amounting to: IDR10,500,000.00
- Senior Consultant Agriculture and Irrigation Specialist in December 2017 amounting to: IDR32.500.000,00

3) Category 3: Workshop and Training IDR216.930.800,00

This amount is the realization of expenditures to finance IPDMIP strengthening meeting activities and irrigation modernization workshops. Comparison with Annual Work Plan and Budget 2017 is as follows:

Description	
AWPB 2017	IDR107.116.640,000
FY 2017 Realization	IDR216.930.800,00
Percentage	202,52%

The total expenditures of 2017 of IDR216,930,800.00 consists of:

- Payment of IPDMIP coordination meeting package on Dec 4, 2017 at Hotel Hermitage Jakarta amounting to: IDR15.000.000,00
- Payment of knowledge sharing management meeting package on Dec 5, 2017 at Hotel Aryaduta Jakarta amounting to: IDR12.300.000,00
- Full board payment of modern irrigation workshop meeting at the Hotel Alana Jogjakarta on Dec 12, 2017 amounting to: IDR38,500,000.00
- Payment of halfday workshop meeting package about modernization of irrigation at Alana Jogjakarta Hotel on Dec 13, 2017 amounting to: IDR12.100.000,00
- Payment of speaker and moderator fee amounting to: IDR34.400.000,00

- Payment of official travel expenses amounting to: IDR94.770.900,00
- Meeting kit payment amounting to: IDR8.425.000,00
- Payment of office stationery expenditures amounting to: IDR1.434.900,00

Of the total realization, there are audit findings caused by the weaknesses of the payment verification process, that result in overpayment of the official travel expenditure in the Workshop on Strengthening Irrigation Management Agency for Modernization of Irrigation in Indonesia at Hotel Alana Yogyakarta in amount of IDR300.000,00

4) Category 3: *Operating Cost* IDR11.966.000,00

This amount is the realization of expenditure to finance the operational IPDMIP of Bappenas in 2017. Comparison with Annual Work Plan and Budget 2017 is as follows:

Description	
AWPB 2017	IDR86.433.360,00
FY 2017 Realization	IDR11.966.000,00
Percentage	13,84%

The total expenditure of 2017 amount to IDR11.966.000,00 is the cost of official travel exclude the official travel in the course of training and workshops.

3. SPECIAL ACCOUNT ACTIVITY STATEMENT

IFAD Grant No. 2000001446

SPECIAL ACCOUNT ACTIVITY STATEMENT			
For Year	:	January 1, 2017 up to December 31, 2017	
Title of Project	:	Integrated Participatory Development and Management of Irrigation Programme (IPDMIP)	
Loan Number	:	IFAD Grant No. 200000446	
Account Number	:	[REDACTED]	
Currency	:	Euro	
Part I			
1. Cumulative advances to end of current reporting period December 31, 2017			36,538.00
2. Cumulative expenditures to end of last reporting period Dec 31, 2016			-
3. Outstanding advances to be accounted for (1-2)			36,538.00
Part II			
4. Opening Special Account (SA) balance at the beginning of reporting period January 1, 2017			36,538.00
5. Add/Subtract: Cumulative adjustments (if any) *	-		
6. Advances from the IFAD during reporting period	-		
7. Sum of 5 and 6			-
8. Outstanding advances to be accounted for (4+7) (must be same as item 3)			36,538.00
9. Closing SA balance at end of current reporting December 31, 2017			18,434.97
10. Add/subtract: Cumulative adjustment (if any) **	-		
11. Expenditures for current reporting period	18,103.03		
12. Sum of 10 and 11			18,103.03
13. Sum of 9 and 12			36,538.00
14. Difference (if any) 8-13			-

C. Basis of Audit

1. Government Regulation Number 60 of Year 2008 concerning Government Internal Control System.
2. President Regulation Number 192 of Year 2014 concerning Badan Pengawasan Keuangan dan Pembangunan;
3. Section 9.03 Financing Agreement on IPDMIP Grant Number 2000001446, which mandates IPDMIP to be audited by independent auditor approved by the lender.
4. IFAD Request Letter on official 2018 audits for IFAD financed investment projects dated November 16, 2017.
5. Assignment letter of Director of Audit of Foreign Loan and Grant, BPKP Number ST-023/D104/01/2017 dated May 14, 2018.

D. Objective and Scope of Audit

The objectives of the audit are:

1. To express an opinion statement on the fairness presentation of the financial statements.
2. Provide assessment on the adequacy and effectiveness of the internal control system.
3. Provide compliance assessment of the project to various financial covenants set forth in the Financing Agreement.

The audit scope includes examination on the fairness presentation of financial statements, assessment on the adequacy and effectiveness of internal control systems of the project, and adherence to provisions of regulations applicable in the implementation of the project for the budget year ended December 31, 2017.

Assessment on the fairness of financial statements includes testing the accuracy of the amounts presented in the financial statements, assessment on adequacy of the accounting/bookkeeping system, as well as the sufficiency of evidences supporting the project expenditures.

Assessment on the adequacy and effectiveness of the Project internal control systems includes assessment on the adequacy of the internal control system design, as well as its effectiveness of implementation in the field.

Assessment on the compliance to applicable regulations in implementing the project includes assessment on adherence to the program that includes:

1. Adherence to certain provisions of the Financing Agreement for the following are as:
portion of financing and provision of supporting funds, procurement procedures, and usage allocation of the grant funds;
2. Adherence to internal mechanisms and regulations set forth by the project.

Audit conducted on NPIU namely Directorate of Irrigation and Irrigation, National Development Planning Agency. The total project expenditures of year 2017 amounting of IDR286,896,800.00 and all of that amount has been examined.

