

# **Global Partnership on Output Based Aid**

## **Western Jakarta - Expansion of Water Services Project**

### **Operational Manual**

#### **1. Detailed description of Project**

##### **1.1 The Grant Recipient**

PAM Jaya, the Local Government-owned water utility, is responsible for the provision of water supply services in Jakarta, a city of 10 million people. In 1997, PAM Jaya entered into Cooperation Agreements with two concessionaires: PT Thames Pam Jaya (TPJ) and PT Pam Lyonnaise Jaya (PALYJA). TPJ supplies water in the eastern area and PALYJA in the western area of the city. When the Agreements were revised in 2001, the Government of Jakarta (DKI Jakarta) created a special body, the Jakarta Water Supply Regulatory Body (JWSRB) to regulate water services.

PT Pam Lyonnaise Jaya is an Indonesian registered subsidiary of Suez Environment. In July 2006 PALYJA sold 49% of its shares, and its shareholders are now PT Astratel Nusantara with 30% and Citigroup Financial Products Inc. with 19%. Suez still holds the remaining 51%. Astratel has appointed a Vice-President to manage PALYJA's finance function and another (non-executive) director has been appointed to the board. The daily and operational management of PALYJA is the responsibility of Suez Environment's expatriates.

##### **1.2 Objective of the Project**

The objective of the project is to connect poor communities containing some 11,600 households in western Jakarta to the piped water distribution network. Achieving this objective should result in:

- access to affordable and reliable clean water services;
- health benefits from reduced exposure to environmental risks posed by unsafe water (reduced morbidity and mortality rates – especially in infants);
- economic benefits from reduction in medical expenses to treat water borne diseases, increased productivity and capacity to work due to reduced morbidity and associated reduction in sickness related absence from work, reduced household expenditure of clean water (water tariff lower than cost of many alternative sources); and

- social benefits from equitable access to clean water for informal/illegal communities currently disbarred from access by DKI Jakarta spatial planning policy.

### **1.3 Project Components**

Two types of service will be offered to the selected communities:

- Type I connection (Individual household connections) - this is a standard metered household connection with a connection pipe rising from the ferrule (stop-tap);
- Type II connection - this type of connection was developed for high density, very low income areas in which most houses do not hold a title to the land on which the house is built – that is, for illegal or slum settlements. Each household will have a meter and service pipe connection.

The Type II connections will be piloted for the first time in Jakarta under the GPOBA Program, initially in one slum area (Muaru Baru, Penjaringan) and, if successful, in a further three slum communities (phase 2 of the project), representing an additional 1,700 potential households.

#### ***1.3.1 Type I Connections***

Type I Connections will be offered in legal, low-income communities where it is feasible to lay the distribution network in accordance with standard utility practices.

The connection charge in the communities subject to the GPOBA Program will be IDR 120,000.

The tariff paid by the households benefiting from a Type I connection will be the standard published Pam Jaya tariff - according to the tariff Group into which the property is classified (most likely Group II).

#### ***1.3.2 Type II Connections***

The technical details of this type of connection will be developed during the implementation of the Penjaringan Type II pilot scheme.

The connection charge for type II connections will be IDR 12,000.

These consumers will be charged the same tariff as the standard published PAM Jaya tariff – according to the tariff Group into which the property is classified (most likely Group II) The commercial arrangements for Type II connections are the same as for Type I connections - each household will have an individual meter and will receive an individual bill every month.

After having made the connection to a household PALYJA will provide services to the connected household as per the applicable regulatory and contractual provisions. Households will be responsible for paying tariffs for their metered water consumption.

## 2. Community Selection

The communities to be connected in Phase 1 are as follows:

| Kecamatan (Area) | Kelurahan (Sub-area) | Community (RW)   | Approximate Number of Households |
|------------------|----------------------|--|----------------------------------|
| <b>TYPE I</b>    |                      |  |                                  |
| Penjaringan      | Pejagalan            | RW 15--Gang Kantong                                      | 1,109                            |
| Kalideres        | Kalideres            | RW 10--Gombol Paya; Kampung Rawalele                     | 1,155                            |
| Kalideres        | Kalideres            | RW 06--Kampung Buaran                                    | 1,260                            |
| Kalideres        | Pegadungan           | RW 11-Jl. Utan Jati                                      | 561                              |
| Kalideres        | Tegal Alur           | RW11--Jl. Permata-Jl. Pelopor; Jl. Menceng Raya          | 1,500                            |
| Kalideres        | Kalideres            | RW 01--Jl. Benda 3; RW 01--Jl. Daan Mogot Gang Madrasah; | 1,055                            |
| Cengkareng       | Cengkareng Barat     | RW 7--Jl. Rawa Bengkel                                   | 841                              |
| Kebon Jeruk      | Duri Kepa            | RW 08--Jl. Nusa Indah Gang A & Gang E                    | 400                              |
| Kalideres        | Kalideres            | RW 06--Warung Gantung                                    | 1,549                            |
|                  |                      | <b>TOTAL</b>   | <b>9,430</b>                     |

|                |             |                        |     |
|----------------|-------------|------------------------|-----|
| <b>TYPE II</b> |             |                        |     |
| Penjaringan    | Penjaringan | RT 16 RW 17 Muara Baru | 500 |

### 2.1 Process for Selecting the Communities for Second Phase

GPOBA has granted USD 435,335 to provide subsidies to additional communities that had not yet been selected when the Grant Agreement was executed (the second phase of the scheme). The procedures and criteria that shall be followed to select eligible communities are defined in 2.2.

PALYJA and the Jakarta Water Supply Regulatory Body (JWSRB) have developed a list of potential communities for the second phase. These are considered 'slum' communities.

DKI Jakarta has agreed to allow additional ‘slum’ communities to be provided water through the GPOBA scheme, pending the outcome of the pilot program in the first phase. This list is provided below

#### Potential Slum Communities for Phase 2 of the OBA Program

| Kecamatan (Area) | Kelurahan (Sub-area) | Community (RW)   | Approximate Number of Households |
|------------------|----------------------|--|----------------------------------|
| <b>TYPE II</b>   |                      |  |                                  |
| Cengkareng       | Kapuk                | RW 05-Gang Langgar 2 (RT 11, 12, 13 and 14) and Gang Taniwan (RT 6, 7 and 8) | 400                              |
| Pademangan       | Ancol                | RW 05-Jl. Mangga Dua 8 (RT 11, 12 and 13)                                    | 300                              |
| Penjaringan      | Penjaringan          | RW 17-Muara Baru (RT 16) (Areas not connected in Phase 1)                    | 1,000                            |
|                  |                      | <b>Total</b>   | <b>1,700</b>                     |

### 2.2 Criteria for Selecting Communities

Future communities shall be selected using the same criteria as for Phase 1 The following procedure should be followed:

- PALYJA prepares a list of proposed communities that meet the technical criteria
- DKI reviews these communities against the policy criteria, in particular the most recent land use plans and gives approval for the communities on the list
- PALYJA commissions a survey to determine the Willingness-to-Connect
- The JWSRB must give a ‘no objection’ to the organization engaged by PALYJA to conduct the survey and has thirty days to review the results
- Communities that reach at least 50% Willingness-to-Connect may be considered for the GPOBA scheme, subject to approval by the Steering Committee.

