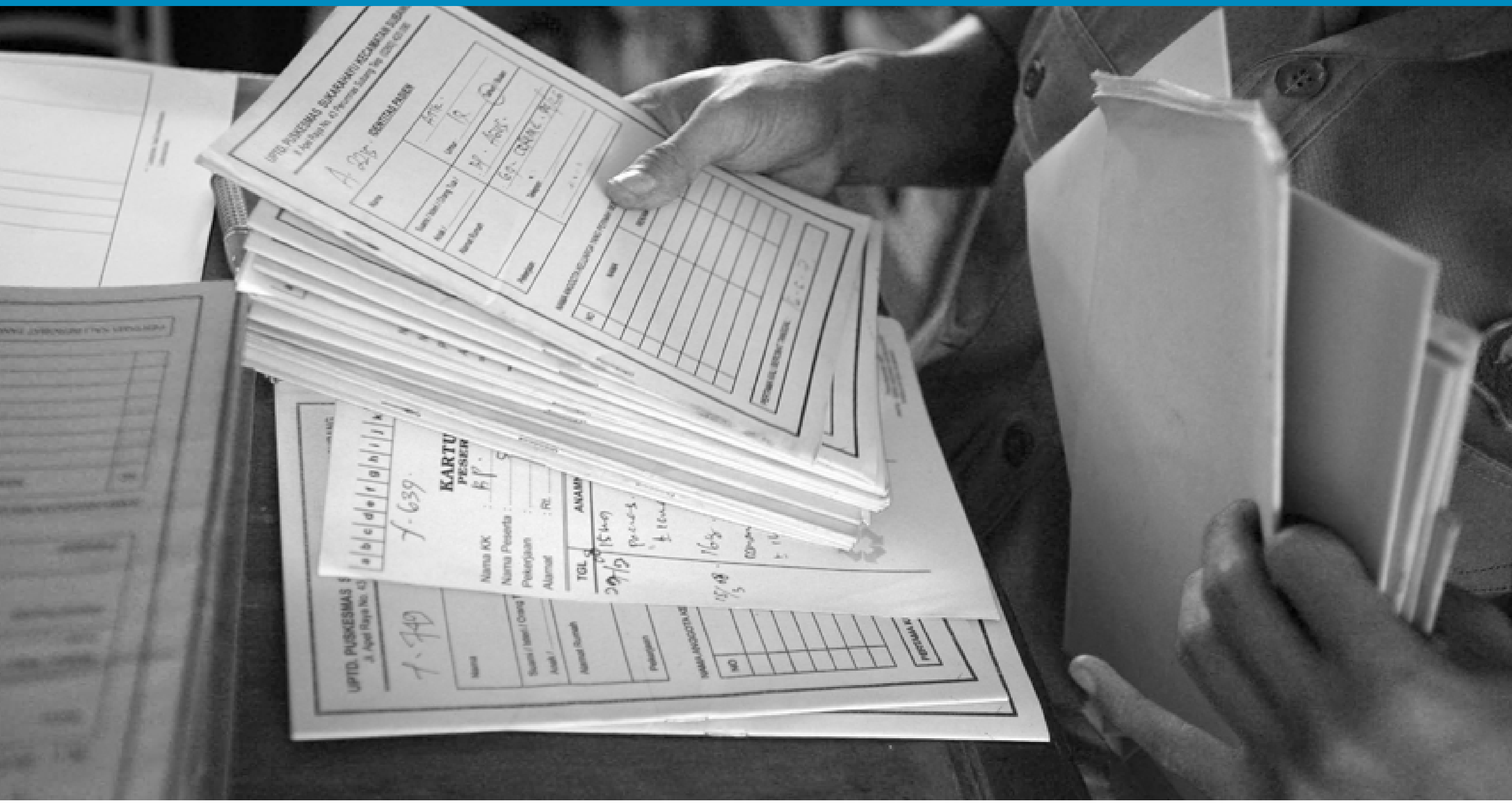
Indonesia:

Repeat Public Expenditure and Financial Accountability (PEFA) Report & Performance Indicators



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Indonesia:
Repeat Public Expenditure and Financial Accountability (PEFA) Report & Performance Indicators

December 2012

Public Financial Management Multi-Donor Trust Fund for Indonesia

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Currency Equivalents
Currency Unit Rupiah (Rp)
US$1 = Rp 9,493
Fiscal Year: January 1 to December 31.

ABBREVIATIONS & ACRONYMS

ADB	Asian Development Bank
AGA	Autonomous Government Agencies
APBN	Anggaran Pendapatan dan Belanja Negara (State Budget of Central Government)
APBD	Anggaran Pendapatan dan Belanja Daerah (Budget of Sub-National Government)
BAPPENAS	Badan Perencanaan Pembangunan Nasional (National Agency for Development Planning)
BUMN	Badan Usaha Milik Negara (State Owned Enterprises)
BAKN	Badan Administrasi Kepegawaian Negara (Government Employee Administration Agency)
BKN	Badan Kepegawaian Negara (Government Employee Agency)
BPK	Badan Pemeriksa Keuangan (State Audit Agency)
BPKP	Badan Pengawasan Keuangan dan Pembangunan (Financial and Development Supervisory Board)
COA	Chart of Accounts
COFOG	Classification of the Function of Government
DAU	Dana Alokasi Umum (General Allocation Fund)
DBH	Revenue sharing Fund
DG	Directorate General
DGT	Directorate General of Taxes
DIPA	Daftar Isian Pelaksanaan Anggaran (Budget Execution Document)
DPR	Dewan Perwakilan Rakyat (House of Representatives)
DSA	Debt Sustainability Analysis
FMRC	Financial Management Reform Committee
FY	Fiscal Year
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFMIS	Government Financial Management Information System
GFMRAP	Government Financial Management & Revenue Administration Project
GFSM	Government Finance Statistics Manual
IDB	Islamic Development Bank
IG	Inspectorate General
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
IPEA	Initiative for Public Expenditure Analysis
JBIC	Japan Bank for International Cooperation
KADIN	Indonesian Chamber of Commerce
KMK	Keputusan Menteri Keuangan (Decision issued by the Finance Minister)
KPP	Kantor Pelayanan Pajak (Tax Service Office)
KPPN	Kantor Pelayanan Perbendaharaan Negara (Treasury Payment Office)
KSAP	Komite Sistem Akutansi Pemerintah (Government Accounting Standards Committee)
KTP	Kartu Tanda Penduduk (National Identification Card)

LKPP	*Laporan Keuangan Pemerintah Pusat, (Financial Statements of the Central Government) and also Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah (National Public Procurement Agency)*
MDA	*Ministries, Departments and Agencies*
MOF	*Ministry of Finance*
MOH	*Ministry of Health*
MOHA	*Ministry of Home Affairs*
MONE	*Ministry of National Education*
MPN	*Modul Penerimaan Negara (Government Revenue Accounting System)*
MPW	*Ministry of Public Work*
MSOE	*Ministry of State Owned Enterprises*
MTEF	*Medium Term Expenditure Forecasting*
NoD	*Notice of Disbursement*
NPPO	*National Public Procurement Office*
PEFA	*Public Expenditure and Financial Accountability*
PER	*Public Expenditure Review*
PFM MDTF	*Public Financial Management Multi Donor Trust Fund*
PLN	*Perusahaan Listrik Negara (State-owned Electricity Company)*
PMK	*Peraturan Menteri Keuangan (Ministry of Finance Regulation)*
PP	*Peraturan Pemerintah (Government Regulation)*
PPP	*Public-Private Partnership*
RAPBN	*Rencana Anggaran Pendapatan dan Belanja Negara (Draft of State Budget)*
RDA	*Rekening Pembangunan Daerah (Regional Development Account)*
RDI	*Rekening Dana Investasi (Investment Fund Account)*
RKP	*Rencana Kerja Pemerintah, (Government Work Plan)*
RKAKL	*Rencana Kerja dan Anggaran Kementerian Negara/Lembaga (Ministerial Work Plan and Budget)*
RPJM	*Rencana Pembangunan Jangka Menengah (Medium Term Development Plan)*
ROSC	*Report on the Observance of Standards and Codes*
SATKER	*Satuan Kerja (Work Units in Spending Ministries).*
SAI	*Sistem Akuntansi Instansi*
SAU	*Sistem Akutansi Umum*
SAP	*Sistem Akutansi Pemerintah (Government Accounting Standards)*
SIKD	*Sistem Informasi Keuangan Daerah (Financial Information System for Local Governments)*
SIDJP	*Sistem informasi Direktorat Jenderal Pajak (Directorate General of Tax Information Systems)*
SPKN	*Standar Pemeriksaan Keuangan Negara (State Finance Auditing Standards)*
SNG	*Sub national Governments*
SOE	*State-Owned Enterprise*
SOP	*Standard Operating Procedures*
SPM	*Surat Perintah Membayar (Payment Order)*
SPKN	*State Finance Auditing Standards*
TIN	*Taxpayer Identification Number*
TSA	*Treasury Single Account*
UU	*Undang-Undang (Law)*
VAT	*Value Added Tax*

SUMMARY ASSESSMENT

1. **This repeat Public Expenditure and Financial Accountability (PEFA) assessment for Indonesia was undertaken by a team of World Bank and donor staff with close involvement of counterparts from the Government of Indonesia.** This Report updates the previous assessment, carried out in 2007, which utilized the PEFA measurement framework[1] to establish a baseline of performance indicators to measure Indonesia's Public Financial Management (PFM) system. The framework does not measure the performance of fiscal policies.