Our audit field works ended on on June 5, 2018

E. Assessment of the Internal Control System

In general, the internal control system applied was adequate to provide assurance that all project activities are carried out in accordance with applicable procedures and regulations. As follows.

1. Control Environment

According to our assessment, the control environment of IPDMIP program have been quite adequate, as shown in the following conditions:

- a. Program manager and all staff involved in managing the grant have a positive attitude of conduct that supports an adequate internal control system;
- b. Program manager has demonstrated a commitment to the competence/ capability of their employees and use good human resource development policies and practices;
- c. Program manager has a conducive leadership that supports effective internal control;
- d. The organizational structure has provided clear relationships and levels of internal reporting.

2. Risk Assessment

In our opinion, the risk assessments process of IPDMIP has not adequately implemented, as shown in the following:

- a. The absence of adequate and structured mechanisms in identifying, analyzing, and managing risks arising from external and internal factors.
- b. Program officials have not formulated ways to anticipate, identify and respond to irregularities in activities that may affect the achievement of objectives.
- c. The absence of mechanisms to anticipate, identify, and respond to the risk of program management irregularities that may affect the achievement of program objectives.

3. Control Activities

According to our assessment, although the control activities were not based on a risk assessment, control activities of IPDMIP have been quite adequate, as reflected in:

- a. Program manager has performed performance measurement by comparing the realization with the target.
- b. There is a separation of related functions between the authorization recording, payment, and asset custodian.
- c. There is authorization for important transactions / activities to be carried out
- d. Authorization of authority has been communicated to all implementing activities.
- e. Fund disbursement refers to established procedures.
- f. Every financial transaction has been classified and recorded immediately.
- g. Documentation is available on the policies and procedures and transactions, the documentation covers all documents of program activities, and the documents are available at all times required, maintained properly and updated regularly.

However, there is still a weakness in control activities, i.e. the verification of *SPJ* (supporting financial document) of travel expenditures is not optimal which resulted in the finding of overpayment of 1 incidents worth IDR300.000,00. Details of the findings are presented in the *Management Letter*.

4. Information and Communication System

Our assessment concludes that the information and communication systems of the activities have been quite adequate, as reflected in:

- a. The information system has produced reports, including operational, financial and regulatory compliance information.
- b. Program manager has used various forms of communication to suit his needs and manage, develop, and improve his information system in an effort to improve communication on an ongoing basis.

However, there is a weakness as the financial administration of the project is still not in orderly manner.

5. Monitoring

According to our assessment, internal controls related to monitoring are adequate. This can be seen from:

- a. Monitoring of internal controls to assess the quality of project performance has been conducted continuously as part of the process of daily activities.
- b. Separate evaluations of internal control have been carried out periodically and the weaknesses discovered have been further investigated.

F. Assessment of the Compliance to the Financing Agreement

Our assessment of implementation of the project observed that in general the NPIU IPDMIP has complied with the provisions of the financing agreement, particularly with the provision of supporting fund, procurement procedures, and the designated of the use of grant funds.

G. Assessment of Financial Target Achievement and Constraint

Achievements of financial targets based on financing sources set forth in DIPA of budget year 2017 are as follows:

Description	Budget (IDR)	Realization (IDR)	% Realization to Budget
Grant IFAD Number 2000001446	500.000.000,00	286.896.800,00	57,38
GOI	0,00	0,00	0,00
Amount	500.000.000,00	286.896.800,00	57,38

The financial realization of Bappenas' IPDMIP project of Fiscal Year 2017 is IDR286,896,800.00 or 57.38% of the total budget of IDR500,000,000,000. The rest of the financial target of 42.62% are not achieved because of the followings:

- 1) DIPA revision issued in October 2017;
- 2) The coordination process between the management of IPDMIP program and the Executing Agency, namely the Directorate General of Water Resources, the Ministry of Public Works and Public Housing (PUPR) and the IFAD in the procurement of consultants is quite time consuming.

The 2017 procurement of consulting services plan include the procurement of 6 individual consultants namely: (1) Project Manager, (2) Project Assistant, (3) Senior Agriculture and Irrigation Specialist, (4) Senior System and Policy Development Specialist, (5) Water Resources Specialist, and (6) Administration Officer.

Procurement of consultants for Project Manager positions is not realized. IPDMIP Commitment Authority Officer (*PPK-Pejabat Pembuat Komitmen*) explained that initially Bappenas IPDMIP project has been plotted as an executing agency, but in turn KMC IPDMIP plotted to become NPIU, so the project manager no longer needed.

Individual consultant procurement processes for Project Assistant, Senior Agriculture and Irrigation Specialist, Senior Policy and System Development Specialist and Water Resources Specialist have been done based on prior review in which all stages of the procurement process have been reviewed and prior approval by IFAD as donors. The method used is general selection, namely the procurement process of 4 (four) positions are announced on the *LPSE* (electronic procurement auction) website and the evaluation is conducted by task forces (*POKJA*) from Bappenas Procurement Services Unit (*ULP*). Progress of the procurement processes for individual consultant services are:

- 1) The winner of the position of Water Resources Specialist and Senior Policy and System Development Specialist has received IFAD approval (NOL) for the evaluation result on November 29, 2017 and the contract has been drafted on December 28, 2017. The contract was signed in early 2018.
- 2) Direct Procurement for the more needed position of Administration Officer has already been carried out. The Administrator was hired for two (2) months in November and December 2017 and the Project Assistant and Senior Agriculture and Irrigation Specialist for 1 (one) month in December 2017.

Other procurement plan in 2017 were the purchase of computer equipment (desktop, laptop, printer ink, and software) and car rental. Both were use Direct Contract or E-Catalog with post qualification and post review method.

According to project management of IPDMIP Bappenas, the procurement of goods expenditure has not been realized in 2017 because the members of KMC IPDMIP Consulting Team are not yet complete and the process of procurement was still in process.