## 3. Outputs

### 3.1 Type I Connections

Individual Household Connection means a household connection that meets Individual Household Connection Specifications, as defined in 3.3 below.

**First Output** for Type I Connection: Connection Confirmation Form (Annex 1) signed by head of household and Auditor, declaring that household connection meets Individual Household Connection Specifications

**Second Output** for Type I Connection: Three (3) consecutive monthly audited performance reports in which Service Delivery Standard, as defined in 3.4 below, is met.

### ***3.2 Type II Connections***

An Individual Household Connection means a household connection that meets Individual Household Connection Specifications, as defined in 3.3 below.

**First Output** for Type II Output: Connection Confirmation Form (Annex 1) signed by head of household and Output Auditor, declaring that household connection meets Individual Household Connection Specifications

**Second Output** for Type II Output: Three (3) consecutive monthly audited performance reports in which Service Delivery Standard, as defined in 3.4 below, is met

### ***3.3 Individual Household Connection Specifications***

An Individual Household Connection shall be constructed in accordance with best water utility practice, and shall follow the specifications listed below:

- Running water inside the household
- A clamp saddle and ferrule with horizontal outlet
- An HDPE PN 12.5 OD25 PE 100 connection pipe rising up from the ferrule
- The HDPE pipe shall be sleeved with GI pipe wherever it is exposed
- A ball or stop valve
- A water meter
- A check valve or ball valve
- A water company seal to indicate unauthorized removal of the water meter
- An enclosure or chamber for the water meter, where possible sited inside the customer's property within 1m of the boundary

### ***3.4 Service Delivery Standard***

Service Delivery Standard shall be deemed to have been met for one billing month when the Average Daily Quantity of Water Supplied, in such billing month, to all Individual Household Connections in all Selected Communities is not less than 360 liters per Individual Household Connection per day.

The Average Daily Quantity of Water Supplied for a billing month shall be equal to the sum of the quantity of water billed, for one billing month, to all Individual Household Connections in all Selected Communities, divided by the total number of Individual

Household Connections in all Selected Communities, divided by the number of days in such billing month.

Service Delivery Standard for Individual Households shall be deemed to have been met during a billing month in which PALYJA is affected by a Force Majeure event, or an event of major disruption in raw water supply as certified by PAM JAYA.

In the event that PALYJA is unable to meet the Service Delivery Standard during a billing month due to a claimed insufficient consumption from PALYJA's customers in the Selected Community, PALYJA shall have the right to present to JWSRB a petition for a deemed compliance with Service Delivery Standard. Such petition shall include the evidence that PALYJA considers necessary for JWSRB to reach a decision. JWSRB shall have 10 business days after PALYJA submits its petition to reach a decision. If JWSRB fails to reach a decision within 10 days, the petition shall be deemed approved, and PALYJA shall be deemed to have complied with Service Delivery Standard.

## **4. Output Verification and Payment Process**

### ***4.1 Output Auditor (Verifier)***

PALYJA shall select, through a competitive process, a reputable technical or financial audit firm or other reputable organization to act as Output Auditor. The terms of reference to procure the services of this firm, as well as the actual firm selected, will be subject to no objection by JWSRB and the Bank. The issuance of no objection letter is considered as condition of disbursement of the project. The reimbursable cost of the Output Auditor's services shall be capped at USD 10.0 per connection. These costs will be reimbursed by GPOBA.

### ***4.2 Output Verification Steps***

#### **1. Verification of First Output for Type I and II Connections:**

- PALYJA delivers Type I or II output and gives notice to Output Auditor to conduct verification
- The Output Auditor visually verifies that each connection meets the relevant specifications and obtains signature from head of household
- PALYJA submits invoice ("First Invoice") and Output Verification Report to JWSRB. PALYJA keeps original Connection Confirmation Forms on file for a period of two years
- JWSRB has the right, during a period of 10 working days after the First Invoice has been submitted, to randomly select and verify the validity of a sample of Connection Confirmation Forms
- If JWSRB chooses not to, or fails to exercise this right within the 10 working days period, or if it exercises this right and finds that all Connection Confirmation Forms verified have legitimate signatures, and meet the relevant specifications,

the First Invoice shall be deemed approved by JWSRB, and PALYJA shall send the First Invoice to GPOBA for payment. The date in which JWSRB approves the First Invoice shall be the "First Invoice Approval Date"

- If JWSRB finds Connection Confirmation Forms with illegitimate signatures, or if the connection doesn't meet the relevant specifications, JWSRB must notify PALYJA within the 10 day period. The First Invoice shall be reduced by a percentage equal to the percentage of households in the sample tested by JWSRB and whose signature was not legitimate or connection didn't meet relevant specifications. If such an event occurs, PALYJA will be required to replace the firm selected as Output Auditor.

## 2. Verification of Second Output for Type I and II Connections:

- Starting with the first billing month commencing after the First Invoice Approval Date, PALYJA shall prepare a monthly report (the "Service Delivery Standard Compliance Report"), detailing the results for that billing month of the measurements conducted with respect to the Service Delivery Standard (as defined in 3.4 above)
- This report shall be subject to an audit by the Output Auditor. The Output Auditor shall submit directly to JWSRB, with copy to PALYJA, a report with its finding (the "Audit Report"). The exact terms of the audit will be defined in the terms of reference of the Output Auditor, but shall include a combination of audits of the measurements taken, as well as audits of the results reported
- A month in which the Service Delivery Standard Compliance Report indicates that PALYJA has conformed to the Service Delivery Standard, and the Audit Report indicates that results reported in the Service Delivery Standard Compliance Report are accurate, shall be considered an Approved Month. After three (3) consecutive Approved Months have elapsed, PALYJA shall submit an invoice ("Second Invoice") to JWSRB
- JWSRB has the right, during a period of 10 working days after the Second Invoice has been submitted, to verify the findings of the Audit Report
- If JWSRB chooses not to, or fails to exercise this right within the 10 working days period, or if it exercises this right and verifies the legitimacy of the Audit Report then the Second Invoice shall be deemed approved by JWSRB, and PALYJA shall send the Second Invoice to GPOBA for payment
- If JWSRB finds the Audit Report not be legitimate then JWSRB must notify PALYJA within the 10 day period. The Second Invoice shall be reduced by a percentage equal to the percentage of audited households investigated by JWSRB that did not meet the Service Delivery Standard. If such an event occurs, PALYJA will be required to replace the firm selected as Output Auditor

#### 4. Subsidy Mechanism

The subsidy for Type I and Type II connections will be paid on a 'per installed new connection' basis. This means that an assumption needs to be made at the outset on the number of connections that will be installed. This number can be defined as the number of households that, based on the survey, indicated their willingness to connect if and when services were offered to them.

