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 instituion.
- The budget realization report is audited by supreme audit instituion 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 dicussed 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.

Budget Cycle

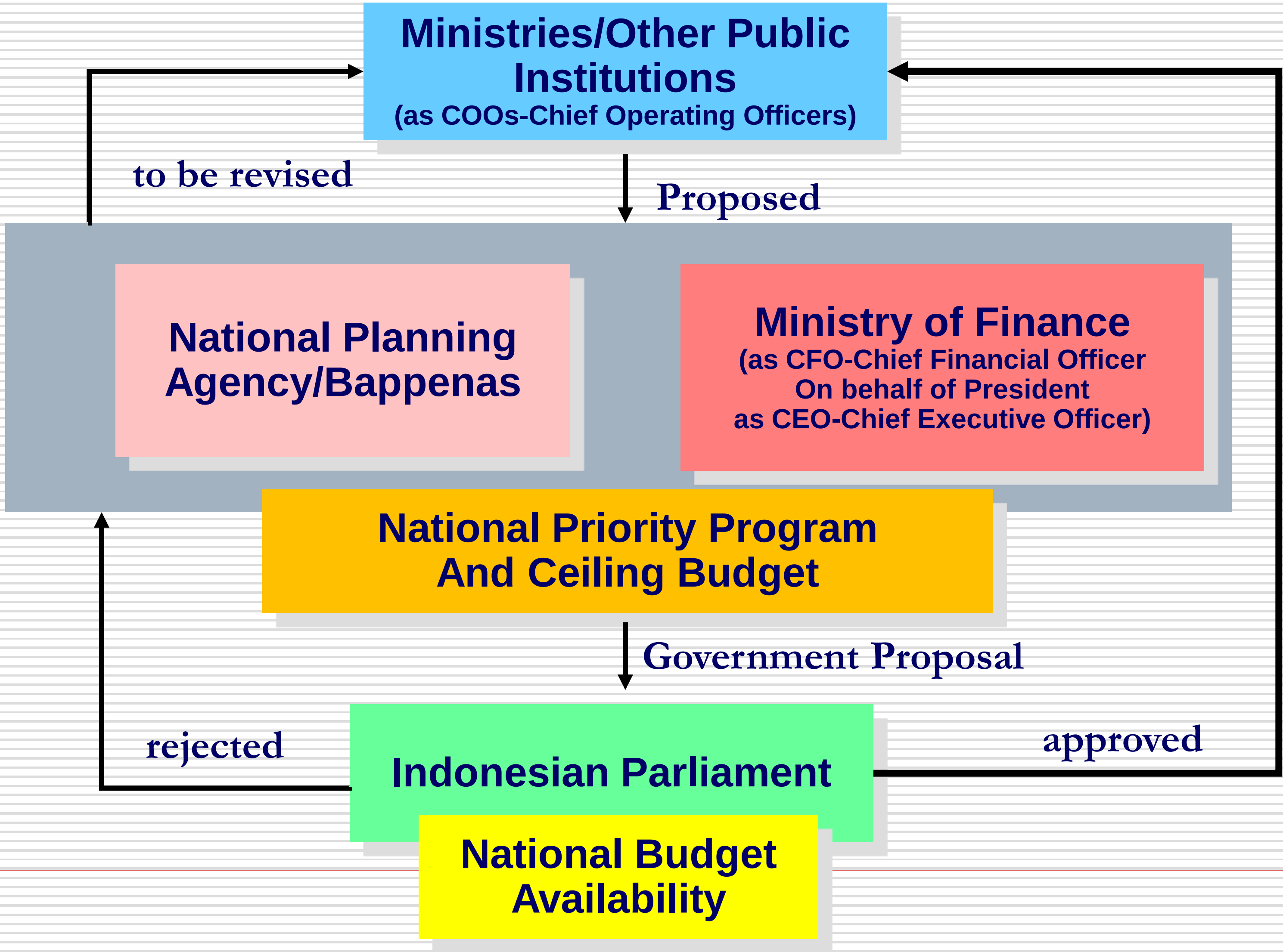
Public Financial Management refers to the legal and organizational framework for supervising all phases of the **budget cycle**, including :