H. Summary of Conditions or Audit Findings Affecting the Fairness of Financial Statements

As disclosed in the Notes to the Financial Statement, there is audit finding in the form of overpayment in official travel expenses of IDR300,000.00 equivalent to 0.10% of total project expenditures in 2017 in amount of IDR286,896,800.00, this finding does not significantly affect the fairness of the presentation of financial statements overall. Accordingly, our opinion on the presentation of financial statements is unqualified.

I. Subsequent Events

There was no significant events after the date of the financial statements that materially have an affect on the fairness presentation of the financial statements.



**BADAN PENGAWASAN KEUANGAN DAN PEMBANGUNAN
DEPUTI BIDANG PENGAWASAN INSTANSI PEMERINTAH
BIDANG PEREKONOMIAN DAN KEMARITIMAN
DIREKTORAT PENGAWASAN PINJAMAN DAN BANTUAN LUAR NEGERI**

Jalan Pramuka Nomor 33, Jakarta 13120
Telepon (021)85910031 Ext. 0507,85902505 Faksimile (021) 85902505

**INDEPENDENT AUDITOR'S REPORT
ON
THE FINANCIAL STATEMENT OF
INTEGRATED PARTICIPATORY DEVELOPMENT AND MANAGEMENT
OF IRRIGATION PROJECT (IPDMIP)
IFAD LOAN NUMBER 2000001445
UNDER
AGENCY FOR AGRICULTURAL EXTENSION AND HUMAN
RESOURCES MINISTRY OF AGRICULTURE
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017**

**NUMBER : LAI - 29/D104/02/2018
DATE : JUNE 28, 2018**

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Telepon (021)85910031 Ext. 0507, 85902505 Faksimile (021) 85902505

Number : LAI - 29/D104/02/2018

June 28, 2018

A. Independent Auditor's Report

To:

1. Director General of Water Resources,
Ministry of Public Works and Housing
as Lead Project Agency of Integrated Participatory
Development and Management Irrigation Project
2. Director General of Agricultural Extension and Human
Resources Development, Ministry of Agriculture
As NPIU Integrated Participatory Development and
Management Irrigation Project
3. Director General of Budget Financing and Risk
Management, Ministry of Finance

in Jakarta.

Opinion

We have audited the accompanying Financial Statements of Integrated Participatory Development and Management of Irrigation Project (IPDMIP) Loan IFAD Nomor 2000001445 for the fiscal year 2017, which comprise of cumulative of Project Sources and Uses of Funds and Special Account Activity Statement, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, (a) the financial statements referred to above, and the appended notes, present fairly in all material respects, the financial position of the *Integrated Participatory Development and Management of Irrigation Project* (IPDMIP) under IFAD Loan Number 2000001445 as of December 31, 2017 and for the year then ended in conformity with the accounting basis described in note B.2.b; (b) Director General of Agricultural

Extension and Human Resources Development, Ministry of Agriculture As Execute Project of IPDMIP (NPIU) has utilized all proceeds of the loan withdrawn from the IFAD only for the purpose of the project in accordance with the financing agreement; and no proceeds of the loan have been utilized for other purposes; and (c) Director General of Agricultural Extension and Human Resources Development, Ministry of Agriculture was in compliance as of the end of the financial year with all financial covenants of the financing agreement.

In addition:

- a. With respect to the Statement of Expenditures, adequate supporting documentation has been maintained to support claims to the International Fund Agricultural Development (IFAD) for replenishment of expenditures incurred, and all expenditures incurred are eligible for financing under IFAD Loan Number 2000001445.
- b. The Special Account Activity Statements of IFAD Number 2000001445 gave a fair view of the receipts collected and payments made during the year ended December 31, 2017, and these receipts and payments support special account liquidation/replenishments during the year.

Basis for Opinion

We conducted our audit in accordance with the auditing standards prescribed by the Indonesian Institute of Certified Public Accountants that referred to International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Project IPDMIP (Integrated Participatory Development and Management of Irrigation Project) Loan IFAD Nomor 2000001445 for the fiscal year 2017 in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Indonesia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters to communicate in our report.

Responsibilities of Management

These financial statements are the responsibility of the Director General of Agricultural Extension and Human Resources Development, Ministry of Agriculture As executing Project of IPDMIP. Management is responsible for the preparation and fair presentation of the financial statement for the IPDMIP (Integrated Participatory Development and Management of Irrigation Project and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards prescribed by the Indonesian Institute of Certified Public Accountants that referred to ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards prescribed by the Indonesian Institute of Certified Public Accountants that referred to ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to

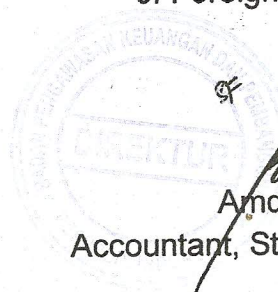
those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Directorate for Audit
of Foreign Loans and Grants

Director,



[Handwritten signature]

Andi Veri Darma

Accountant, State Register RNA-6443

B. Financial Statements

The Financial Statements of Integrated Participatory Development and Management of Irrigation Project (IPDMIP) Loan Number 2000001445 for the year ended December, 31 2017 comprised of :

1. Project Sources and Uses of Funds
2. Notes to Financial Statements
 - a. General Description of the Project
 - b. Accounting Policies
 - c. Explanation of the Cumulative Project Uses of Funds by Category
3. Special Account Activity Statement IFAD Loan Number 2000001445

A. Project Sources and use of funds

Integrated Participatory Development and Management of Irrigation Project (IPDMIP)
IFAD Loan No. 2000001445
Project Sources and Uses of Funds
For the Year Ended Desember 31, 2017