Experience in other communities where surveys have been conducted before installing a connection shows that the real 'up-take' is generally less than that indicated by the survey.

A mechanism has been agreed between GPOBA and PALYJA to share the connection up-take risk. The main elements of this mechanism are:

- The willingness to connect resulting from the survey will be reduced by ten percentage points – that is, if the willingness to connect from the surveys was 56 percent, the adjusted willingness to connection shall be 46 percent. This adjustment reflects the wide margin of error that is typical of these type of surveys
- The total cost of the system will be divided in two components: the cost of the network (Total Cost of Network – TCN) and the Cost of an Individual Service Connection (CISC). The network will be sized to serve all the potential communities within the selected area, regardless of the willingness to connect
- PALYJA will submit two invoices – one for delivering the first output, and a second for delivering the second output. The first invoice will be for 75 percent of the 'total subsidy amount', and the second for the balance

The Total Payment for Type I Connection (TPI) will be computed as:

$$TPI = NCS + [ ( CSC - 120,000) \times CI ]$$

Where:

NCS = Network Cost Sharing

CI = number of Connections Installed

CSC = Cost of Service Connection, that is IDR 812,450

WTCC = Number of Willing to Connect Connections, adjusted by 10% up-take risk

UWTCC = Number of Willing to Connect Connections, adjusted by 10% up-take risk and by 80% up-take risk sharing arrangement

And:

If  $CI > WTCC$  then  $NCS = TNC$

If  $UWTCC < CI < WTCC$  then  $NCS = ( TNC / WTCC ) \times CI$

If  $CI < UWTCC$  then  $NCS = ( TNC / WTCC ) \times [ CI + ( UWTCC - CI ) / 2 ]$

This formula means that:

- The total subsidy paid to the concessionaires is the sum of various costs of the network – this amount is computed based on an up-take risk sharing arrangement; plus an amount equal to the cost of the service connections made, minus the connection charge received from these connections
- The up-take risk sharing arrangement is as follows:
  - If the number of connections installed is greater than the number of connections deemed as willing to connect (after the 10 percent up-take adjustment), the concessionaires get paid the full cost of the network
  - If the number of connections installed is between 80 and 100 percent of the number of connections deemed as willing to connect (after the 10 percent up-take adjustment), the concessionaires will be paid the cost of the network that corresponds that up-take rate. This means that the concessionaires take full up-take risk on this level of up-take
  - If the number of connections installed is less than 80 percent of the number of connections deemed as willing to connect (after the 10 percent up-take adjustment), GPOBA and the concessionaires will share the up-take risk. This sharing arrangement means that the concessionaires will be paid cost of the network that corresponds the actual up-take rate, plus half of the cost the corresponds to difference between 80 percent of the number of connections deemed as willing to connect, and the actual number of connections.

#### ***4.1 Willingness to Connect Calculations***

##### **Type I Connection**

Willingness to Connect (“WTCT”) in Type I Selected Communities shall be:  $WTCT = 56.5\%$

Up-take adjustment to WTCT in Type I Selected Communities shall be ten (10%) percent

Willingness to Connect adjusted for up-take rate (“UWTCT”) shall be:  $UWTCT = WTCT - 10\% = 46.5\%$

Up-take Risk Sharing Threshold (“URST”) shall be:  $URST = 0.8 \times UWTCT = 37\%$

Total number of Type I potential connections shall be = 9,430

Total number of willing to connect potential Type I connections adjusted for 10% up-take (“WTCCI”) shall be:  $WTCCI = 9,430 \times UWTCT / 100 = 4,385$

Total number of willing to connect potential Type I connections adjusted for up-take (“UWTCCI”) shall be:  $UWTCCI = 9,430 \times URST = 3,489$

### Type II Connection

Willingness to Connect (“WTCII”) in Type II Selected Communities shall be:  $WTCII = 87\%$  \*

Up-take adjustment to WTCII in Type II Selected Communities shall be ten (10%) percent

Willingness to Connect adjusted for up-take rate (“UWTCII”) shall be:  $UWTCII = WTCII - 10\% = 77\%$

Up-take Risk Sharing Threshold (“URSTII”) shall be:  $URSTII = 0.8 \times UWTCII = 61.6\%$

Total number of Type II potential connections shall be = 500 \*\*

Total number of willing to connect potential Type II connections adjusted for 10% up-take (“WTCCII”) shall be:  $WTCCII = 500 \times UWTCII / 100 = 385$

Total number of willing to connect potential Type II connections adjusted for up-take (“UWTCCII”) shall be:  $UWTCCII = 500 \times URSTII = 308$

\* The WTCII for phase II shall be jointly agreed between GPOBA and PALYJA before the phase II system is built by PALYJA

\*\* The Total number of Type II potential connections for Phase II shall be = 1,700

### ***4.2 Procedure for Establishing Final Subsidy Amount per Connection***

PALYJA shall follow the procedure below to determine the final amount of subsidy per output (“Subsidy per Connection” or “SPC”):

Upon GPOBA’s approval of the funds to cover PALYJA’s subsidy per connection, PALYJA shall carry out a detailed engineering design and cost estimates of the system to supply water to the Selected Communities. PALYJA’s cost estimates shall include:

#### For Type I Connections

Total network cost – “TNCI” –  $TNCI = \text{IDR } 11,025,000,000$   
Cost per service connection – “CSCI” –  $CSCI = \text{IDR } 812,450$

#### For Type II Connections

Total network cost – “TNCII” –  $TNCII = \text{IDR } 589,000,000$   
Cost per service connection – “CSCII” –  $CSCII = \text{IDR } 812,450$

The Subsidy per Connections for Type I and II connections shall be computed as:

Subsidy per Connection for Type I Connections (“SPCI”) = ( TNCI / WTCCI ) + ( CSCI - 120,000 )

Subsidy per Connection for Type II Connections (“SPCII”) = ( TNCII / WTCCII ) + ( CSCII - 12,000 )

#### ***4.3 Rules for Establishing Payment Amount***

##### **Payment Amount for Type I Connections:**

The total payment for Type I connections (“TPI”) shall be computed as:  $TPI = NCSI + [ ( CSCI - 120,000 ) \times CI ]$ ,

where:

CI = Number of Individual Household Type I Connections installed by PALYJA, verified  
CSCI = as defined in Grant Agreement

If  $CI > WTCCI$ , then  $NCSI = TNCI$

If  $UWTCCI < CI < WTCCI$ , then  $NCSI = ( TNCI / WTCCI ) \times CI$

If  $CI < UWTCCI$ , then  $NCSI = ( TNCI / WTCCI ) \times [ CI + ( UWTCCI - CI ) / 2 ]$

The amount that PALYJA can invoice in the First Invoice shall be equal to  $( 0.75 \times TPI )$

The amount that PALYJA can invoice in the Second Invoice shall be equal to  $( 0.25 \times TPI )$

##### **Payment Amount for Type II Connections:**

The total payment for Type I connections (“TPII”) shall be computed as:  $TPII = NCSII + [ ( CSCII - 12,000 ) \times CII ]$ ,

where:

CII = Number of Individual Household Type II Connections installed by PALYJA, verified by auditor and approved by JWSRB  
CSCII = as defined in Grant Agreement

If  $CII > WTCCII$ , then  $NCSII = TNCII$

If  $UWTCCII < CII < WTCCII$ , then  $NCSII = ( TNCII / WTCCII ) \times CII$

If  $CII < UWTCCII$ , then  $NCSII = ( TNCII / WTCCII ) \times [ CII + ( UWTCCII - CII ) / 2 ]$

The amount that PALYJA can invoice in the First Invoice shall be equal to  $( 0.75 \times TPII )$

The amount that PALYJA can invoice in the Second Invoice shall be equal to ( 0.25 x TPII )

## **5. Invoicing**

PALYJA shall be entitled to submit:

- one (1) First Invoice for Type I connections, and one (1) for Type II connections; and
- one (1) Second Invoice for Type I connections, and one (1) for Type II connections

## **6. Administrative Arrangements**

PALYJA, as grant recipient, will be responsible for the implementation of the OBA scheme. PALYJA will process and submit applications for the withdrawal of funds, maintain accounting records for ex-post reviews and manage the external annual audit.

GPOBA has agreed, based on the Bank's satisfactory assessment of PALYJA's financial and procurement management systems, to implement the project employing PALYJA's operational manuals and internal control procedures. However, this Operational Manual must be followed during the project's life. Material changes in PALYJA's internal operational manuals and internal control procedures must be notified to GPOBA.

## **7. Financial Management**

### ***7.1 Funds Flow***

Disbursement will be made under "direct payment" procedures. Disbursements will be based on the submission of full documentation/copies of accounting evidence (including report, auditor certification with photo status, third party's receipt for the output based and auditor contract for auditor contract reimbursement) along with the Withdrawal Applications.

All documentation for expenditures submitted for disbursement will be retained by PALYJA and shall be made available to the auditors for the annual audit and to the Bank and its representatives if requested.

### ***7.2 Audit***

PALYJA is already audited and the Bank is intending to rely on the existing audit process at the entity level and the specific project expenditure in PALYJA will be part of project audit. Specifically for the project expenditures, the audit expected to be conducted by external auditor in accordance with Terms of Reference for audit acceptable to the Bank

(available in Attachment 1 of this Operational Manual). The external auditor must be selected in accordance with the agreed terms of reference, subject to the no objection of GPOBA. The annual audit report will be submitted to the Bank no later than six months after the end of the PALYJA's fiscal year and also at the closing of the project.

PALYJA will maintain project financial and auditing records for a minimum period of five years after completion of the project.

PALYJA's annual financial statement shall be prepared by it based on its records, including the project transaction and should include:

1. PALYJA Balance Sheet;
2. Statement of Income (including reference to the expenditures funded by the Bank)
3. Statement of Changes in Shareholders' Equity
4. Statement of Cash Flows
5. Notes to the Financial Statements

The annual audit reports shall be furnished to the Bank not later than six months after the end of the PALYJA's fiscal year (June 30 of the following year). The audit will be conducted by a private auditor acceptable by the Bank in accordance with the agreed Term of Reference for audit. The auditor will also audit due process and due diligence and the attainment of the objectives according to the agreed performance indicators.

## **8. Procurement**

The OBA funds have been made available contingent on the PALYJA having procured inputs in a competitive fashion (acceptable to the Bank) and having documented expenditures incurred for the network expansion and service provision.

### **8.1 General**

**Goods and Works:** All goods, works and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Section I (excluding paragraph 1.16) of the Procurement Guidelines<sup>1</sup>, and with the provisions of Section III of Schedule II of the Grant Agreement.

**Consultants' Services:** All consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Sections I (excluding paragraph 1.24) and IV of

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1. <sup>1</sup> "Procurement Guidelines" means the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the World Bank in May 2004.

the Consultant Guidelines<sup>2</sup>, and with the provisions of Section III of Schedule II of the Grant Agreement.

## **8.2 Works and goods**

Procurement for the acquisition of goods and works for the installation of water supply connections will be carried out in accordance with PALYJA's operational manuals, internal control policies and procedures, and standard bidding and contract documents reflecting the requirements of the Grant Agreement and this Operation Manual where applicable.

The timing and sequencing of procurement and contracting decisions, including procurement thresholds, payment schedules to contractors, and choice of contracts for making the household connections will be the discretion of PALYJA, and the preparation of detailed procurement plans will not be required.

The bidding documents will include specifications for construction works as defined by Indonesian legislation and regulations as well as technical description of works (based on the technical specifications provided by PALYJA). The specifications, inter alia, will include requirements for the compliance of the installations services with Indonesian laws and regulations for the water sector governing environmental, technical, metrology, and quality standards, and in accordance to highest ethical standards and professional integrity.

The particular methods of procurement of goods and works permitted are described below:

**International Competitive Bidding.** Except as otherwise provided below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding in accordance with the requirements of the Procurement Guidelines and the Bank's standard bidding documents

**Other Methods of Procurement of Goods and Works.** The following methods, other than International Competitive Bidding, may be used for procurement of goods and works for those contracts as follows:

(a) **National Competitive Bidding:** subject to the modifications set out in para. 8.4 below PALYJA's standard bidding documents and procedures will be used for conducting National Competitive Bidding for works estimated to cost less than 3 million US\$ per contract and for goods estimated to cost less than 500,000 US\$ per contract.

(b) **Shopping** will be used for works and goods estimated to cost less than 200,000 US\$ per contract whereby quotations will be requested from at least three qualified contractors /suppliers. For work contracts for network pipe laying PALYJA's method of framework

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2. <sup>2</sup> "Consultant Guidelines" means the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the World Bank in May 2004.

contracts will be used, whereby a number of qualified contractors will be selected based on responses to public advertisement and calls for tenders will be sent to a number of these qualified contractors.