- 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



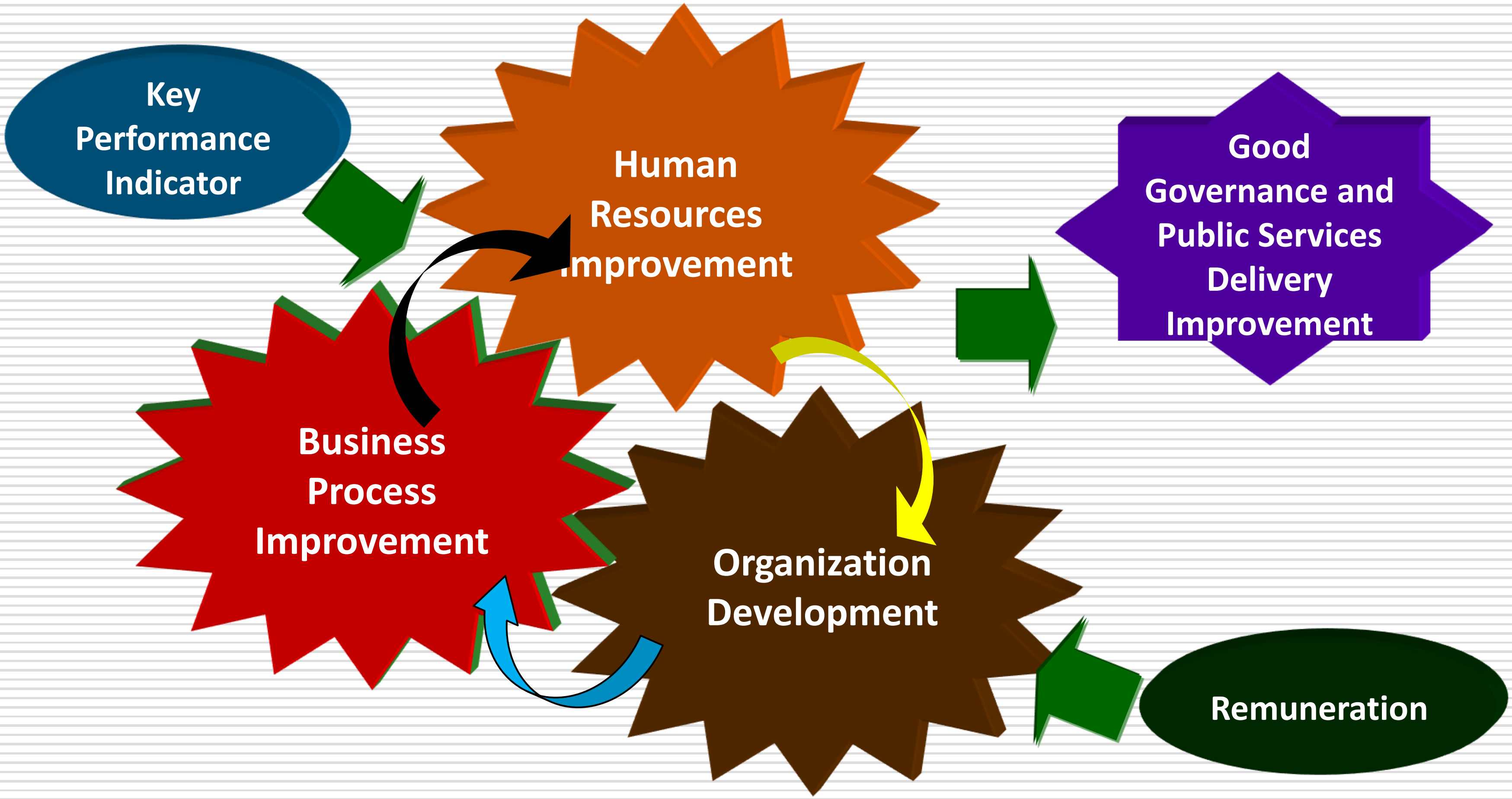
Priorities and Challenges

- 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'

Actions Plan | **Time Frame** | **Person In Charge**

Modern Budget System

Ministry of Finance Bureaucratic Reform



Priority of 2013

- Government have a 4 pilars 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 prosperety 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 defisit (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 consumptif 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 bureacracy reform.
- Improving the Budget absorption

Indonesia Finance Reform

- **The Law No.17/2003** → **Unified Budget**
- **The Law No.17/2003** → **Performance Based Budgeting (PBB)**
- **The Law No.17/2003** → **Medium Term Expenditure Framework (MTEF)**
- **The Law No.1/2004** → **Treasury Sytem / Budget Execution**
- **The Law No.15/2004** → **Budget Accountability**

Fiscal Reform – Budget Execution and 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.