2. **This report focuses mainly on the changes in the performance of the PFM system from 2007 to 2011.[2]** This report does not try to replicate (or update) the information presented in the 2007 Report, and focuses largely on the major changes since 2007, and also on the ongoing reforms that should impact an assessment in the future. In many cases the legal and institutional framework remains the same, and has not been repeated in this report. Consequently, this report might be read in conjunction with the earlier report for a more complete elaboration of the PFM system in Indonesia. In addition, the PEFA methodology for assessing a few of the high-level indicators has been updated since 2007, although this report uses the original methodology for the purposes of consistency.[3]

3. **The PEFA measurement framework has been developed after consultation with a wide group of donors, client countries and international professional organizations.** It provides an integrated, standardized and indicator-led methodology to measure and monitor PFM performance over time. The objective is to help assess the performance of PFM systems, processes and institutions relative to internationally recognized good system characteristics. The rating methodology, covering a set of 31 high level performance indicators, with over 70 dimensions, emphasizes empirical and observable facets for each PFM area. The framework was not designed to rank countries by means of an overall aggregate rating nor is this report meant to judge policy actions or provide explicit recommendations. Instead, it is designed to support a strengthened approach to PFM reforms by facilitating dialogue between the Government and other stakeholders.

(i) Integrated Assessment of PFM Performance

Key changes from 2007 to 2011: For a summary of ratings in 2007 and 2011 see Table 1 below

4. **Results of the 2007 assessment reflected a mixed picture of strengths and weaknesses in the PFM system.** Key strengths pertained to transparent and comprehensive budget documentation, a well defined budget process with both executive and legislative adhering to the schedule, a budget classification which complied with international standards and efforts to strengthen the external audit function. The first PEFA also highlighted the sound regulatory framework that had been put in place in the preceding few years for almost all PFM areas, the major reorganization that had taken place at the Ministry of Finance (which created the separate budget and treasury functions), and the advances that had been made in budget preparation, such as instituting a unified budget. Weaknesses, on the other hand, were

1 See www.pefa.org for further information on the framework.

2 The 2007 Report for Indonesia can be found on the PEFA website: www.pefa.org

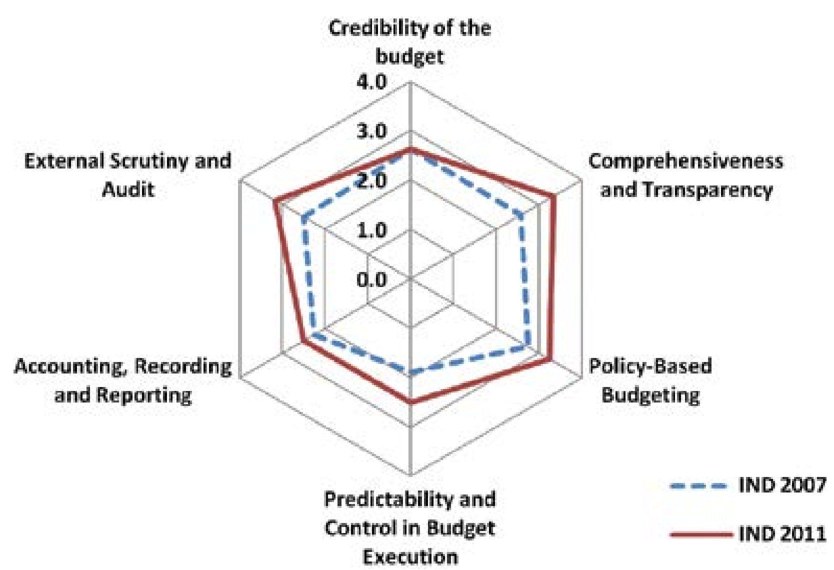
3 The exception to this is PI-19, the performance indicator for procurement practices as the new indicator has been substantially revised.

identified across dimensions of budget execution such as financial reporting, weak recording of cash, payroll controls and internal audit, as well as the high variation between budgets and outturns.

5. **Indonesia has made steady progress in strengthening the quality of PFM systems and processes between 2007 and 2011.** Chart 1 compares the average PEFA ratings for each of the six main categories of the budget cycle considered by the PEFA methodology (with a maximum rating of four for each category). The chart highlights the average improvements made in five of the six categories, namely: the comprehensiveness and transparency of the budget; policy-based budgeting; predictability and control in budget execution; accounting, recording and reporting; and external audit and scrutiny.

6. **Improvements in the ratings reflect the continued progress towards achieving the broad-based and ambitious PFM reform agenda outlined in the Government White Paper of 2002.** The new assessment underscores progress in the area of budget execution, with the development of a unified budget and a Treasury Single Account (TSA) to strengthen the comprehensiveness and control over spending and cash management. In addition, there have been improvements in the coverage of fiscal accounts, accounting practices, payroll, internal controls and fiscal risk management. Notably, the 2009 external audit report was the first to achieve a qualified audit opinion, as opposed to a disclaimer, and similar feat was achieved in 2010 with over 60 percent of ministries and agencies achieving unqualified opinions. Furthermore, the Government has publicly set an ambitious target for achieving an unqualified audit opinion for all of central government by 2014.

Figure 1: Summary comparison of PEFA ratings: 2007 and 2011



Note: The chart shows the simple average of the PEFA ratings in each category, with a maximum rating of 4 for an 'A' and 1 for a 'D' and half a point is given for a '+'. It excludes the indicators for donor practices.

7. **However, it was too still early to measure the improvements in some reform areas.** For example: the medium-term expenditure framework (MTEF) and performance-based budgeting (PBB) were only recently introduced in the 2011 budget, and will require considerable refinement over the next few years; there is an ongoing capacity building effort to strengthen internal and external audit; the computerized GFMIS (SPAN) that will strengthen financial management capabilities will be rolled out in 2012; despite the new procurement law and introduction of e-procurement and new disclosure policies, weaknesses remain in the systems application; and accrual accounting is due to be introduced in 2015.

In addition, the assessment highlights the ongoing problems of weak spending outturns, relative to budget, particularly for capital spending, which perhaps reflects the focus on tightening of expenditure controls and compliance rather than on delivery and performance.

8. **Many reforms remain a 'work in progress'.** Both assessments acknowledge the reform efforts of key stakeholders of the budget process, which have been ongoing since the political transition in 1998 and especially following the PFM White Paper in 2002. The Government continues to demonstrate its commitment to the reforms set out in the White Paper, although the timing and sequencing is continually evolving around the main pillars of the budget system to reflect the variable capacity constraints and changing political/policy and economic priorities. However, the main objectives have remained the same. These include: (i) improving the results-orientation in state budget planning and development; (ii) modernizing budget and treasury management; (iii) strengthening monitoring and evaluation of public expenditures and programs; (iv) improving the public procurement systems; (v) improving government accounting and audit functions; (vi) civil service reforms to improve the quality and performance of the workforce; (vii) debt management; (viii) strengthening regional public financial management; and (xi) governance and anti-corruption.

9. Below is a summary of the results based on the classification used in the PEFA PFM performance indicators, with the detailed ratings across all indicators listed in the main indicator Table.

Credibility of the Budget: Indicators P1 – P4

10. **Budget outturns have continued to differ markedly from budget projections, although the assessment covers a period of unprecedented global economic turmoil.** The assessment for 2011 considers the budget outturns, relative to the budget, for 2007-09, which includes the global financial crisis. The crisis increased uncertainty over international commodity prices and many governments, including Indonesia's, undertook emergency fiscal stimulus measures in 2008. These features made fiscal planning even more difficult than normal. In Indonesia volatile oil and mineral production determines a significant portion of budget revenues, transfers to the regions and subsidy expenditure. However, while the credibility of aggregate budget outturns seems to have increased, the composition of spending has deteriorated as many ministries and agencies (K/Ls) have consistently under spent their budgets (even during the stimulus period) while subsidy payments have been volatile as domestic prices have been slow to adjust to changes in international prices.