(c) **Direct Contracting** can be used for goods and works under the following conditions:

(i) An existing contract for goods and works, awarded in accordance with procedures acceptable to the Bank, may be extended for additional goods of a similar nature.

(ii) Standardization of equipment or spare parts, to be compatible with existing equipment, For such purchases to be justified, the original equipment shall be suitable, the number of new items shall generally be less than the existing number, the price shall be reasonable, and the advantages of another make or source of equipment shall have been considered and rejected.

(iii) The required equipment is proprietary and obtainable only from one source.

(iv) In exceptional cases, such as in response to natural disasters.

(v) Contracts for works for pipe laying estimated to cost less than 10,000 US\$ per contract..

### ***8.3 Selection of Consultants***

Consulting services procured under this project include: output verification and financial audits. [w1]The selection procurement will be done using the Recipient's standard request for proposals' documents satisfactory to the Bank.

To provide for an independent verification of outputs, the Recipient is responsible for the contracting of an independent audit firm that would conduct ex post reviews of the completeness, accuracy and authenticity of documentation provided by the Recipient concessionaire as well as undertake ex post physical spot checks of sample of connections. The independent audit firm must be selected in accordance to terms of reference and procedures subject to a no objection of GPOBA.

The particular methods for the procurement of Consultants' services permitted are described below:

(a) **Quality- and Cost-based Selection:** for all contracts estimated to cost more than 200,000 US\$, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection in accordance with the requirements of the Consultant's Guidelines and the Bank's standard Request for Proposals.

(b) **Selection based on Consultants' Qualifications** can be used for assignments estimated to cost less than 200,000 US\$; the Request for Proposals documents can follow PALYJA's standard documents satisfactory to the Bank.

(c) **Single-source Selection;** this may be appropriate only if it presents a clear advantage over competition: (i) for tasks that represent a natural continuation of previous work carried out by the firm, (ii) where a rapid selection is essential (for example, in an emergency operation), or (iii) when only one firm is qualified or has experience of exceptional worth for the assignment.

(d) **Selection of Individual Consultants**; and (e) **Sole Source Procedures** for the Selection of Individual Consultants if applicable will follow the Consultant Guidelines paragraphs 5.2 to 5.4

#### ***8.4 Frequency of Procurement Supervision***

Except as the World Bank shall otherwise determine by notice to the Recipient, all contracts shall be subject to Post Review by the World Bank. There will be one Bank supervision mission, at the end of the project, to carry out post review of procurement actions.

#### ***8.5 Clarifications Relating to National Competitive Bidding Procedures***

##### General

The procedures to be followed for National Competitive Bidding shall be those set forth in Presidential Decree No. 80/2003 of the Republic of Indonesia with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 and Revised October 2006 (the Guidelines).

##### Registration

Bidding shall not be restricted to pre-registered firms and shall not be a condition for participation in the bidding process.

Where registration is required prior to award of contract, bidders (i) shall be allowed a reasonable time to complete the registration process, and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.

##### Pre-qualification

Pre-qualification shall not be used for simple goods and works. Normally, post-qualification shall be used. Pre-qualification shall be required only for large or complex works with the prior 'no objection' of the Bank. When pre-qualification shall be required:

Eligible bidders (both national and foreign) shall not be denied pre-qualification, and

Invitations to pre-qualify for bidding shall be advertised in at least one (1) widely circulated national daily newspaper a minimum of thirty (30) days prior to the deadline for the submission of pre-qualification applications.

##### Joint Ventures

A bidder declared the lowest evaluated responsive bidder shall not be required to form a joint venture or to sub-contract part of work or part of the supply of goods as a condition of award of the contract.

##### Preferences

No preference of any kind shall be given to national bidders. Regulations issued by a sectoral ministry, provincial regulations and local regulations, which restrict national competitive bidding procedures to a class of contractors or a class of suppliers shall not be applicable to procurement procedures under the Credit or the Loan.

#### Advertising

Invitations to bid shall be advertised in at least one (1) widely circulated national daily newspaper allowing a minimum of twenty one (21) days for the preparation and submission of bids and allowing potential bidders to purchase bidding documents up to twenty-four (24 ) hours prior the deadline for the submission of bids.

Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee.

Bidders domiciled outside the area/district/province of the unit responsible for procurement shall be allowed to participate regardless of the estimated value of the contract.

Foreign bidders shall not be precluded from bidding. If a registration process is required, a foreign firm declared the lowest evaluated bidder shall be given a reasonable opportunity for registering.

#### Bid Security

Bid security, at the bidder's option, shall be in the form of a letter of credit or bank guarantee from a reputable bank.

#### Bid Opening and Bid Evaluation

Bids shall be opened in public, immediately after the deadline for submission of bids, and if bids are invited in two (2) envelopes, both envelopes (technical and price) shall be opened at the same time.

Evaluation of bids shall be made in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the lowest evaluated bidder.

Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations.

No bidder shall be rejected merely on the basis of a comparison with the owner's estimate and budget ceiling without the Association/Bank's prior concurrence.

#### Rejection of Bids

All bids shall not be rejected and new bids solicited without the Bank's prior concurrence.

When the number of responsive bids is less than three (3), re-bidding shall not be carried out without the Bank's prior concurrence.

## **9. Disbursement**

Two types of disbursements are possible under the Grant Agreement:

1. Disbursements for water supply connections properly installed and operational: PALYJA shall submit application for withdrawals (invoice) to the World Bank for payments against delivery of the applicable output by attaching copy of the Output Verification Report. The application for disbursement will be in Indonesian Rupiah currency payable to PALYJA's account. The World Bank will review and process the application for payments and charge the Grant Account in US\$.
2. Disbursement against services under Part 3 of the project (consultants): PALYJA will make an application for payment, supported by proof of payment to the consultant, for reimbursement into PALYJA's account.

The Bank's Task Team Leader (TTL) for the OBA scheme must approve the amount of reimbursement requested in each disbursement application. In this respect a scanned document may be submitted by e-mail simultaneously to the Bank disbursement officer and to the TTL for clearance.

Evidence (supporting documentation) to be provided along with Withdrawal Application is specified in the Banks's "Disbursement Letter" and includes:

- For Disbursement Categories 1 and 2 (connections) supporting documentation is: Invoices and certification from the Output Auditor.
- For Disbursement Category 3 (services) supporting documentation is SOE as indicated in attachment 5 of the Disbursement Letter dated November 1, 2007.

## **10. Environment and Social Safeguards**

### ***10.1 Application of safeguards policies***

The works in the project trigger the World Bank's Environmental Assessment Policy (OP4.01) due to the safety, construction and traffic related impacts. As no system will be designed that would require land acquisition or resettlement, the Involuntary Resettlement will be excluded through project screening and design. While no cultural property as defined under OPN4.11 has been identified in the project area, the project will incorporate chance finds procedures for construction contractors.