No.	Sources and Uses of Funds	Actual			Planned			Variance in %		
		Cummulative up to 2016	Year to date	Cummulative up to Year 2017	Cummulative up to 2016	Year to date	Cummulative up to Year 2017	Previous Year	Year to date	Cummulative up to Date
		IDR	IDR	IDR	IDR	IDR	IDR	IDR	IDR	IDR
		1	2	3	4	5	6	7=1/4	8=2/5	9=3/6
	Sources of Funds (by Category)									
1	IFAD Loan Number 2000001445	-	4,106,405,018.00	4,106,405,018.00		11,922,116,000.00	11,922,116,000.00	-	34.44	34.44
	Sub Total Loan/Grant	-	4,106,405,018.00	4,106,405,018.00	-	11,922,116,000.00	11,922,116,000.00	-	34.44	34.44
2	Government of Indonesia	-	-	-		-	-	-	-	-
	Total Sources of Funds	-	4,106,405,018.00	4,106,405,018.00	-	11,922,116,000.00	11,922,116,000.00	-	34.44	34.44
	Uses of Funds (by Category)									
1	Equipment and Material	-	742,532,818.00	742,532,818.00	-	809,450,000.00	809,450,000.00	-	91.73	91.73
2	Consultancies	-	-	-	-	7,303,787,000.00	7,303,787,000.00	-	-	-
3	Training and Workshop	-	2,605,241,450.00	2,605,241,450.00	-	2,846,763,000.00	2,846,763,000.00	-	91.52	91.52
4	Operating Cost	-	758,630,750.00	758,630,750.00	-	962,116,000.00	962,116,000.00	-	78.85	78.85
	Total Expenditures	-	4,106,405,018.00	4,106,405,018.00	-	11,922,116,000.00	11,922,116,000.00	-	34.44	34.44

2. Notes to Financial Statements

a. General Description of the Project

The Government of Indonesia (GOI), International Fund for Agricultural Development (IFAD) and the Asian Development Bank (ADB) jointly cooperate to support the Integrated Participatory Development and Management of Irrigation Project (IPDMIP). The Project is designed to meet the nation's agriculture development targets. GOI has set the ambitious goal of achieving rice self-sufficiency. As a consequence, a major effort is needed to increase productivity. The role of irrigation is crucial to increase rice production. Unfortunately, at present a total of 7.2 million hectares of irrigated area and up to half of the irrigation works are in need of repair. To reach the self-sufficiency target, GOI priority is improvement of the productivity food crops through:

- Revitalization of agricultural extension and seed production;
- Upgrade irrigation through the rehabilitation of major dams and 3 million ha of irrigation;
- Better irrigation management;
- Improve efficiency of irrigation water utilization;
- Implement participatory irrigation management at the provincial/district/city levels;
- Infrastructure construction of 1 million ha of new irrigation networks outside of Java and Bali; and
- Infrastructure construction of new large upstream reservoirs.

IPDMIP is designed to support GOI's efforts to overcome constraints and enhance agricultural productivity, while also reducing rural poverty, promoting gender equity and enhancing nutrition. IPDMIP increases the value of sustainable irrigated agriculture, thereby improving food security and livelihoods in rural Indonesia. The Project adopts an inclusive targeting approach at the irrigation scheme level benefiting all active farmers. An explicit poverty and targeting strategy is employed to reach the most marginal households (i.e., poor, women, youth, farmers in downstream, poorly serviced irrigated areas).

IPDMIP covers 900,000 targeted households comprised of 4 million beneficiaries covering an area of 450,000 ha across 16 provinces (5 Sumatera; 4 Java; 2 Kalimantan; 3 Sulawesi; 2 Nusa Tenggara) in 74 districts. IPDMIP prioritizes rehabilitation of irrigation systems supplied by reservoirs in areas that have not received assistance. Implementation period is set to begin in 2017 and will be completed in 2022.

The Project consists of: Component 1: Strengthened Policy and Institutional Frameworks for Irrigated Agriculture; Component 2: Improved Irrigation Systems Management; Component 3: Improved Irrigation Infrastructure; and Component 4: Increased Irrigated Agricultural Incomes.

Directorate General Water Resources , Ministry of Public Works and Housing will be the Lead Project Agency. A National Project Management Unit (NPMU) will be established under Directorate General Water Resources, Ministry of Public Works and Housing to ensure overall coordination of project implementation. Two National Project Implementation Units (NPIUs), one National Project Implementation Unit (NPIU) under Directorate General Water Resources, Ministry Of Home Affairs and another NPIU under Agency for Agricultural Extension and Human Resource Development, Ministry Of Home Affairs. The National Project Implementation Unit (NPIU), Ministry Of Home Affairs will be responsible for and receive IFAD financing to implement Component 4 with cooperation with provincial and district agricultural agencies. IFAD will also provide a grant under Component 1 which to be administered by BAPPENAS for an Irrigated Agriculture Knowledge Management Centre. All other components of IPDMIP will be financed by ADB and/or GOI. Overall, the Project is estimated to cost USD 832 million. ADB will provide USD 614 million in loan funds, IFAD USD 98.5 million in loan and USD 1.5 million in grant resources, while GOI will contribute funding of USD 118 million, largely as counterpart funds to finance taxes and other liabilities, contingencies, interest on loans and the cost of operations and maintenance.

IPDMIP Components

- Component 1: Strengthened Policy and Institutional Frameworks for Irrigated Agriculture implemented by MPWH, BAPPENAS and MOHA at the national level and BAPPEDA at the regional levels. It is financed by GOI, IFAD (grant) and ADB.
- Component 2: Improved Irrigation System Management implemented by MPWH and MOHA and financed by GOI and ADB.
- Component 3: Improved Irrigation Infrastructure implemented by the MPWH and financed by GOI and ADB.
- Component 4: Increased Irrigated Agricultural Incomes is implemented by MOA and financed by GOI and IFAD. Component 4 contains 3 sub-components: (i) improved farm productivity; (ii) improved market access; and (iii) improved financial services.