Comprehensiveness and Transparency of the Budget

11. **The comprehensiveness and transparency of the budget system has generally improved since 2007.** Changes in management of the Government Treasury, such as establishing a Treasury Single Account (TSA), the disclosure (and closure) of many off-budget ministry bank accounts and the incorporation of the regional development and investment accounts into financial reports and budget documents have contributed to increased transparency and a reduction in unreported government operations. The exact extent of extra-budgetary operations, although difficult to quantify, is not considered significant.[4] The public access to budget information has also improved while there has been a steady improvement in the coverage and scope of the annual fiscal risk statement, which was first included in the 2008 budget.

4 This compares to the Indonesia, Report on the Observance of Standards and Codes (ROSC), Fiscal Transparency Module, IMF July 7, in 2006. The Report is available at www.imf.org

Policy Based Budgeting

12. **While the budget process remains orderly and clear, and despite the longstanding system of national planning, Indonesia is only just starting to introduce a medium-term expenditure framework (MTEF) and move towards performance-based budgeting (PBB).** Since the last PEFA-assessment in 2007, Indonesia has taken a number of steps to introduce a multi-year perspective for fiscal planning, expenditure policy, budgeting and debt management. Following the issuance of a joint MoF and planning ministry (Bappenas) manual on PBB and MTEF in June 2009, and pilot projects with six line ministries, the program structure was revised. The new program structure aligns programs with organizational structures and establishes much clearer lines of accountability for performance. Line ministries have also formulated targets and indicators, which provide a better basis for evaluating the performance of programs and activities in the coming years, thus fulfilling a fundamental prerequisite of PBB. The new programs, targets, and indicators have been incorporated in the five-year national plan (RPJM) for 2010-14, and first implemented in the FY2011 budget.

13. **The 2011 budget was also the first year of implementing a detailed MTEF process.** Ministries prepared budget estimates for two years following the fiscal year (2012 and 2013) and incorporated them into the budget documentation presented to Parliament (although Parliament will not be appropriating funds beyond the fiscal year). The Government is aware that this is an exercise that will have to be strengthened going forward, and the 2012 budget process has further refined the process, and is incorporating new elements, such as the definition of a baseline and new initiatives, ensuring better linkages between planning (RKP) and budget documents (RKA-KL) and improving the use of the rolling financial estimates.

14. **The Government also recognizes that PBB/MTEF implementation needs to be strengthened further.** For the near term, there is an ongoing need to improve the quality of program structures and performance indicators and to fine-tune the existing MTEF and costing system. For the medium term, the focus of budget reforms is likely to gradually shift towards: (i) developing a PBB-driven monitoring and evaluation (M&E) system that focuses on the quality of spending; (ii) enhancing capacity to conduct a range of modern budget analytical techniques in accordance with PBB and introducing the appropriate change management and organizational arrangements; (iii) strengthening the link between budget and bureaucracy reforms, in particular the link to performance management; and (iv) strengthening the use of the MTEF and performance information in budget review, development and oversight, including in the Parliament (DPR).

Predictability and Control in Budget Execution

15. **There has been little improvement in the indicators for revenue administration, despite ongoing reform efforts, and significant challenges remain.** There has been a rapid increase in the number of registered taxpayers over the past few years, although weaknesses in the assessment and enforcement processes undermine compliance rates, which significantly reduce revenues, and tax arrears remain relatively high.

16. **There have been some significant improvements in budget execution control processes since the last assessment.** Improvements have been made in the recoding of cash balances and debt, particularly as the TSA and cash forecasting have continued to be strengthened. New IT systems and procedures have strengthened the management of personnel and payroll information at the MDA and regional treasury (KPPN) level, although weaknesses remain in reconciling the information at the center and with procedures at the sub-national government (SNG) level.

17. **However, in practice budget execution continues to be plagued by delays because of cumbersome and rigid procedures and lengthy procurement processes.** Expenditure on goods and services and capital expenditures tends to be heavily skewed towards the end of the fiscal year with capital expenditure allocations frequently under-spent. Improving the disbursement rate for investment projects, while retaining appropriate expenditure controls, is a key PFM challenge.

18. **Through issuance of Government Regulation PP No. 60/2008, the Government has adopted COSO as its internal control framework.** The regulation and presidential instructions issued subsequently have also clarified roles and responsibilities on internal audit. However, the quality of audit by Inspector Generals (IG) in line ministries and in local government remains sub-optimal, with little focus on risk-based audit, even though some of the IGs in line ministries, including the MoF and the MPW, have embarked on a significant modernization of their functions. The lack of trained auditors and the scale of the country with local government inspectorate auditors in over 500 locations make the task of reforming the internal audit function in the country challenging. The next step is preparation of a strategy for internal audit expected in 2012.

19. **The external auditor, the State Audit Agency (BPK), has given a 'qualified' opinion on government financial statements for 2010.** This is the second successive year that government annual financial statements have received a 'qualified' opinion after a 'disclaimer' status in the previous five years. The major qualifications in the audit report relate to mismatch between budget classifications and the realizations, problems in assets management and under-recording of pension funds. BPK also identified some key internal control weaknesses in the Government's functioning. The number of line ministries with a clean opinion has also increased, from 16 in 2007 to 34 in 2008 to 53 in 2010. The number of ministries with disclaimers has come down from 33 in 2007 to 18 in 2008 to 2 in 2010. Capacity constraints in the line ministries are the biggest challenge: the number of trained accountants in line ministries and sub-national governments is low, and the quality of their work needs improvement.

Accounting, Recording and Reporting

20. **The annual financial statements are prepared using a mix of cash and accrual concepts, and there is a plan to move to full accrual accounting for line ministries and sub-national governments by 2015.** The accounting standards for accrual accounting have already been prepared and a government regulation on these has recently been issued. Draft accounting policies and chart of accounts have been prepared and under review. The pilot implementation is expected to start in 2013.

21. **The annual financial statement and semester report are published on a regular and timely basis, with regular reconciliation between spending data and bank accounts.** However, some weaknesses remain, particularly in the coverage and consolidation of agency and SNG accounting systems. One of the Government's main priorities is the roll-out of the new automated Government Financial Management Information System (known as SPAN), currently scheduled for 2012, which can be used to enhance fiscal recoding, accounting and reporting, to strengthen internal controls and also to provide greater access to timely information at different levels of government.

External Scrutiny and Audit

22. **Parliament (DPR) is developing new roles to help shape and oversee the state budget, although these remain largely work in progress.** Two new arrangements were implemented by the DPR in 2009. First, the former Budget Committee became the Budget Board (Badan Anggaran) and a permanent entity responsible for the endorsement of the state budget. Second, the State or Public Finance Accountability Board (Badan Akuntabilitas Keuangan Negara) was established as a permanent entity to review audit reports prepared by BPK. Although not mandated in the law, planning has started for the establishment of a Parliamentary Budget Office (PBO), which is intended to provide support for the implementation of the budget function of the DPR through providing data, information, analysis and research needed by the members of Parliament in their discussions of the annual state budget.

23. **A peer review for BPK conducted by the Dutch Court of Auditors in 2009 pointed out that BPK had made major strides in its mandate, capacity and practices in the past five years.** There has been significant growth in the budget, the number of staff and the number of regional offices.[5] The report also identified some areas for improvement, mainly the need to improve the readability of audit reports and the quality of analysis in the audit.

BPK has prepared a new strategic plan for the 2011-15. The new strategic plan reflects both lessons from the peer review and the vision of the new BPK Board. BPK has also prepared a detailed implementation plan to support the execution of the strategic plan.

Donor Practices

24. **Indonesia is not a heavily aid-dependant country, with development partner funds declining to around 6 percent of primary government expenditure in 2010.** There has been an improvement in the predictability of budget support, with actual in-year disbursements improving as the Government appears to be meeting its performance targets more consistently. However, development partners' compliance with the government regulation requiring reporting in government financial reports appears to have deteriorated slightly.

(ii) Assessment of the Impact of PFM Weaknesses

Aggregate Fiscal Discipline

25. **Indonesia has maintained its record of aggregate fiscal discipline as reflected in low budget deficits and declining debt levels (less than 3 percent of GDP since 1999, and less than 25 percent of GDP in 2010, respectively).** Indonesia has also strengthened its risk management framework in recent years, particularly over debt and contingent liabilities. The legal framework also sets fiscal targets for general government (i.e. including SNGs), which has controlled the impact of the ongoing decentralization on fiscal aggregates. Nonetheless, there are still pressures on fiscal aggregates coming from the significant increase in public service payroll costs in recent years—coming from increasing numbers of staff, particularly at the SNG level, and 'performance' pay awards—combined with volatile subsidy costs and the recent introduction of new earmarks for specific categories of expenditure (e.g. for education[6]).