The categorisation of EA endorsed by the EAP Safeguards Secretariat is a Category B as the impacts are short-term, minor, largely reversible and have easily designed and implemented mitigation measures. An environmental management plan has been developed for the works through requirements for the construction contractors and

associated standard operating procedures. Monitoring and reporting will also be undertaken as part of the program.

### ***10.2 Environmental Management Plan (EMP)***

The environmental management plan is outlined in the “Minimum Environmental and Community Requirements for Palyja Projects” and operationalised in a set of standard operating procedures that will be a requirement of the contractor. They include:

1. Personal protective equipment for workers.
2. Trench safety procedures.
3. Public safety and traffic management.
4. Equipment to provide safety during night works.
5. Occupational safety and health procedures.
6. Handling removal of asbestos cement pipes if encountered.
7. Handling and disposal of solid, liquid (including oils and fuels) waste.
8. Management of burrow sites for backfill material.
9. Chance finds procedures for cultural property.

### ***10.3 Monitoring***

PALYJA will monitor compliance of the contractor with the standard operating procedures. They will produce quarterly compliance reports and annual environmental reports for purposes of Bank supervision.

### ***10.4 Consultation and grievance procedures***

A participatory framework has been incorporated into the project EMP which involves consultations before works are undertaken that cover among other things the environmental impacts and measures. A mechanism to allow communities to raise concerns or complaints on the execution of the project works and environment measures is also included and the complaints and related follow-up will be reported in the monitoring reports.

## **11. Scheme Monitoring and Evaluation**

PALYJA will have the responsibility for the scheme administration and for the monitoring of outcomes.

It is of great importance to GPOBA to monitor and document sustainability and impact of the project even beyond the disbursement period of the project. To this extent, PALYJA will gather information, and prepare annual reports over a period of at least three years, for use by GPOBA.

In addition to the monitoring and verification of actual outputs for certification and subsidy disbursement undertaken by the independent output auditor and the Jakarta

Water Supply Regulatory Body working with PALYJA, the information detailed in Annex 5 will be collected by the applicants and copied to GPOBA for monitoring and tracking purposes.

Information on the indicators detailed in Annex 5 should be provided in PALYJA's Water's annual report to GPOBA. When the information is available, updates should also be provided in relevant Quarterly Reports -- see 12.2 below.

## **12. Reporting Obligations**

PALYJA will report on project progress directly to GPOBA. The information and data to be supplied comprise:

### ***12.1 Baseline Report***

Prior to commencing work on the OBA Grant PALYJA shall present a detailed report of the project's condition.

### ***12.2 Quarterly Report***

Consistent with Section 7, PALYJA shall submit project progress reports to GPOBA on a *quarterly basis*. These reports will contain summaries of each subproject status, as well as unaudited interim financial report containing a statement of sources and uses of funds and cash balances (with expenditures classified by subcomponent, and including actual versus planned/budget in the same statement of sources and uses of funds).

### ***12.3 Financial Reports***

On an *annual basis*, PALYJA will submit to the Bank audited annual project financial statements and the entity's financial statements, no later than six months after the end of each fiscal year. See section 7.

### ***12.4 Output Verification Reports***

The objective of the output verification stage is for the Output Auditor to prepare an Output Verification Report (OVR) for submission to GPOBA. These reports should be submitted on a semi-annual basis.

### ***12.5 Completion Report & Post Project Completion Reports***

PALYJA shall furnish GPOBA with a Project Completion Report including details on the execution of the project and the overall use of funds no later than six months after the Closing Date. For the preparation of this report PALYJA may use the Output Auditor's OVR and will also ensure the completion of the GPOBA data sheet for Monitoring and Evaluation Indicators attached as Annex 5, which the Output Auditor should help to

prepare. At the end of the Grant period, PALYJA Water will prepare two additional Post Project Completion Reports to GPOBA no later than one month after the first and second anniversaries of the Closing Date, respectively. All such reports should report on both type I and type II connections.

## Annex 1 : Example of Connection Confirmation Form

| CONNECTION CONFIRMATION FORM   |     |    |
|--|-----|----|
| FORM # (for administration purposes):  |     |    |
| ADDRESS OF HOUSEHOLD:  |     |    |
| PART A: Head of Household to Complete  |     |    |
| <i>Please place a tick in the appropriate box next to each question:</i>   | YES | NO |
| 1. PALYJA/TPJ has installed a new water connection at this house   |     |    |
| 2. This connection supplies water regularly every since it was installed   |     |    |
| 3. The water available from this connection is of a reasonable standard for drinking (does not have foul smell or taste, is not strongly discolored) |     |    |
| NAME OF HOUSEHOLDER:   |     |    |
| IDENTIFICATION NUMBER:   |     |    |
| SIGNATURE OF HOUSEHOLDER:  |     |    |
| DATE:  |     |    |
| PHONE NUMBER (optional):   |     |    |
| PART B: Auditor to Complete  |     |    |
| <i>Please place a tick in the appropriate box next to each question:</i>   | YES | NO |
| 1. The connection installed at this household meets the specifications set out in the Grant Agreement  |     |    |
| 2. The connection installed at this household supplies water   |     |    |
| <i>Please enter the data recorded for this household below:</i>  |     |    |
| Connection Type:   |     |    |
| NAME OF AUDITOR REPRESENTATIVE:  |     |    |
| SIGNATURE:   |     |    |
| DATE:  |     |    |

## Annex 2

### Estimated Disbursements

| <b>FY</b>           | <b>2007</b> | <b>2008</b> | <b>2009</b> | <b>2010</b> |
|---------------------|-------------|-------------|-------------|-------------|
| Annual (US\$ m)     | 0.0         | 2,087,805   | 485,355     |             |
| Cumulative (US\$ m) | 0.0         | 2,087,805   | 2,573,140   |             |

## Annex 3

### Investment Schedule

| <i>Expenditure categories</i>  | <i>GPOBA<br/>(US\$)</i> | <i>Co-financing</i> |  | <i>Total Cost<br/>(US\$)</i> |
|--|-------------------------|---------------------|--|------------------------------|
|  |                         | <i>US\$</i>         | <i>Details</i><br>(i.e. government cash or in-kind contributions, donor funds, status of approval, etc.) |                              |
| Projected subsidy expenditure  | 2,473,140               | 115,800             | Customer contributions   | 2,588,940                    |
|  |                         |                     |  |                              |
| Administration costs<br>(output auditor, financial audits, dissemination etc.) | 100,000                 |                     |  | 100,000                      |
| <b>Total Financing/Costs</b>   | <b>2,573,140</b>        | <b>115,800</b>      |  | <b>2,688,940</b>             |