In this case, the scope of IFAD Loan funds in the Ministry of Agriculture is in Component 4 which consists of 3 subcomponents of activities which include:

- Sub-component 4.1 improves farm productivity and services

It focuses on on-farm activities through a multi-faceted approach with 3 broad elements:

- i) Recruitment and support of new and existing extension workers (PPLs);
- ii) training PPL;
- iii) Extension delivery includes.

- Sub Komponen 4.2: improves market access and services promoting better value addition and post-harvest activities.

It facilitates public and private investment through funding instruments supported by consultation platforms and capacity development initiatives for rice, vegetables and technology access.

- Sub Komponen 4.3: improves financial access and use of services and provides large numbers of farmers in project areas with both the confidence and the means to use and manage savings and loan for productive purposes.

A complementary objective is to create a pathway for the inclusion of more small scale farmers into the mainstream financial sector thereby supporting broad based rural economic growth.

In addition to the above sub-components, there is a cost component to support the above mentioned sub-components, namely Management Cost.

b. Financing Project

The financing of the IPDMIP project at the NPIU of the Ministry of Agriculture comes from IFAD with the following specifications:

Loan Number	:	2000001445
Register Number	:	1116F8FA
Date of Loan Signing	:	13 Februari 2017
<i>Effective Date</i>	:	13 Februari 2017
<i>Closing Date</i>	:	31 Maret 2023
Loan Amount	:	EUR 93,150,000
<i>Initial Deposit</i>	:	EUR 2,500,000.00
Special Account Number	:	██████████
<i>Executing Agency</i>	:	<i>Director General of Agricultural Extension and Human Resources Development, Ministry of Agriculture</i>

c. Location Project

IPDMIP is managed by 1 PMU and 16 PIU in 16 provinces (Aceh, North Sumatra, West Sumatra, South Sumatra, Lampung, Banten, West Java, Central Java, East Java, West Kalimantan, South Kalimantan, North Sulawesi, Central Sulawesi, South Sulawesi, NTB dan NTT) and 1 PIU in each of 74 districts (Aceh Besar, North Aceh, East Aceh, Bireun, Central Tapanuli, Asahan, Humbang Hasundutan, Simalungun, Sinjunjung, Pasaman, Limapuluh Koto, West Pasaman, South Pesisir, Musi Rawas, Empat Lawang, Ogan Komering Ulu Selatan, Muara Enim, Musi Banyuasin, Banyuasin, Lahat, Pesawaran, Tanggamus, Lampung Tengah, Tulangbawang, Mesuji, Serang, Pandeglang, Garut, Indramayu, Kuningan, Ciamis, Sukabumi, Majalengka, Sumedang, Kebumen, Banjarnegara, Purworejo, Pekalongan, Pati, Banyumas, Cilacap, Bojonegoro, Ngawi, Lamongan, Kediri, Madiun, Lumajang, Jember, Jombang, Tuban, Ketapang, Kubu Raya, Sambas, Kayong Utara, Hulu Sungai Tengah, Tapin, Barito Kuala, Tanah Bumbu, Minahasa Selatan, Bolaang Mongondow, Toli Toli, Poso, Banggai, Wajo, Pinrang, Sidenreng Rappang, Soppeng, Bone, Central Lombok, East Lombok, Bima, Dompu, West Manggarai Barat, East Manggarai) . Implementation in fiscal year 2017 only implemented in PMU. Meanwhile province PIU and district PIU have not yet implemented the activity.

d. Accounting Policies

Main accounting policies applied in the preparation of the consolidated financial statements of IPDMIP, namely:

- 1) The financial statements are prepared based on cash basis, by which revenues and costs are recognized at the time of cash received and disbursed;
- 2) The Project accounting period begins on January 1 and ended on December 31, in accordance with the Government of Indonesia's fiscal year;
- 3) The denomination used is Rupiah (IDR), and conversion of foreign currencies into Rupiah are based on exchange rate at the time of fund withdrawal;
- 4) The Financial Statements constitutes Integrated Participatory Development and Management of Irrigation Project (IPDMIP) accountability on the management of funds from foreign loans as well as GOI's counterpart funds;
- 5) Financing proceeds from foreign loans and grant are recorded in the following manner.
 - a) Receipts of foreign loans that are withdrawn through the Special Account procedures are recorded pursuant to the Payment Order Letter (*SP2D*) issued, and disbursements are recorded pursuant to transaction evidences into their respective categories/component accounts;
 - b) Financing proceed by direct payments are recorded pursuant to Withdrawal Authorization (WA) issued by IFAD. Conversion of foreign currency into rupiah are based on the exchange rate of Bank Indonesia, as of the date of WA issuance.

e. Explanation Sources *Project Uses of Funds by Category*

1) Equipment and Material IDR 742,532,818.00

This amount represents cumulative expenditures financed by IFAD to finance procurement with the following details:

Description	Amount (IDR)
Amount as of January 1, 2017	0,00
Actual Expenditures for period Fiscal Year 2017	
-Loan IFAD 2000001445	742,532,818.00
Total	742,532,818.00
Amount as of December 31, 2017	742,532,818.00

Actual expenditures in fiscal year 2017 amounted to IDR742,532,818.00, were used for investment in office equipment information technology activities such as computers, laptop, printers, operational vehicles, office equipment and material broken down as follows:

No	Equipment	Amount (IDR)
1	Data Processing and Communication	172,055,000.00
2	Motor Vehicles	458,341,818.00
3	Office Facilities	112,136,000.00
	Total	742,532,818.00

From the above total amount, there are findings related to the physical volume (unit) of the procurement process of goods and services procured with SPK No: B-9569 / PL.01 / I.1 / 11/2017 on 28 November 2017. Incomplete of software MS Office standard 2016 in amount of IDR4,715,000.00 x 4 = Rp 18,860,000.00 that has been confirmed by the auditee who will soon complete the lack of such physical volume (unit)

2) *Training and Workshop*

IDR 2,605,241,450.00

The amount represents cumulative expenditures financed by IFAD with details as follows:

Description	Amount (IDR)
Amount as January 1, 2017	
Actual Expenditure	
-Loan IFAD 2000001445	2,605,241,450.00
Total	2,605,241,450.00
Amount as of December ,31 2017	2,605,241,450.00

Actual expenditures in fiscal year 2017 amounted to IDR2,605,241,450.00, were used for official travel for workshop, management training, procurement of seminar kit, accommodation and consumption in workshop.