Strategic Allocation of Resources

26. **Although significant advances have been made on the budget preparation side, in-year expenditures continue to deviate from plan.** This spending pattern is of concern because project implementation is disrupted by an adverse cycle, and under-spending on capital expenditure constrains increases in infrastructure investments. Although it has recovered partially, Indonesia's recent investment in infrastructure still lags well below its pre-1997/98 crisis levels.[7] The development of a fully operational MTEF and PBB, with well-articulated medium-term fiscal targets and detailed indicative revenue and expenditure figures at the MDA and program level, should help to bolster aggregate fiscal discipline, expenditure prioritization and the efficiency of spending. However, the the lack of medium-term certainty seems to be one of the factors that reduces the ability of MDAs to enter into multi-year commitments and contracts and hinders much needed capital spending.

5 The number of BPK staff has risen from 2,854 in 2004 to around 6,000 in 2010. The annual budget for FY11 is Rp 2.3 trillion compared with Rp 234 billion in 2004.

6 The education sector budget has been earmarked at 20 percent of government spending, with calls for other sectors to receive similar dispensations. This could increase fiscal rigidity and costs.

7 For a full discussion see section C. of the June 2011, Indonesia Economic Quarterly, "Indonesia 2014 and beyond: A Selective Look", World Bank.

Efficient Service Delivery

27. **Budget execution reforms have often focused on improving control and compliance, but implementation within line ministries continues to be a significant barrier to efficient service delivery.** Expenditure controls, including audit and accounting reforms, and procurement processes lead to significant delays in the acquisition of goods and services and capital expenditure appropriations are frequently under-spent. The limited flexibility to allocate resources during the year may also compromise efficient service delivery by limiting the ability to respond to changing needs or changing program performance. While this may be an appropriate response to the 1998 crisis and weak governance systems, the result is at times excessive risk aversion and under-spending. However, it should be noted that much service delivery, for example in education and health, is primarily the responsibility of SNGs rather than central government, and introducing a greater performance orientation at this level is a challenge.

28. **The move to enhance the performance of the public sector, through PBB and performance management, is becoming a priority.** As robust expenditure controls and compliance mechanisms are being established (and the PEFA suggests more are still needed in this area), the Government's focus is turning towards improving the delivery of public services and infrastructure to support development. This includes both the setting and monitoring of high-level objectives, as well as mechanisms of downward accountability, such as performance reports for MDAs along with greater flexibility in managing their programs. Currently, surveys also suggest that there is little awareness of the legal rights or how to demand better services, such as free education. Without such performance-orientated demand pressure, officials' priorities are likely to remain focused on legal compliance rather than performance.

29. **Addressing the constraints in PFM at the sub-national level is an urgent priority.** Sub-national governments, which are increasingly tasked with service delivery, are struggling to spend their increasing budgets and have built up sizeable reserves in recent years. The main constraints include: (i) providing timely estimates from the sectoral ministries of revenue-sharing transfers; (ii) building the capacity of SNGs to better estimate their fiscal resources and manage accumulated reserves; and (iii) improving and streamlining the budget approval process.

(iii) Prospects for Reform Planning and Implementation

30. **In recent years, Indonesia has made significant strides in the way its public finances are managed and in increasing transparency and independent oversight.** In almost all areas of PFM, changes in the legal and regulatory architecture are now largely complete and the momentum has shifted towards implementation of new PFM practices. Advances have been made in budget preparation with the introduction of MTEF and PBB, government accounting standards have been formally established and are being adhered to in order to produce comprehensive annual financial statements, there is progress towards moving to accrual-based accounting, COSO control framework has been adopted to strengthen controls, and the external audit function has made significant progress in the past few years. However, internal controls in the execution of budget by spending agencies need improvement. To address some of the ongoing weaknesses, a Government Financial Management Information System (GFMIS) to provide information for budget management at all levels of government is expected to be rolled out in 2012, while weak controls in budget execution processes are being addressed in an effort to mitigate the risk that these would jeopardize the gains from reforms introduced in other areas of PFM.

31. **Weaknesses in financial management and accountability continue to be gradually addressed through the Government's PFM reform program discussed above, with the support of development partners.** Much remains to be done, and it will take time to realize the full impact of these more advanced reforms, such as the MTEF, PBB and accrual-based accounting. However, the trajectory of reform appears to be in the right direction and, most importantly, the Government continues to demonstrate high commitment in completing the planned reforms.

Table 1: Performance indicators summary

NS = Not Scored

PFM Performance Indicator		Scoring Method	2007						2011					
			Dimension Ratings				Overall Rating	Page	Dimension Ratings				Overall Rating	Change
			i	ii	iii	iv			i	ii	iii	iv		
A. PFM-OUT-TURNS: Credibility of the budget														
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	D				D	17	C				C	↑
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	C				C	17	D				D	↓
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A				A	18	A				A	–
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	B			B+	19	A	B			B+	–
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency														
PI-5	Classification of the budget	M1	A				A	20	A				A	–
PI-6	Komprehensifitas informasi yang termasuk dalam dokumentasi anggaran	M1	A				A	21	A				A	–
PI-7	Extent of unreported government operations	M1	NS	C			NS	23	C	B			C +	↑
PI-8	Transparansi hubungan fiskal antar-lembaga pemerintah	M2	A	C	D		C+	25	A	B	C		B	↑
PI-9	Transparency of inter-governmental fiscal relations	M1	C	D			D	28	B	C			C+	↑
PI-10	Public access to key fiscal information	M1	B				B	30	A				A	↑
C. BUDGET CYCLE														
C (i) Policy-Based Budgeting														
PI-11	Orderliness and participation in the annual budget process	M2	A	A	A		A	31	A	A	A		A	–
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	D	C	D	D+	33	C	B	B	C	C+	↑
C (ii) Prediktabilitas dan Pengendalian dalam Pelaksanaan Anggaran														
PI-13	Transparency of taxpayer obligations and liabilities	M2	B	B	C		B	35	B	B	C		B	–
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	B	C		C+	37	C	B	C		C+	–
PI-15	Effectiveness in collection of tax payments	M1	C	A	D		D+	39	C	A	C		C+	↑
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	C	A	A		C+	41	C	A	A		C+	–
PI-17	Recording and management of cash balances, debt and guarantees	M2	D	C	C		D+	42	B	B	A		B+	↑
PI-18	Effectiveness of payroll controls	M1	D	C	A	C	D+	43	C	B	A	C	C+	↑
PI-19	Competition, value for money and controls in procurement	M2	D	B	C		C	45	B	D	C	D	C	–
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	B	D		D+	47	B	B	C		C+	↑
PI-21	Effectiveness of internal audit	M1	D	C	C		D+	48	D	C	C		D+	–
C (iii) Accounting, Reporting and Auditing														
PI-22	Timeliness and regularity of accounts reconciliation	M2	B	B			B	50	B	B			B	–
PI-23	Availability of information on resources received by service delivery units	M1	D				D	51	D				D	–
PI-24	Quality and timeliness of in-year budget reports	M1	C	B	C		C+	51	C	B	B		C+	–
PI-25	Quality and timeliness of annual financial statements	M1	C	A	B		C+	53	B	A	B		B+	↑

C (iv) External Scrutiny and Audit														
PI-26	Scope, nature and follow-up of external audit	M1	C	A	B		C+	54	A	A	B		B+	↑
PI-27	Legislative scrutiny of the annual budget law	M1	B	C	C	A	C+	55	B	B	A	A	B+	↑
PI-28	Legislative scrutiny of external audit reports	M1	C	C	B		C+	56	C	B	B		C+	–
D. DONOR PRACTICES														
D-1	Predictability of Direct Budget Support	M1	A	C			C+	57	A	B			B+	↑
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	B	C			C+	58	D	C			D+	↓
D-3	Proportion of aid that is managed by use of national procedures	M1	C				C	59	C				C	–

Scoring method M1 is used for indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance of other dimensions of the same indicator. Scoring method M2 is used where a low rating on one dimension of the indicator does not necessary undermine the impact of a high rating on another dimension of the same indicator.

Each indicator includes one or more dimensions. A separate rating is given for each dimension. Where there is more than one dimension, the overall rating for the indicator is arrived at by combining the dimension ratings according to the prescribed methodology (M1 or M2) for the indicator.

SECTION 1. INTRODUCTION

1. **This PEFA assessment for Indonesia was undertaken by a team of World Bank staff and development partners with close involvement of counterparts from the Government of Indonesia,** including the Ministry of Finance, State Ministry of Development Planning (Bappenas) and some line ministries.[8] Discussions were also held with external State Audit Agency (BPK) and a member of Parliament. In line with its stated objectives, this report has utilized the Public Expenditure and Financial Accountability (PEFA)[9] measurement framework that was first used in 2007 to establish a baseline of indicators to help measure Indonesia's performance in Public Financial Management (PFM).

2. **This report can be used by the Government, as well as other stakeholders to monitor progress and effectiveness of the ongoing PFM reform program.** The objective of the assessment is to update the integrated, standardized, indicator-led assessment of PFM systems, processes and institutions as a whole against good international practices.