## **Annex 4**

### **Bank Staff Working on the Project**

| <b>Name</b>  | <b>Title</b>                     | <b>Unit</b> |
|--------------|----------------------------------|-------------|
| Iain Menzies | Senior Infrastructure Specialist | FEU         |
| Melinda Good | Senior Counsel                   | LEGEA       |
| Novira Asra  | Financial Management Specialist  | EAPCO       |
| Imad Saleh   | Lead Procurement Specialist      | EAPCO       |
| Luis Tineo   | Senior Procurement Specialist    | LCSPT       |
| Junxue Chu   | Finance Officer                  | LOAG1       |
| John Morton  | Environmental Specialist         | EASRE       |

## **Annex 5**

### **Monitoring & Evaluation – Project Indicators**

Table 1: Output table

| Year                                      | Total   | 2007   |    | 2008 |    |
|---|---------|--|----|------|----|
|   |         | H1   | H2 | H1   | H2 |
| <b>Type I connections</b>                 |         |  |    |      |    |
| Total # of connections made               | planned |  |    |      |    |
|   | actual  |  |    |      |    |
| Total # of water meters in operation      | planned |  |    |      |    |
|   | actual  |  |    |      |    |
| Uptake Ratio                              | planned | Willingness to connect based on survey results |    |      |    |
|   | actual  |  |    |      |    |
| Subsidy per connection                    | planned |  |    |      |    |
|   | actual  |  |    |      |    |
| Disbursements request                     | planned |  |    |      |    |
|   | actual  |  |    |      |    |
| <b>Type II connections</b>                |         |  |    |      |    |
| Total # of connections made               | planned |  |    |      |    |
|   | actual  |  |    |      |    |
| Total number of water meters in operation | planned |  |    |      |    |
|   | actual  |  |    |      |    |
| Uptake ratio                              | planned | Willingness to connect based on survey results |    |      |    |
|   | actual  |  |    |      |    |
| Subsidy per connection                    | planned |  |    |      |    |
|   | actual  |  |    |      |    |
| Disbursements request                     | planned |  |    |      |    |
|   | actual  |  |    |      |    |
|   | actual  |  |    |      |    |

Table 1 cont: Output table

| Year                                      | Total   | 2009   |    | 2010 |    |
|---|---------|--|----|------|----|
|   |         | H1   | H2 | H1   | H2 |
| <b>Type I connections</b>                 |         |  |    |      |    |
| Total # of connections made               | planned |  |    |      |    |
|   | actual  |  |    |      |    |
| Total # of water meters in operation      | planned |  |    |      |    |
|   | actual  |  |    |      |    |
| Uptake Ratio                              | planned | Willingness to connect based on survey results |    |      |    |
|   | actual  |  |    |      |    |
| Subsidy per connection                    | planned |  |    |      |    |
|   | actual  |  |    |      |    |
| Disbursements request                     | planned |  |    |      |    |
|   | actual  |  |    |      |    |
| <b>Type II connections</b>                |         |  |    |      |    |
| Total # of connections made               | planned |  |    |      |    |
|   | actual  |  |    |      |    |
| Total number of water meters in operation | planned |  |    |      |    |
|   | actual  |  |    |      |    |
| Uptake ratio                              | planned | Willingness to connect based on survey results |    |      |    |
|   | actual  |  |    |      |    |
| Subsidy per connection                    | planned |  |    |      |    |
|   | actual  |  |    |      |    |
| Disbursements request                     | planned |  |    |      |    |
|   | actual  |  |    |      |    |
|   | actual  |  |    |      |    |

## Operational Manual for Western Jakarta Water Supply OBA Scheme

**Table 2: Monitoring Indicators (to be provided at the beginning of the project and updated when necessary)**

|                    |   |  |
|--------------------|---|--|
| Outputs            | Definition of outputs   | Water connection and 3 months of continuous satisfactory service   |
|                    | Disbursement milestones   | 75% at installation of water connection, 25% after 3 months of successful billing  |
| Access             | Number of people per hh in project area   |  |
| Targeting          | Targeting   | Geographic   |
|                    | Average household expenditure on alternative service provision (and list alternative service sources) | Expenditure in absence of project (e.g. for water from informal vendors, rivers, wells, springs, boreholes, tanker truck etc.) |
|                    | If tariff does not cover O&M, how is the gap being funded   | n/a  |
| Aid efficiency     | Total GPOBA subsidy requested   | USD 2,573,140  |
|                    | Average unit subsidy (by type of output)  | USD 90 per person (target 45% connectivity)<br>USD 45 per person (100% connectivity)   |
|                    | Comparator information  | Independent scheme design consultants benchmarked scheme costs against the cost of similar pipe laying contracts in Jakarta    |
|                    | How were unit costs established for this project?   | See above  |
|                    | Efficiency Gains  | n/a  |
|                    | Time (months) to design OBA scheme  | 20 months from TA start to GA signature, but with delays caused by debarment of Astra until September 2007                     |
|                    | Cost of project development (TA)  | USD 223,000 for TA (plus USD 50,000 supervision)   |
| Provider selection | Description of service provider   | International water utility  |
|                    | Type of contract and contract period  | Concession   |
|                    | Competitive bidding or Incumbent provider?  | Incumbent provider   |
| Dev. impacts       | Average distance to the nearest water point (in Km)   |  |
|                    | Average time to procure 360 litres per household per day  |  |
|                    | Incidence of water borne diseases (morbidity rate)  |  |
|                    | Gender impact   | Please explain any specific impact this project has/will have on women/girl-children such as time savings per day.             |

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**Table 3: Indicator tracking table**

| Year   | Unit    | Baseline                    | 2007 |    | 2008 |    | 2009 |    |
|--|---------|-----------------------------|------|----|------|----|------|----|
|  |         |                             | H1   | H2 | H1   | H2 | H1   | H2 |
| <b>Type I connections</b>  |         |                             |      |    |      |    |      |    |
| Number of connections  | planned | #                           |      |    |      |    |      |    |
|  | actual  |                             |      |    |      |    |      |    |
| Number of hhs/people benefiting  | planned | #                           |      |    |      |    |      |    |
|  | actual  |                             |      |    |      |    |      |    |
| Uptake ratio   | planned | #                           |      |    |      |    |      |    |
|  | actual  |                             |      |    |      |    |      |    |
| <b>Type II connections</b>   |         |                             |      |    |      |    |      |    |
| Number of connections  | planned | #                           |      |    |      |    |      |    |
|  | actual  |                             |      |    |      |    |      |    |
| Number of hhs/people benefiting  | planned | #                           |      |    |      |    |      |    |
|  | actual  |                             |      |    |      |    |      |    |
| Uptake ratio   | planned | #                           |      |    |      |    |      |    |
|  | actual  |                             |      |    |      |    |      |    |
| User assessment of project / service   |         | No/poor/fair/good/very good |      |    |      |    |      |    |
| Service Availability   |         | Hours/day                   |      |    |      |    |      |    |
| Service delivery standard (of 360 liters per Individual Household Connection per day) has been met |         | Yes/No                      |      |    |      |    |      |    |
| Unscheduled water supply failures lasting more than 30 minutes                                     |         | #/year                      |      |    |      |    |      |    |
| Average daily/ monthly consumption of service by HH  |         | Unit                        |      |    |      |    |      |    |
| Average monthly hh expenditure on service  |         | Specify currency            |      |    |      |    |      |    |
| Residential tariffs for project  |         | Specify                     |      |    |      |    |      |    |