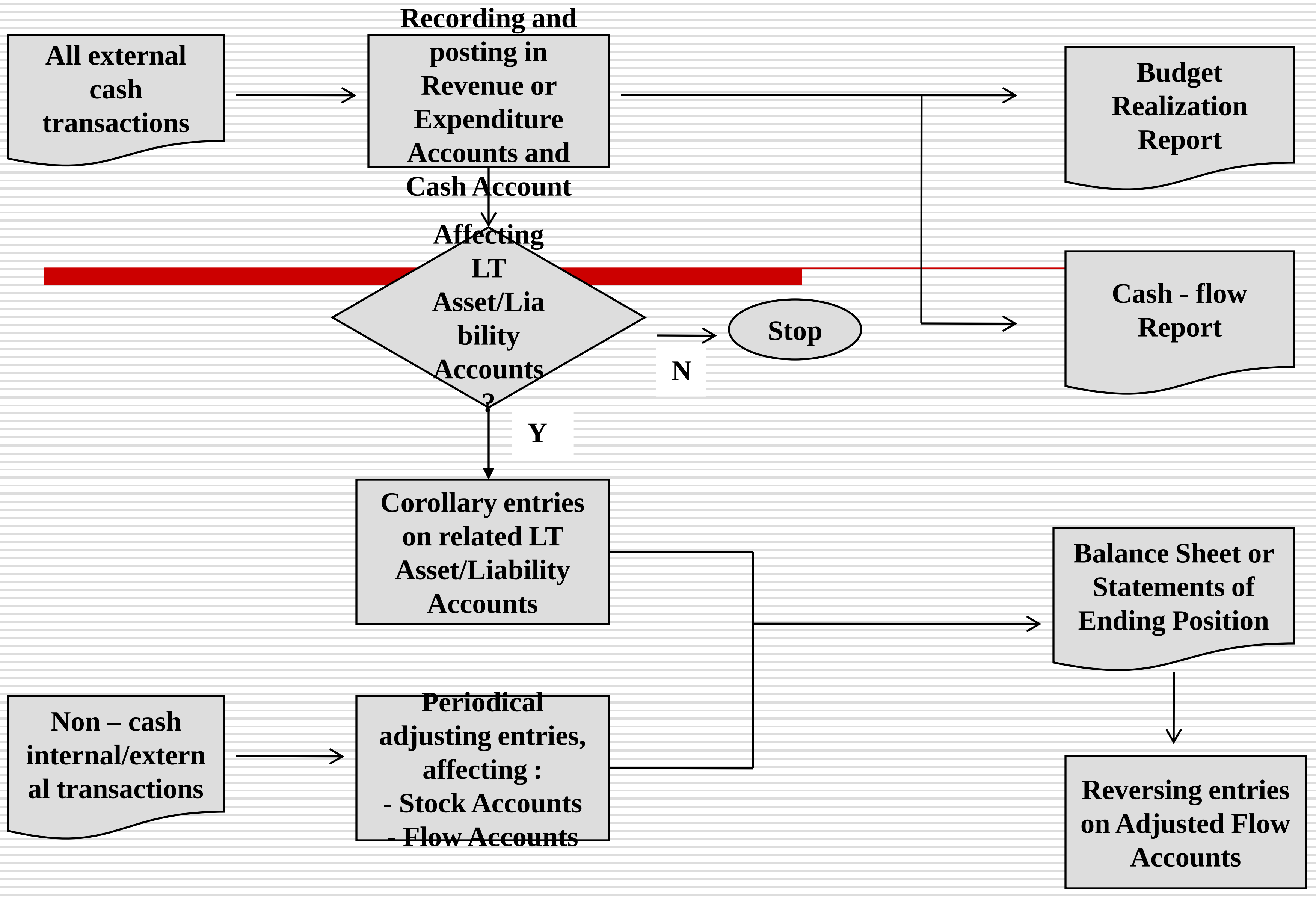
THE NEW GOVERNMENT ACCOUNTING RULES (1)

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.

THE NEW GOVERNMENT ACCOUNTING RULES (2)

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



INDONESIA GOVERNMENT ACCOUNTING STANDARS

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;
11. Consolidation of Financial Statement.
12. Operational Report