3. **The Government has collaborated extensively by providing necessary information and assigning MoF staff to work alongside the Bank-led team.** This PEFA assessment has been funded by the Bank and a multi-donor trust fund, supported by contributions from the European Commission, the Governments of the Netherlands and the Swiss Confederation, and USAID. An orientation seminar was held in Jakarta in January 2011 for stakeholders to explain the objectives, concepts and methodology underlying the PEFA framework and to discuss a Concept Note for its application in Indonesia. Extensive fieldwork was undertaken during the first quarter of 2011. Discussions were also held with development partners and some external stakeholders, including professional firms and the Indonesian Chamber of Commerce and Industry.[10] The draft ratings and assessment were discussed with a core team of officers from the MoF at a workshop in Jakarta in October 2011 and with senior officials before finalization. The report has also been peer reviewed by the PEFA Secretariat, Bank staff, development partners and staff from the IMF.

4. **As in 2007, the scope of this assessment is confined to the central government, comprising ministries, departments and agencies (MDAs) although sub-national governments (SNGs) have continued to assume greater importance in the PFM system following the substantial decentralization program since 2001.**[11] Some performance indicators rated only some aspects of decentralization, such as PI 8 ('Framework for inter government fiscal relations'); PI 9 ('Fiscal risks arising from SNGs'); and PI 23 ('Availability of information on resources at front line service delivery units'), although this would not be a substitute for a more comprehensive measurement of PFM processes at district/city governments.

8 Discussions were held with the Ministry of Finance, the State Ministry of Development Planning, the Ministry of Public Works, the Ministry of Health and the Ministry of National Education.

9 For more information on this framework, please visit www.pefa.org

10 Please see Annex A for a detailed list of Sources of Information and Main References.

11 Sub-national governments currently account for some 40 percent of total public expenditure. (Indonesia Public Expenditure Review 2007).

5. **Apart from central government ministries and their departments there are also a number of central government autonomous government agencies** (AGAs or badan), such as the Aceh Reconstruction Agency (BRR); institutions (lembaga and komisi) such as the Constitutional Court, State Intelligence Agency and the National Archives; and public service agencies (badan layanan umum), such as hospitals. All of these agencies (AGAs) are funded through the state budget, but enjoy greater financial autonomy than line ministries. They account for a relatively small share of public expenditure.

6. **Indonesia also has a large state-owned enterprise (SOE) sector,** spread over 37 business sectors, varying in size from large monopolies and infrastructure enterprises to relatively small service companies. The largest SOEs are Pertamina (the state oil company), PLN (electricity), Garuda Indonesia Airways and Bank Mandiri. As they are owned by the central government their financial accountability and relationship with the budget, including monitoring of any fiscal risks to central government arising from their operations, are part of this PFM assessment.

Table 2: Entities included as MDAs in 2011

Institutions	Number of Entities
Central government	74
State-owned enterprises (majority owned by government)	141
Other state-owned enterprises (minority share)	18
District/city and provincial governments	524

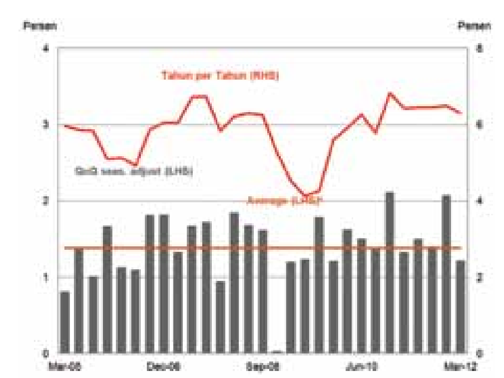
SECTION 2.
COUNTRY BACKGROUND INFORMATION

7. **Over 2011, Indonesia's economy continued to consolidate its recovery from the global economic and financial crisis with growth moving up to 6.5 percent.**

8. **Compared with other countries in the region, Indonesia was less affected by the global economic downturn of 2008-09 and growth has since moved back to, and above, pre-crisis levels.** GDP growth declined from 6 percent year-on-year in 2008 to 4.6 percent in 2009 before moving up to 6.5 percent in 2011 (Figure 2). The economy grew by 6.3 percent year-on-year in the first quarter 2012. Growth has been supported primarily by private consumption with investment also making a strong contribution to growth (Figure 3). The domestic economy continued to outpace growth abroad leading to a muted contribution from the external sector. Domestically, solid consumer confidence, moderate inflation and favorable financial market conditions supported demand.

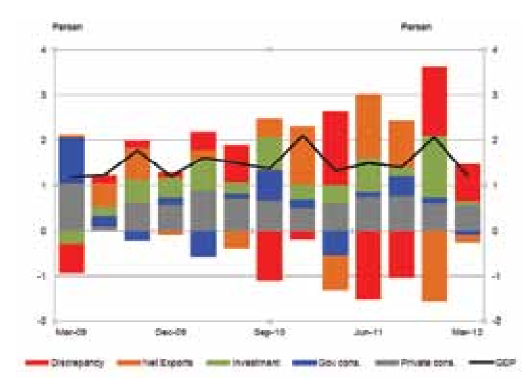
9. **Indonesia's economic growth has been driven by domestic demand. Household and private consumption were the major contributors to growth in the first quarter of 2012, as inflation came down to decade lows.** In recent years, Indonesia's export performance has been supported by its export mix, focused on commodities, which has benefited from international price rises and demand for raw materials from China and other emerging economies. Nevertheless, the recent downturn in international environment has resulted in a negative net contribution to growth from net exports in recent quarters. On the production side, growth has been more broad-based across sectors. Towards the end of 2011 and the first quarter of 2012, agriculture, manufacturing and the services sectors were all contributing to growth. Particularly noteworthy over 2011 as a whole was the pick-up in manufacturing sector performance

Figure 2: GDP growth has been robust
(GDP growth, percent)



Note: *Average QoQ growth between Q4 2005 – Q4 2011
Sources: BPS, World Bank seasonal adjustment

Figure 3: Domestic demand has been the primary driver of growth
(Contribution to quarter-on-quarter seasonally adjusted GDP growth, percent)



Source: BPS

10. **Strong balance of payment inflows through mid-2011 have reversed in recent quarters.** Following strong inflows in the first half of 2011, the balance of payments has seen overall outflows since Q3 2011 (the first quarterly deficits since Q4 2008). For 2011 as a whole, balance of payment inflows reached US$11.9 billion (down from US$30.3 billion in 2010, Table 3). The outflows since Q3 2011 were due primarily to the reversal of inflows on the capital account, reflecting Indonesia's continued exposure to changes in investor sentiment. In addition, the current account balance has been trending downwards, moving into deficit in the fourth quarter of 2011 and in the first quarter of 2012. This move into deficit reflects a decline in the goods trade surplus, as well as the large services deficit and rising outflows on the income balance. The narrowing in the goods surplus reflected the relative strength of domestic demand within a weakening external environment, which has resulted in a lowering in both commodity prices and external demand.

Table 3: Balance of payments (US$ billion)

	2008	2009	2010	2011	2012f
Overall Balance of Payments	**-1.9**	**12.5**	**30.3**	**11.9**	**7.9**
Current Account	0.1	10.6	5.1	1.7	-4.1
Trade	*9.9*	*21.2*	*21.3*	*23.3*	*15.4*
Income	-15.2	-15.1	-20.8	-25.8	-24.2
Transfers	*5.4*	*4.6*	*4.6*	*4.2*	*4.7*
Capital & Financial Accounts	*-1.1*	*4.9*	*26.6*	*14.0*	*11.9*
Capital Account	0.3	0.1	0.0	0.0	0.0
Financial Account	-1.4	4.8	26.6	14.0	11.9
Direct Investment	*3.4*	*2.6*	*11.1*	*11.1*	*9.3*
Portfolio	*2.7*	*10.3*	*13.2*	*4.5*	*7.8*
Other	*-7.3*	*-8.2*	*2.3*	*-1.6*	*-5.2*
Reserves[a]	**51.6**	**66.1**	**96.2**	***110.1***	***112.2***

Source: Bank Indonesia and World Bank Indonesia Economic Quarterly (April 2012) projections for 2012

11. **After rising in late 2010 due to higher food prices, inflation has come down through early 2012.** Sharp increases in food prices, such as for rice and chili, contributed to rising headline CPI inflation in late 2010. But over 2011 inflation declined, and at 3.6 percent year-on-year in February 2012 it had declined to its lowest rate in almost two years. However, April 2012 saw an uptick, to 4.5 percent year-on-year as base effects from the high food prices unwound, and potentially price-setting took into account the scope for higher subsidized fuel prices (as discussed below, in late March, the Government submitted a proposal to raise subsidized fuel prices in its draft revised 2012 Budget which increased inflationary expectations). Core inflation, which reached a two-and-a-half-year high of 5.1 percent year-on-year in August 2011, eased to 4.1 percent by May 2012. Bank Indonesia has been required to shift its monetary policy stance in response to these changing inflationary pressures, as well as capital flow developments.