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|  |                  |  |  |  |  |  |  |  |
|--|------------------|--|--|--|--|--|--|--|
| beneficiaries  | unit             |  |  |  |  |  |  |  |
| Average monthly household income of beneficiary households   | Specify currency |  |  |  |  |  |  |  |
| Collection efficiency (Amount billed/amount collected) in project location. Explain any differences with collection efficiency of the whole utility. | %                |  |  |  |  |  |  |  |
| Percentage of population in target area with access to service in question (connection rate)   | %                |  |  |  |  |  |  |  |
| Water sales per year   | Specify unit     |  |  |  |  |  |  |  |
| Incidence of water borne diseases (morbidity rate)   | Specify unit     |  |  |  |  |  |  |  |
| Time Saving for women  | Hours/day        |  |  |  |  |  |  |  |
| Other development impact indicators recorded by the project  | Pls. specify     |  |  |  |  |  |  |  |

**Table 4: Project funding sources (per period)**

| Year                                      |         | Unit             | Unit cost | Total |
|---|---------|------------------|-----------|-------|
| GPOBA subsidy                             | planned | Specify currency |           |       |
|   | actual  |                  |           |       |
| User contribution                         | planned | Specify currency |           |       |
|   | actual  |                  |           |       |
| Private financing                         | planned | Specify currency |           |       |
|   | actual  |                  |           |       |
| Funding from other sources (pls. specify) | planned | Specify currency |           |       |
|   | actual  |                  |           |       |
| Total                                     | planned | Specify currency |           |       |
|   | actual  |                  |           |       |
|   |         |                  |           |       |
|   |         |                  |           |       |

## **Attachment 1: TERMS OF REFERENCE**

### **Annual Audit TOR for PALYJA**

#### **Western Jakarta – Expansion of Water Services Project**

#### **Purpose**

The purpose of the audit is to provide assurance that Financial Statements of the project have been prepared in accordance with *Indonesian Accounting Standard* and give a true and fair view of the operations of the project during the year and the financial position of PALYJA at the close of the fiscal year. The audit should also include examination of corporate governance aspects (legality of transactions, financial standing, systems of internal control, standards of financial conduct, prevention and detection of fraud and corruption) and the use of resources.

#### **Scope**

The audit will be carried out in accordance with *International Standards of Auditing (ISA)*. It will include such tests and controls, as the auditor considers necessary under the circumstances. Specific areas of coverage of the audit will include the following:

- (1) An assessment of whether the PALYJA's annual financial statements have been prepared in accordance with consistently applied generally accepted accounting principles and gives a true and fair view of the operations of PALYJA during the year and the financial position of PALYJA at the close of the fiscal year. Any material deviations from generally accepted accounting principles, and the impact of such departures on the PALYJA financial statements as presented would be stated;
- (2) An assessment of the adequacy of the PALYJA financial management systems<sup>1</sup>, including internal controls. This would include aspects such as adequacy and effectiveness of accounting, financial and operational controls and any needs for revision; level of compliance with established policies, plans and procedures; reliability of accounting systems, data and financial reports; methods of remedying weak controls or creating them where there are none; verification of assets and liabilities; record keeping and custody of fixed assets; and integrity, controls, security and effectiveness of the operation of the computerized accounting system (if any); and
- (3) An assessment of compliance with relevant provisions of the financing agreement, especially those relating to accounting and financial matters. This would inter alia include verification that:
  - (a) all external funds have been used in accordance with the conditions of the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
  - (b) expenditures charged to the project are eligible expenditures and have been correctly classified in accordance with the relevant financing agreement;
  - (c) goods and services finance have been procured in accordance with the relevant financing agreement;
  - (d) all necessary supporting documents, records, and accounts have been kept in respect of all PALYJA's activities
  - (e) clear linkages exist between the accounting records including accounts books and the PALYJA Financial Statements;
  - (f) Project expenditures as reported by the PALYJA is reconciled with the amounts withdrawn from the project Designated Account.

## Operational Manual for Western Jakarta Water Supply OBA Scheme

(4) An assessment of project implementation to determine whether financial and physical progresses are mutually consistent during the project period, and are accurately reported.

(5) An assessment on the achievements of the planned results of the project as measured by the performance indicators as stipulated in the relevant financing agreement.

### **PALYJA's Financial Statements**

PALYJA's annual financial statement shall be prepared by PALYJA based on the PALYJA's records, including the project transaction and should include

- 1) PALYJA's Balance Sheet;
- 2) Statement of Income (including reference to the expenditures funded by the Bank)
- 3) Statement of Changes in Shareholders' Equity
- 4) Statement of Cash Flows
- 5) Notes to the Financial Statements

### **Audit Report**

The audit report shall contain the auditor's opinion on the reliability of the PALYJA's annual financial statements. The report should refer to the auditor's TOR. The auditor should address the audit report to the PALYJA's Directors, and submit a copy of the report to the World Bank. The audit report and the audited financial statements should be received by the World Bank no later than *six months* after the end of the fiscal year.

### **Management Letter**

In addition to the audit reports, the auditor will prepare a management letter, in which the auditor will:

- (a) give comments and observations on the accounting records, systems, and controls that were examined during the course of the audit; and identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;
- (b) give comments on economy, efficiency, and effectiveness in the use of resources
- (c) report on the degree of compliance of each financial covenant and performance indicators in the financing agreement and give comments, if any, on internal and external matters affecting such compliance;
- (d) communicate matters that have come to the auditor's attention during the audit which might have a significant impact on the PALYJA operation; and
- (e) any other matters that the auditors considers pertinent.

### **General**

The auditor should be given access to all legal documents, correspondence, and any other information associated with the project and deemed necessary by the auditor.

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<sup>1</sup> The financial management system would include methods and records established to identify, assemble, analyze, classify, record and report on transactions and to maintain accountability for the related assets and liabilities.

# Operational Manual for Western Jakarta Water Supply OBA Scheme

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