From total realization, there are findings related to the overpayment of official travel activities of IDR750,000.00, related to the official travel of the Management Training Preparation for the IPDMIP Management Team from 9 to 11 October 2017 in Surabaya, paid with SP2D Number: 171391302050238 dated September, 20 2017 and overpayment related to official travel on the implementation of the IPDMIP Prime workshop in Bogor from 11 to 13 September, 2017 paid with SP2D Number: 1713913045863 dated September 6, 2017 amounting to IDR804,150.00. The auditee has confirmed the findings and will immediately deposit the over payment back to the state treasury account.

3) Government of Indonesia Counterpart Fund IDR 758,630,750.00

This amount represents cumulative expenditure realization for operational cost category including additional technical inputs to support Knowledge Management Center at Bappenas financed by IFAD grants and operational costs for NPIU Agriculture financed by Gol (Government of Indonesia). This expenditure realization is presented in the following details:

No	Explanation	Realization (IDR)
1	Administration of Preparation Project IPDMIP	2,932,000.00
2	Supervision of preparation project and Budget IPDMIP	141,511,800.00
3	Supervision and assistance preparation project IPDMIP for increasing income Farmer in irrigation area	114,740,000.00
4	Administration IPDMIP activities	35,315,050.00
5	Preparation IPDMIP Guidelines	101,793,300.00
6	Supervision and assistance IPDMIP activities	362,338,600.00
	Total	758,630,750.00

3. SPECIAL ACCOUNT ACTIVITY STATEMENT

IFAD Grant No. 2000001446

SPECIAL ACCOUNT ACTIVITY STATEMENT		
For Year	: January 1, 2017 up to December 31, 2017	
Title of Project	: Integrated Participatory Development and Management of Irrigation Programme (IPDMIP)	
Loan Number	: IFAD Loan Number 2000001445	
Account Number	: [REDACTED]	
Currency	: Euro	
Part I		
1. Cumulative advances to end of current reporting period December 31, 2017		2,500,000.00
2. Cumulative expenditures to end of last reporting period Dec 31, 2016		-
3. Outstanding advances to be accounted for (1-2)		<u>2,500,000.00</u>
Part II		
4. Opening Special Account (SA) balance at the beginning of reporting period January 1, 2017		2,500,000.00
5. Add/Subtract: Cumulative adjustments (if any) *	-	
6. Advances from the IFAD during reporting period	-	
7. Sum of 5 and 6		-
8. Outstanding advances to be accounted for (4+7) (must be same as item 3)		<u>2,500,000.00</u>
9. Closing SA balance at end of current reporting December 31, 2017		2,289,788.85
10. Add/subtract: Cumulative adjustment (if any) **	-	
11. Expenditures for current reporting period	210,211.15	
12. Sum of 10 and 11		<u>210,211.15</u>
13. Sum of 9 and 12		<u>2,500,000.00</u>
14. Difference (if any) 8-13		<u>-</u>

C. Basis of Audit

1. Government Regulation Number 60 of Year 2008 concerning Government Internal Control System.
2. President Regulation Number 192 of Year 2014 concerning Badan Pengawasan Keuangan dan Pembangunan;.
3. Financing Agreement Section 9.03 Audit of Accounts
 - a. Each Fiscal year, have the accounts relating to the project audited in accordance with auditing standards acceptable to the fund and the IFAD Guidelines on Project Audits by Independent auditors acceptable to the fund
4. Letter of Borrower Section G Financial Reporting and Auditing Number 35 that is:
IFAD accepts the appointment of Badan Pengawasan Keuangan dan Pembangunan (BPKP), as Project external auditor for the first and subsequent financial periods.
5. IFAD Request Letter for audits Project IPDMIP dated November 16, 2017
6. Assignment letter of Director of Audit of Foreign Loan and Grant Number ST-24/D104/2017 Dated May 14, 2018.

D. Objective and Scope of Audit

The objectives of the audit are:

1. To express an opinion statement on the fairness presentation of the consolidated financial statements.
2. Provide assessment on the adequacy and effectiveness of the internal control system.
3. Provide compliance assessment of the project to various financial covenants set forth in the Financing Agreement

The audit scope includes examination on the fairness presentation of financial statements, assessment on the adequacy and effectiveness of internal control systems of the project, and adherence to provisions of regulations applicable in the implementation of the project for the budget year ended December 31, 2017.

Assessment on the fairness of financial statements includes testing the accuracy of the amounts presented in the financial statements, assessment on adequacy of the accounting/bookkeeping system, as well as the sufficiency of evidences supporting the project expenditures at National Project Implementation Unit (NPIU).

Assessment on the adequacy and effectiveness of the Project internal control systems includes assessment on the adequacy of the internal control system design at National Project Implementation Unit (NPIU).

Assessment on the compliance to applicable regulations in implementing the project includes assessment on adherence to the project that includes:

1. Adherence to certain provisions of the Financing Agreement for the following are as:
portion of financing and provision of supporting funds, procurement procedures, and
usage allocation of the loan;
2. Adherence to internal mechanisms and regulations set forth by the project.