12. **The fiscal deficit in 2011 remained relatively low as under-spending in core government programs more than offset high spending on energy subsidies.** The realized (unaudited) government deficit of Rp 90.1 trillion (1.2 percent of GDP) came in well below the revised budget level of Rp 151 trillion (2.1 percent of GDP). Although in nominal terms spending in 2011 was 24 percent higher than the 2010 realized budget, the disbursement rates relative to the revised budget remained at similar levels. The absorption capacity of core spending (salary, materials and capital expenditures) worsened, suggesting that challenges with budget execution remain, such as the complicated land acquisition process and the lengthy budget revision and procurement processes. Spending remained skewed towards the end of the year: in particular 43.5 percent of the realized capital expenditures for the year were spent in December, compared with 37 percent in 2010.

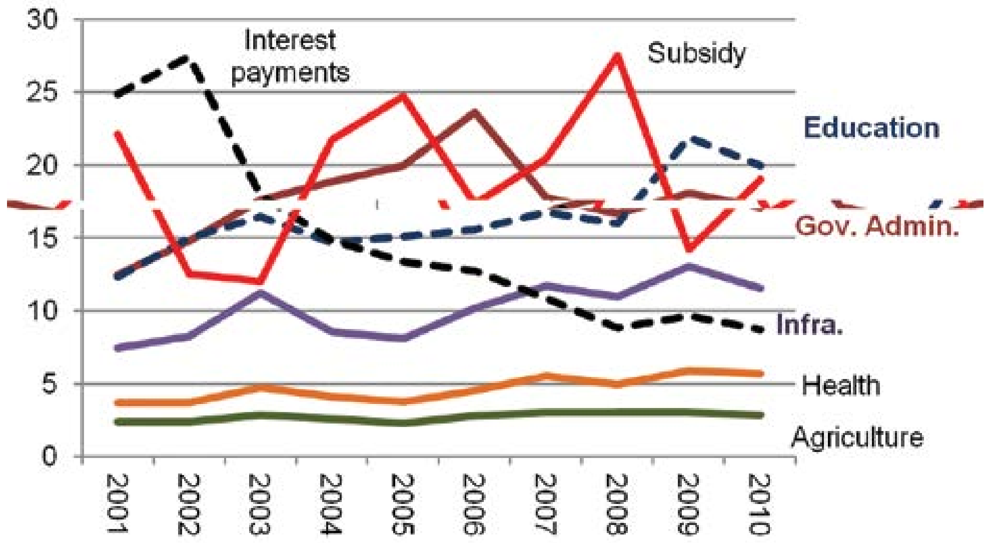
13. **The revised 2012 budget projects a rise in the deficit to Rp 190.1 trillion (2.2 percent of GDP), up from Rp 124.0 trillion (1.5 percent of GDP) in the original 2012 budget.** The revised revenue numbers were 3.5 percent higher than the original budget while expenditures were 7.9 percent higher. Both these increases were driven by the assumed higher oil price of US$105 per barrel compared with US$90 per barrel in the original budget assumptions. Energy subsidy spending was increased by 20 percent relative to the original budget. In light of the likely higher spending on energy subsidies, the Government proposed a one-third increase in the subsidized fuel price in its draft revised budget. However, the approved budget allows the Government to make such an increase if the six-month average Indonesia crude oil price is 15 percent higher than that assumed in the budget (US$105). With oil prices coming down sharply in May, it appears unlikely that this condition will be met. The budget also included additional spending on temporary compensating programs, including a cash transfer to the poor combined with anti-poverty programs at the community level and public transport subsidies, while infrastructure spending also received a boost, with capital expenditures rising by just over 11 percent on the original budget level.

Table 4: Budget outcomes

	2009	2010	2011	2012 (P)
A. State revenue and grants	**848.8**	**995.3**	**1199.5**	**1358.2**
1. Tax revenue	619.9	723.3	872.6	1,016.2
i. Income tax	601.3	694.4	818.6	968.3
- Oil and gas	317.6	357.0	430.8	513.7
- Non oil and gas	50.0	58.9	73.1	67.9
ii. Other domestic taxes	267.5	298.2	357.7	445.7
b. International trade tax	283.7	337.3	387.8	454.6
i. Import duties	18.7	28.9	54.0	47.9
ii. Export duties	18.1	20.0	25.2	24.7
ii. Bea Ekspor	0.6	8.9	28.8	23.2
2. Non-tax revenue	227.2	268.9	324.3	341.1
o/w natural resources	139.0	168.8	215.3	217.2
i. Oil and gas	125.8	152.7	194.7	198.3
ii. Non oil and gas	12.8	16.1	20.6	18.8
B. Expenditure	**937.4**	**1042.1**	**1289.6**	**1548.3**
1. Pemerintah Pusat	**628.8**	**697.4**	**878.3**	**1069.5**
- Pegawai	127.7	148.1	175.5	212.3
- Belanja Barang dan Jasa	80.7	97.6	121.0	186.6
- Belanja Modal	75.9	80.3	115.9	168.7
- Pembayaran Bunga	93.8	88.4	93.3	117.8
- Subsidi	138.1	192.7	294.9	245.1
- Balanja Hibah	0.0	0.1	0.3	1.8
- Belanja Sosial	73.8	68.6	70.9	55.4
- Belanja Lain-lain	38.9	21.7	6.5	65.5
2. Transfers to the regions	308.6	344.7	411.4	478.8
C. Primary balance	5.2	41.5	3.2	-72.3
D. SURPLUS / DEFICIT	-88.6	-46.8	-90.1	-190.1
Defisit (persent dari PDB)	-1.6	-0.7	-1.2	-2.2

Source: MoF and World Bank estimates

14. **National spending on infrastructure and health services, critical for sustained economic growth and development, remains relatively low.**



Indonesia continues to face a major infrastructure gap, and public expenditure in this sector has never fully recovered following its sharp post-crisis decline in the late 1990s. While the Government has significantly increased its spending allocation to infrastructure the implementation of this spending remains hampered by the above-mentioned disbursement issues. Education spending has increased, in line with the constitutional amendment that 20 percent of the budget go to the sector, but there remain challenges in converting the quantity of spending into quality educational outcomes.

15. **Indonesia's strong growth over the past five years has contributed to the improvement in the poverty rate, although a large share of the population remains vulnerable to shocks to income and health.** The absolute number of urban poor and rural poor fell to 11 million and 19 million (respectively) in 2011. The overall poverty rate declined to 12.5 percent, from 13.3 percent in 2010. Despite this positive progress, nearly 40 percent of Indonesians live on 1.5 times poverty-line expenditure (or less), meaning there are many who remain vulnerable to impoverishment. Without the recent spikes in food prices, particularly in the second half of 2010, poverty reduction would have probably been more pronounced. Indonesia's labor market also appeared to be turning the corner and the phenomenon of "jobless growth" may be easing. Employment growth of 3.2 percent was seen in August 2010 and 1.4 percent in February 2012. However, given the large number of youth entering the labor market each year there is a need to ensure increased creation of quality jobs (with a large share of the workforce remaining in the informal sector).

SECTION 3.
ASSESSMENT OF PFM SYSTEMS, PROCESSES AND INSTITUTIONS

Section 3.1 Budget Credibility

PI–1. Aggregate expenditure outturn compared with original approved budget (% of spending)

Rating 2007	Rating 2011	Performance Change	Summary Comments
D	C	Performance has improved based on deviations of: 2004-06: 28.9%, 50.3%, 10.6% 2007-09: 4.1%, 27.9%, 14.2%	Deviations in subsidies and under spending in most K/Ls, particularly for capital programs, impacted the overall budget outturn.

The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e., excluding debt service charges and externally financed project expenditure) over the past three years.

In no more than one of the past three years did actual primary expenditure deviate from budget estimates by more than 15 percent.[12] Despite the impact of the global financial crisis, which increased uncertainty and warranted stimulus measures in 2008 and 2009, this qualifies for an improved rating of C. In addition, over the three-year period the nominal primary budget expenditure (in rupiah) increased by around 50 percent.

Deviations between budgets and outturns over the three years reviewed are largely due to subsidies and low execution rates, notably for capital spending. Given the significant deviations in the budgeted and actual spending for subsidies, which deviated by 33 percent, 181 percent and -22 percent in 2007, 2008 and 2009, respectively, and their large weight in the overall primary spending of central government, this category constituted well over 50 percent of the total deviation each year. Overall, the majority of ministries and agencies (K/Ls) also consistently under-spent during the period.[13]

PI-2. Composition of expenditure outturn compared with original approved budget

Rating 2007	Rating 2011	Performance Change	Summary Comments
C	D	Performance appears to have deteriorated based on deviations of: 2004-06: 15.7%, 3.9%, 1.0% 2007-09: 16.3%, 22.2%, 2.2%	Deviations in subsidies and under spending in most K/Ls, particularly for capital programs, impacted the composition of the budget outturn.

Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the past three years.

The variance in expenditure composition exceeded the overall deviation in primary expenditure by more than 10 percent in two of the three years under review.[14] The rating has therefore moved from a 'C' to a 'D'. While there have been substantial in-year modifications of budgeted amounts, particularly with

12 See Annex B for detailed data and definition.

13 For analysis of the under-spending in central government see:

14 PEFA revised the methodology for calculating this indicator in 2011, although for comparison the 2005 Framework was used for both observations. However, the change in the methodology does not impact the actual rating or the change in the rating.

regard to calculating the subsidies that are based on movements in international fuel prices, the significant under-spending by many K/Ls also impacted the compositional variation of budget outturns. The analysis of expenditure outturns at the disaggregated level indicates that the weak budget execution translates into significant effective re-allocations between budget heads. The reduction in the rating perhaps reflects the increased volatility of international fuel prices and in-year adjustments as a result of the global financial crisis.

PI–3. Aggregate revenue outturn compared with original approved budget

Rating 2007	Rating 2011	Performance Change	Summary Comments
A	A	Performance appears to have deteriorated based on deviations of: 2004-06: 114%, 130%, 97% 2007-09: 98%, 126%, 86%	The significant deviation in 2009 was due to the stimulus package of tax reductions introduced to help combat the global financial crisis.

Actual domestic revenue collection compared with domestic revenue estimates in the original budget over the past three years.

Actual domestic revenue was below 97 percent of budgeted domestic revenue in only one of the past three years. This qualifies for a rating of 'A' under PEFA's original performance measurement framework that looks only at the extent of over-estimation of revenues, as overestimation is not desirable, as it leads to a budget that is not fully funded and thus not credible.[15] However, the main reason for the lower than budgeted revenue outturn in 2009 was the introduction of a fiscal stimulus package during that year to combat the impact of the global financial crisis. Indonesia's stimulus package was unusual in the heavy share allocated to tax cuts—around Rp 61 trillion was allocated to income and corporate tax cuts, compared with around Rp 12 trillion through increased infrastructure and other spending for 2009.[16]

As noted elsewhere, revenue outturns are also heavily dependent on volatile international oil and gas prices. Roughly one quarter of state revenue is derived from oil and gas through tax (VAT and income) and non-tax sources (production sharing and royalties). As is the case in many countries rich in natural resources, actual revenue outturns are highly vulnerable to volatile international commodity prices. In such a fiscal environment, reasonably conservative oil price assumptions are generally considered prudent fiscal management.

Nonetheless, shortfalls have often occurred for major non-mineral tax revenues and compliance rates remain low. In particular there have been shortfalls in non oil and gas income tax and VAT in a number of years (see table below). There were also substantial revenue payments made in December 2009 for tax obligations that had remained unsettled from previous years and were part of the tax office's compliance crackdown. The general reasons for the underperformance in tax collection are manifold. Tax revenue targets are used as performance incentives for the tax administration and maybe thus purposely set at a level above the technical forecasts. At the same time, weaknesses in the tax administration system, for example taxpayer registration (see PI 14 and PI 15), have limited the ability to expand tax collections, particularly of income taxes, and compliance rates remain relatively low (with tax collections remaining below 13 percent of GDP).

15 PEFA revised this indicator to be symmetric in 2011. Under the new formulation Indonesia would have rated a 'C' in 2007 and a 'D' in 2011: the later is defined as "Actual domestic revenue was below 92 percent or above 116 percent of budgeted domestic revenue in two or all of the past three years".

16 For further details of the stimulus package see Box 1 in the World Bank publication, Indonesia's Economic Quarterly, June 2009.

Revenue Source	2007			2008			2009		
	Budget	Actual	in%	Budget	Actual	in%	Budget	Actual	in%
A. State Revenues and Grants	**723,058**	**707,806**	97.9%	**781,354**	**981,610**	125.6%	**982,694**	**848,763**	86.4%
I. Domestic Revenues	720,389	706,108	98.0%	779,214	979,306	125.7%	981,756	847,097	86.3%
1. Tax Revenues	509,462	490,989	96.4%	591,978	658,701	111.3%	725,843	619,922	85.4%
a. Domestic Tax	494,592	470,052	95.0%	569,972	622,359	109.2%	697,347	601,252	86.2%
i. Income Tax	261,698	238,431	91.1%	305,961	327,498	107.0%	357,401	317,583	88.9%
- Oil & Gas	41,242	44,001	106.7%	41,650	77,019	184.9%	56,724	50,044	88.2%
- Non Oil & Gas	220,457	194,431	88.2%	264,312	250,479	94.8%	300,877	267,540	88.9%
ii. Sales tax(VAT)	161,044	154,527	96.0%	187,627	209,647	111.7%	249,509	193,068	77.4%
iii. Property taxes	21,267	23,724	111.6%	24,160	25,354	104.9%	28,916	24,270	83.9%
iv. Duties on Land and Building Transfer	5,390	5,953	110.5%	4,853	5,573	114.8%	7,754	6,465	83.4%
v. Excises	42,035	44,680	106.3%	44,427	51,252	115.4%	49,495	56,718	114.6%
vi. Other taxes	3,158	2,738	86.7%	2,945	3,034	103.0%	4,273	3,116	72.9%
b. International Trade Tax	14,870	20,937	140.8%	22,007	36,342	165.1%	28,496	18,670	65.5%
i. Import duties	14,418	16,699	115.8%	17,941	22,764	126.9%	19,160	18,105	94.5%
ii. Export tax	453	4,237	935.8%	4,066	13,578	334.0%	9,336	565	6.1%
2. Non Tax Revenues	210,927	215,120	102.0%	187,236	320,605	171.2%	255,913	227,174	88.8%
a. Natural Resources Revenues	146,257	132,893	90.9%	126,203	224,463	177.9%	173,497	138,959	80.1%
i. Oil and Gas	139,893	124,784	89.2%	117,922	211,617	179.5%	162,123	125,752	77.6%
- Oil	103,904	93,605	90.1%	84,317	169,022	200.5%	123,030	90,056	73.2%
- Natural Gas	35,989	31,179	86.6%	33,605	42,595	126.8%	39,093	35,606	91.3%
ii. Non Oil & Gas	6,364	8,109	127.4%	8,281	12,846	155.1%	11,374	12,807	112.6%
- Mining		5,878		5,306	9,511	179.2%	8,723	10,369	118.9%
- Forestry		2,115		2,775	2,316	83.4%	2,500	2,345	93.8%
- Fishery		116		200	78	38.9%	150	92	61.4%
b. Profits of State Owned Enterprises	19,100	23,223	121.6%	23,404	29,088	124.3%	30,764	26,050	84.7%
c. Revenue from Public Service Centers		13,669			3,734		5,442	8,370	153.8%
d. Other Non-tax revenues	45,570	45,335	99.5%	37,629	63,319	168.3%	46,211	53,796	116.4%
II. Grants	2,669	1,698	63.6%	2,140	2,304	107.7%	938	1,667	177.7%

Source: Financial Note APBN 2007 and Law No. 18/2006, Financial Note APBN 2008 and Law No. 45/2007, Financial Note APBN 2009 and Law No. 41/2008. LKPP reports for 2007, 2008, and 2009.

PI-4. Stock and monitoring of expenditure payment arrears

Rating 2007	Rating 2011	Performance change	Summary Comments
B+	B+	Performance has improved with the end-year stock of arrears declining (as % of spending): 2004-06: less than 2% 2007-09: less than 1%	The government has reduced the already relatively small amount of potential arrears. Reliable and complete payables data is included in the periodic financial statements, but not with detailed information on the stock of arrears.

As noted in the previous PEFA report, while a pure cash accounting system does not record arrears, Indonesia's current cash-towards-accrual accounting system periodically records the stock of liabilities to third parties. Since Indonesia follows a cash based budgeting system with a strict annual authority to spend given to K/Ls (DIPA) limiting the legal authority to commit expenditures, arrears should not arise unless there are delays by in submitting claims for payment by the end of a fiscal year. In addition, the accounting system applies cash-toward-accrual concepts, in anticipation of the adoption of accrual accounting by 2015, and the six monthly (semester) and annual financial statements report on government payables. The audited financial report shows that the Government had more than Rp 100 trillion in short-term unpaid claims for the past three fiscal years (2007 to 2009, see table below).

