BUDGET PROCESS IN INDONESIA

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Introduction

- Budget reform started at 2003
- Central and local government prepare the budget and submit to the parliament for approval.
- Indonesia implemented Performance Based Budget and used Medium Term Expenditure Framework when formulate the annual budget.
- Budget execution controlled by treasury procedure
- Budget executions are reported by accounting system and reported in the financial statement → Budget Realization Report is one of the component of Financial Statement that prepare by government institution.
- The budget realization report is audited by supreme audit institution before submitted to the parliament or publish to public
Bill of Nation

- National Budget as a form of the State
  Financial management is annually
  established under the law and
  implemented openly and responsibly for
  purpose of giving the greatest number of
  prosperity to the Indonesia peoples.

- Nation budget shall be proposed by the
  President then discussed with parliament by
  considering local parliament.
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Role of Budget

Proper Public Financial Management system is a key element to realize Good Governance in Public Sector.

Transparency in budget preparation, implementation and accountability in treasury management facilitates:

a. collection of sufficient resources from the economy in appropriate manner, and
b. allocation or use of resources efficiently and effectively.

Budget System has to aim at supporting budget process that:

a. has a medium-term framework in line with government’s macroeconomic management priorities;
b. includes a set of governmental agencies spending limits that reflects government priorities;
c. establishes clear responsibilities to ensure an effective in management and accountability;
d. provides for reporting to the people through the parliament;
e. requires an independent auditor of the legal compliance as well as the performance in achieving state objectives.

Formulation Process should aim at:

a. ensuring the budget fits macroeconomic policies and resources constraints;
b. allocating resources in conformity with national goals;
c. providing conditions for operational management.
Public Financial Management refers to the legal and organizational framework for supervising all phases of the budget cycle, including:

- the preparation of the budget,
- the budget implementation, include:
  - procurement,
  - monitoring,
  - and reporting arrangements (using accounting system),
- internal control and audit,
- external audit.

The broad objectives of public financial management:
- overall fiscal discipline,
- allocation of resources to priority needs, and
- efficient and effective utilization of public resources.
Existing Budget Allocation Mechanism

Ministries/Other Public Institutions
(as COOs-Chief Operating Officers)

National Planning Agency/Bappenas

Ministry of Finance
(as CFO-Chief Financial Officer
On behalf of President
as CEO-Chief Executive Officer)

National Priority Program
And Ceiling Budget

National Budget Availability

Government Proposal

Indonesian Parliament

Proposed
to be revised

rejected

approved
Priorities and Challenges

- Integrating PBB and MTEF into the Budget Process
- Defined Key Performance Based
- Appropriate Standard Costing – General Standard cost and Specific Standard Cost
- Consistency between Planning Program and Budget Allocation
- ‘Budget Disciplinarians’

Modern Budget System

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Ministry of Finance Bureaucratic Reform

- Key Performance Indicator
- Human Resources Improvement
- Business Process Improvement
- Organization Development
- Good Governance and Public Services Delivery Improvement
- Remuneration
Priority of 2013

- Government have a 4 pillars in fiscal policy 2013
  - pro growth
  - pro job
  - pro poor
  - pro environment.

- The thema of 2013 annual budget is strengthening domestic economy for enhancing and enlarging prosperity for all Indonesian peoples.

- The Direction of fiscal policy is enhancing economic growth by affording fiscal policy health:
  - optimizing the government revenue
  - improving the quality of government expenditure
  - controlling of budget deficit (1.3 – 1.9%).
Strategic of 2013

- Some of strategic plan to improve quality of government expenditure for example:
  - Focusing on capital expenditure that improve the infrastructure
  - Reducing consumptive expenditure and relocating to productive expenditure
  - Redesigning the subsidies policy, changing form price subsidies to targeted subsidies.
  - Avoiding additional future mandatory spending
  - Accelerating implementation of Performance based budget and Medium Term Expenditure Framework.
  - Enhancing the bureaucracy reform.
  - Improving the Budget absorption
Indonesia Finance Reform

The Law No.17/2003

Unified Budget

Performance Based Budgeting (PBB)

Medium Term Expenditure Framework (MTEF)

The Law No.1/2004

Treasury System / Budget Execution

The Law No.15/2004

Budget Accountability
The reform of the fiscal system and endeavors to align it with the international best practices started with the issuance of a Presidential Decree on Government Financial Accountability in 1999. Major reforms were introduced with the promulgation of the following three laws on state finance in 2003 and 2004:

- Law No. 17 of 2003 on State Finance;
- Law No. 1 of 2004 on State Treasury;
- Law No. 15 of 2004 on Auditing the Management and Accountability of State Finance.
Fiscal Reform

Fiscal reforms address the weaknesses of the previous fiscal system by, among other things:

- end separation between routine and development expenditures in order to avoid duplication of spending and misuse of public funds for unintended purposes;
- move from a single entry to a double entry accounting system, and from cash basis to accrual basis to allow medium- and long-term planning and performance basis and multi-year budget;
Fiscal Reform

- adopt a Treasury Single Account to improve financial control;
- modernize and integrate computerized accounting system;
- decentralize the accounting implementation in a hierarchical manner by each accounting unit, both at the central and regional levels;
- Improve the audit of public funds, applying a tight time frame for the accountability report, strengthen follow up on audit findings and prosecute cases of corruption.
THE NEW GOVERNMENT ACCOUNTING RULES (1)

1. Every public spending agency (both central and local government, around 37,000) must administer accounting and present periodic financial statement;
2. Accounting standards to be established by an independent committee;
3. Ministry of Finance develops accounting system for the central government agencies;
4. Local government develops accounting system for their own purposes, with assistance from Ministry of Home Affair.
5. The new accounting systems must at least generates (1) budget realization report, (2) balance sheet, (3) cash flow statement, and (4) notes to the financial statement.
5. Information on actual output to be submitted along with the financial statements (FS);

6. Spending minister/governor/major must present a Statement of Responsibility (SOR);

7. The Supreme Audit Board performs financial audit and render its opinion on the fairness of the FS;

8. The audited financial statement are to be submitted to the parliament in 6 month period after the budget-year end;

9. Once submitted to parliament, the audit report are opened for public access.
THE “CASH TOWARDS ACCRUAL” ACCOUNTING SCHEME

All external cash transactions

Recording and posting in Revenue or Expenditure Accounts and Cash Account

Affecting LT Asset/Liability Accounts?

Corollary entries on related LT Asset/Liability Accounts

Non – cash internal/external transactions

Periodical adjusting entries, affecting:
- Stock Accounts
- Flow Accounts

Budget Realization Report

Cash - flow Report

Balance Sheet or Statements of Ending Position

Reversing entries on Adjusted Flow Accounts

Stop

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INDONESIA GOVERNMENT ACCOUNTING STANDARDS

The Conceptual Framework of Government Accounting;
1. Presentation of Financial Statement;
2. Budget Realization Statement;
3. Cash Flow Statement;
4. Notes of the Financial Statement;
5. Accounting for the Inventories;
6. Accounting for Investment;
7. Accounting for Fixed Asset;
8. Accounting for Construction in progress;
9. Accounting for Liabilities;
10. Accounting for Error Adjustments, Accounting Changes, and Extra-ordinary Events;
12. Operational Report