The scope of this audit assignment is only the financial statements of IPDMIP prepared by National Project Implementation Unit (NPIU) at General of Agricultural Extension and Human Resources Development Ministry of Agriculture was conducted by BPKP Head Office.

The total expenditures of fiscal year 2017 amounted to IDR4,106,405,018.00 comprise of amounted to IDR3,347,774,268.00 financed by IFAD loan and amounted to IDR962,116,000.00 financed by GoI. We did sample testing on that expenditures financed by loan IFAD, while the supporting funds sourced from the government of the Republic of Indonesia (GOI) as a supporting fund is not included in our scope of audit.

Our audit field works ended on May 28, 2018.

E. Assessment of the Project's Internal Control System

In general, the internal control system applied has been organized and structured to provide assurance that all project activities were carried out in accordance with applicable procedures and regulations. Detailed assessment result is as follows:

1. Control Environment

According to our assessment, the control environment of IPDMIP has been quite adequate, as shown in the following conditions:

- a. Project managers shared the values of integrity and ethics;
- b. Project managers have demonstrated commitment to competence and used of good practices and policies on human resource development.
- c. The organizational structure and delegation of authority and responsibility have been implemented

2. Risk Assessment

In our opinion, the risk assessments process of IPDMIP has not been adequately implemented, as shown in the following:

- a. Project managers has not identified the critical point of Project implementation which is at greatest risk which may affect the project's ability to achieve its objectives, both internal and external.
- b. Project Managers has not conducted risk-level and risk-prevention analyzes that may affect the project's ability to achieve its objectives.

3. Control Activities

According to our assessment, although the control activities were not based on risk assessment, control activities of IPDMIP has been quite adequate, as reflected in:

- a. The stipulated project and budget targets has been documented in the government budget implementation document (DIPA) and other documents as well as in performing performance measurements set forth in a form of performance report;
- b. Project manager has conducted socialization and guidance to local project actors on IPDMIP project objectives and activities;
- c. Transactions and activities have been recorded in the books in accordance with the provisions of existing regulations;
- d. Project manager has recorded and secured asset / inventory;
- e. Project manager has drawn up technical guidance from IPDMIP project activities and set performance indicators to achieve project objectives;
- f. Authorizations were clearly communicated to unit leaders and employees;
- g. Determination of location in IPDMIP activity is based on data from community proposal;
- h. Every financial transaction has been classified, recorded, verified and archived as of the date of the transaction and supported with sufficient evidence;
- i. Project Manager has prepared, informed and communicated responsibility to all stakeholders;
- j. Documentation has been maintain that covers all policies and procedures as well as transactions.

4. Information dan Communication System

Our assessment concludes that the information and communication systems of the activities has been quite adequate, as reflected in:

- a. All necessary information has been submitted to the parties concerned in periodic and incidental
- b. Project managers has effectively used forms and media of communication effectively, indicated by the flow of information from top to bottom and vice versa, including communication with outsiders.
- c. Project managers has responded well to the employee suggestions regarding the improvement of productivity, quality, and other improvements

- d. Information has been communicated to the leader and other parties in the institutions that allows them to carry out their duties and responsibilities efficiently and effectively.

5. Monitoring on Control

There is no monitoring and control activities since the 2017 is the first year of the IPDMIP project running so there has been no monitoring of project control and follow-up to previous audit findings.

F. Assessment of the Compliance to the Financing Agreement

Our assessment on implementation of the project noted that in general the NPIU has complied with the provisions of the financing agreement, particularly with the provision of supporting fund, procurement procedures, and the designated of the use of loan funds.

H. Summary of Conditions or Audit Findings Affecting the Fairness of Financial Statements

Audit Findings in the Year 2017 are as follows:

No	Type of Findings	Amount (IDR)
1	Lacking of physical volume (unit) on procurement of goods and services.	18,860,000.00
2	Over Payment for expenditures official travel	1,554,150.00
	Total	20,414,150.00

As explained above, there are audit findings of IDR20,414,150.00 or 0.04% of total project expenditures in 2017 of IDR.3,347,774,268.00, which does not significantly affect the fairness of the presentation of the financial statements as a whole. Accordingly, our opinion on the presentation of financial statements is unqualified.

I. Subsequent Events of Consolidated Financial Statements

No significant events after the date of the financial statements that materially have an affect on the fair presentation of the financial statements.

J. Follow-up on Audit Findings of Preceding Years

No audit results from the previous year.

LIST ORDER OF PAYMENT (SP2D)

NO	Number SP2D	Date SP2D	Amount (IDR)	Receiver	Contract	Explanation
1	171391302045863	9/6/2017	475,000,000.00	BENDAHARA SATKER		Capital Expenditure official travel for premiere workshop IPDMIP
2	171391302050382	9/20/2017	250,000,000.00	BENDAHARA SATKER		Capital Expenditure official travel for management training team IPDMIP St.B.7366/Tu.040/L.1/9/2017 Tgl 19 Sept
3	171391302050381	9/20/2017	300,000,000.00	BENDAHARA SATKER		Capital Expenditure for management training IPDMIP St.B.7365/Tu.040/L.1/9/2017 Tgl 19 Sept
4	171391302050238	9/20/2017	23,500,000.00	BENDAHARA SATKER		Capital Expenditure for prepare management training IPDMIP St.B.7253/Tu.040/L.1/9/2017 Tgl 14 Sept
5	171391302050218	9/20/2017	49,600,000.00	PT. SETIA MULYA KUSUMA JAYA	KW. 069/SMKJ/IX/INV/2017 TGL 8 SEPT	Capital expenditure Procurement of Goods Seminar Kit for premiere workshop IPDMIP
6	171391303026595	9/26/2017	200,000,000.00	PT. ARCH HOTELINDO	B.7071/PL.030/I.1./09/2017	Capital Expenditure Procurement Accommodation And Consumption premier Workshop Ipdmp
7	171391302055170	10/9/2017	79,833,050.00	BENDAHARA SATKER		Capital Expenditure official travel for management training St.B.7365/Tu.040/L.1/9/2017 Tgl 19 Sept
8	171391302055864	10/11/2017	66,800,000.00	PT. ANAKINDO TANGGUH PERKASA	B.6625/PL.030/I.1/09/2017	Capital Expenditure Procurement Seminar Kits Premier Workshop Team Ipdmp
9	171391302057583	10/16/2017	62,512,800.00	BENDAHARA SATKER		Capital Expenditure official travel for management training St.B.7366/Tu.040/L.1/9/2017 Tgl 19 Sept
10	171391302057569	10/16/2017	190,000,000.00	PT. SUMBA BARU WISATA	B.7675/PL.030/I.2/09/2017 TGL. 29 SEPT 2017	Capital expenditure accomodation and consumption activities premiere management IPDMIP (western region)
11	171391701002005	10/20/2017	46,950,000.00	BENDAHARA SATKER		Accountability TUP for Capital Expenditure
12	171391303030722	10/20/2017	127,000,000.00	PT. SINAR ANUGRAH MATAHARI	B.7859/PL.030/I.2/10/2017 TGL. 9 OKT 2017	Capital expenditure accomodation and consumption activities premiere management IPDMIP (eastern region)
13	171391303031025	10/23/2017	40,000,000.00	PT. ARCH HOTELINDO	KW. 15A/AH-KWT/IX/2017 TGL 27 SEPT	Capital expenditure procurement accomodation and consumption activities workshop premiere IPDMIP
14	171391303031027	10/23/2017	100,365,000.00	PT. AL ARES INDONESIA	B.7636/PL.010/I.1/9/2017 TGL. 29 SEPT 2017	Capital Expenditure Data Processing and Communication Devices Ipdmp
15	171391303031280	10/25/2017	458,341,818.00	PT. IMORA MOTOR	B.7439/PL.010/I.1/9/2017 TGL. 22 SEPT 2017	Capital Expenditure on Procurement of Motor Vehicles 4 Ipdmp Activities
16	171391302063449	11/6/2017	17,900,000.00	BENDAHARA SATKER		Replace UP for capital expenditure
17	171391302069723	11/23/2017	100,000,000.00	BENDAHARA SATKER		Capital expenditure traveling official for activities seminar knowledge management IPDMIP St.B.8887/Tu.040/L.1/9/2017 Tgl 19 Sept
18	171391303036321	11/27/2017	11,286,000.00	PT. AL ARES INDONESIA	KW. 001.AAI.1117.KWT1 TGL 14 NOV	Capital Expenditure Office Facilities Ipdmp Activities Like Dispenser, Tv, And Refrigerator
19	171391302071542	11/29/2017	13,652,400.00	BENDAHARA SATKER		Replace UP For Capital Expenditure
20	171391303038487	12/8/2017	25,000,000.00	PT. ARCH HOTELINDO	KW. NO. 19/AH-KWT/XI/2017	Capital expenditure procurement accomodation and consumption seminar knowledge management IPDMIP Management
21	171391302075139	12/8/2017	200,000,000.00	BENDAHARA SATKER		Capital Expenditure travelling Official for activityk Forum Coordination IPDMIP St.B.9983/Tu.040/I.1/12/2017 Tgl 6 Des
22	171391302079856	12/14/2017	7,500,000.00	PT. ANAKINDO TANGGUH PERKASA	KW. NO. 075/KW/ATP/XI/2017	Capital Expenditure Procurement Materials Participants Seminar Knowledge Management Activities Ipdmp
23	171391302086102	12/20/2017	189,750,000.00	PT. BINAKARYA CIPTA BUANA	B.10199/PL.030/I.1/12/2017 TGL. 12 DES 2017	Capital Expenditure Accommodation Procurement and Consumption Activities Coordination Forum Implementation Activities Ipdmp St.B.9983 / Tu.040 / I.1 / 12/2017 Date 6 Dec
24	171391302085997	12/20/2017	35,075,000.00	PT. ANAKINDO TANGGUH PERKASA	KW. NO. 125/KW/ATP/XII/2017	Capital expenditure Procurement of Goods Seminar Kit Coordination Forum of Implementation of Activities Ipdmp St.B.9983 / Tu.040 / I.1 / 12/2017 Date 6 Dec
25	171391303045978	12/22/2017	100,850,000.00	PT. MADALASURYA WIRAPUTRA	B.10108/PL.010/I.1/XII/2017 TGL. 8 DES 2017	Capital Expenditure Office Facilities Ipdmp Activities
26	171391302087820	12/21/2017	52,500,000.00	BENDAHARA SATKER		Expenditures of Foreign Official Traveling Travels Under Comparative Study to Foreigners St.B.4959 / Tu.050 / A / 12/2017 Date 15 Dec
27	171391303045965	12/22/2017	71,690,000.00	PT. AL ARES INDONESIA	B-9569/PL.01/I.1/11/2017 tanggal 28 November 2017	Capital Expenditure of IPDMIP Data and Communication Processing Equipment
28	171391701003428	12/27/2017	37,318,200.00	BENDAHARA SATKER		Accountability TUP For Capital Expenditure
29	171391701003427	12/27/2017	9,800,000.00	BENDAHARA SATKER		Replace Up for Capital Expenditure
30	171391701003593	12/28/2017	5,550,000.00	BENDAHARA SATKER		Accountability TUP For Capital Expenditure
Total SP2D			3,347,774,268.00			