Short term liabilities (Rp million)	31 December 2007	31 December 2008	31 December 2009
Due to third party withheld	525,495	233,349	906,088
Liabilities to third parties	5,934,336	15,593,144	22,310,440
Liabilities from excess revenues	-	249,306	1,943,343
Current portion of long-term liabilities	92,179,557	106,497,354	92,505,447
Liabilities of borrowing costs (interest)	15,151,055	20,627,684	18,526,548
Subsidy liabilities	19,146,423	12,503,315	15,717,146
Treasury bonds	4,035,410	9,581,589	26,515,739
Other short-term liabilities	2,760,047	16,057,522	9,409,772
Total short-term liabilities	**139,732,332**	**181,343,265**	**187,839,287**

Source: BPK Audit Reports of the Government Financial Report

However, few of these short-term payables can be classified as arrears. For example, the 'current portion of long-term liabilities' has the greatest proportion of the short-term payables, but these are not "arrears" but amortization that is not yet due for payment and reflects financing transaction. Similarly, payables on subsidies and liabilities to local governments reflect transfers to holding accounts (escrow) prior to final verification and payment of the obligations. The other large portion of payables, liabilities of borrowing costs reflect accrued interest expenses, which will be due for payment in the future. Consequently, only one relatively small type of payables could contain arrears to third parties, as shown in the table below (note that this would constitute a maximum).

Because of the low probability of arrears, the MoF neither monitors the stock nor does it report the age profile information on arrears

Possible Expenditures Payable as "arrears" (Rp million)	2007	2008	2009
Other short term liabilities incurred by K/Ls (excl. promissory notes, and intra government transactions)	2,757,697	4,681,292	6,508,068
(% of spending)	**(0.3)**	**(0.5)**	**(0.7)**
Total expenditure	757,649,913	985,730,751	937,382,019

Source: BPK Audit Reports of the Government Financial Report

Section 3.2 Comprehensiveness and Transparency

PI-5. Classification of the budget

Rating 2007	Rating 2011	Performance Change
A	A	The Chart of Accounts used for formulation, execution and reporting of the central government's budget follow cash based GFS2001/COFOG, while a new program structure was introduced in 2010 and accrual accounting standards have been developed (though not yet implemented)

As noted in the last PEFA report, State Finance Law No. 17/2003 continues to regulate the budget classification, but the detailed classification has been updated. The budget is appropriated based on organizational units, function, sub-function, program, activity and economic classification. The functional classification follows a COFOG standard with the additional function for religion. In total there are 11 functions complemented by 79 sub-functions. The economic classification system is consistent with GFSM 2001 with eight expenditure classes (salaries, goods and services, capital, interest, subsidies, grants, social assistance, and others). The detailed description of functions, sub-functions, programs, activities, unit organizations, and economic classification is regulated by PMK 91/2007 on the chart of accounts (COA). The COA is consistently used for budget formulation, execution, accounting, and reporting in central government financial statements and can be used to track spending and revenues at the level of spending units.

In 2010, Indonesia introduced a new program structure consistent with the implementation of PBB. Programs were strictly aligned with the administrative structure, i.e. a program was assigned to a specific Echelon 1 official, with an activity assigned to an Echelon 2 official. It also removed the budget classification of salaries and other employee compensation costs as separate programs within the general services function, which had inhibited the analysis of the total program costs. The structure was used for the latest five-year development plan (RPJM 2010-14),[17] the annual work programs (RKP), as well as the ministerial work plans and budgets (RKAKL). There were over 500 programs in the 2011 budget. Also in 2010, the Government decided to implement the Accrual Based Accounting Standard by 2015. Accordingly, the COA will be further refined, for example by adding new segments to ensure consistency with output indicators and accrual transactions (commitments, depreciation, payables, etc).

The Government applies national public sector or government accounting standards (SAP) that are broadly consistent with international standards (IPSAS). SAP is set by an independent Government Accounting Standards Committee (KSAP), which was established in 2004 and comprises government officers, academics, and accounting professionals. Since 2004, Indonesia has applied a "cash towards accrual" accounting standard, but by 2015 an "Accrual" Based Accounting Standard will be adopted (Government Regulation No. 71/2010). An assessment made by an IMF consultant to the draft accrual accounting standard confirmed that *"the conceptual framework, principles and standard are based largely on International Public Sector Accounting Standards (IPSAS) and generally accepted accounting principles …. as such the standards in spirit are consistent with the very high standards".*

PI-6. Comprehensiveness of information included in budget documentation

Rating 2007	Rating 2011	Performance Change
A	A	While generally comprehensive, budget documentation lacks information in relation to two of the benchmarks: financial assets are not presented at beginning of year, and new initiatives are not systematically presented

The official budget documentation as shared with the Parliament comprises the following five elements:

- Presidential budget speech, in which the President lays out the main challenges and prioritizations for the budget year;
- Draft yearly budget law, which mandates spending and sets a number specific rules regarding revenues and expenditures;
- Financial note which contains a number of explanatory chapters on, among other things, government priorities, macroeconomic assumptions, fiscal policy outlook, revenues and grants, central government expenditures, fiscal decentralization, budget financing and fiscal risk;
- Budget submission forms (Himpunan RKA-KL) detailing budget submissions by organization, function, sub-function, program, activity, output and economic classification; and
- One-year government work plan (RKP) comprising a brief description of programs and activities as well as indicative ceilings at KL and program-level.

In addition, there are a number of relevant pieces of documentation publicly available, but which are not officially submitted to Parliament as part of the budget documentation. These include: the annual and bi-annual financial statements; and the budget realization report submitted to Parliament.

17 In Book II of the RPJMN (2010-14), there is a matrix with 178 national development programs (although there are over 500 programs), 10,000 activities, and around 6,400 performance indicators.

Information benchmarks on comprehensiveness of budget documentation

	Item	Included	Source
1	Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate	Yes	Financial note
2	Fiscal deficit , defined according to GFS or other internationally recognized standard	Yes	Financial note
3	Deficit financing, describing anticipated composition	Yes	Financial note
4	Debt stock, including details at least for the beginning of the current year	Yes	Financial note
5	Financial assets including details at least for the beginning of the current year in a timely manner	No	There is no ex ante reporting in the budget documentation as submitted to parliament. However it is included in the Financial statement which is submitted to Parliament separately (LKPP).
6	Prior year's budget outturn, presented in the same format as the budget proposal	Yes	Financial note, chapter 4 contains summarized budget outturn-data for prior years by economic classification. In addition the Financial note for 2012 contains an appendix with outturn data for 2006-2010 by ministry/organization, economic classification, function and sub function.
7	Current year's budget (either the revised budget or the estimated outturn) presented in the same format as the budget proposal	Yes	Financial note chapter 4
8	Summarized budget data for both revenue and expenditure according to the main heads of the classification used , including data for the current and previous year	Yes	Financial note chapter 4
9	Explanation of budget implication of new policy initiatives with estimates of the budgetary impact of all major revenue policy changes and/ or some major changes to expenditure programs	No	The financial note contains a description of new developments on the revenue side and their consequences for the budget. On the expenditure side, there are brief sections for each ministry, but they do not distinguish new from on-going initiatives.

Budget documentation in Indonesia is generally comprehensive and of high quality. However, as can be seen from the table above, there are a few areas where further improvements could be made. Financial assets at the beginning of the year are not presented as part of budget documentation, but are available to parliament members and the public in the audited financial statement, the LKPP, submitted not later than six months after the end of the fiscal year. New Initiatives on the expenditure side are also not systematically presented in budget documentation as distinct from on-going initiatives and in a way that would allow a clear picture of the budgetary implications.

The move to MTEF and PBB from 2011 is likely to be a catalyst for further improvements in budget documentation in order to increase the visibility of the MTEF and the budgetary consequences of government priorities. It will also reinforce the distinction between new and on-going initiatives and strengthen parliamentary commitment to reforms. For example, for the 2012 budget the financial note includes a separate chapter on the MTEF.

PI-7. Extent of unreported government operations

Rating 2007	Rating 2011	Performance Change
N/A	C+	Progress has been made to both disclose and reduce extra budgetary activities, while the majority of donor-executed grants are recorded in the budget realization report for grants.

Since the last PEFA assessment in 2007, progress has been made in disclosing and reducing the extent of unreported operations. As also described under PI-17, the Government has taken a number of steps to rationalize and reduce unreported bank accounts opened by K/Ls, including closing those that lack justification. The results are published in the 2009 financial statement (LKPP).

Also, the Ministry of Finance has identified 100 special government entities that are not operating as part of the formal hierarchy of MDAs. Of these entities, 73 were active in 2010. These include the following types:

- State-Owned Legal Entities (BHMN) such as a number of universities, research and training institutions;
- Independent non-structural institutions, such as commissions and councils; and
- State Foundations.

Financial information from these entities is now reported in the LKPP. In 2010, the Treasury developed a report profiling each of the entities and coordinated with the State Secretariat to identify new independent non-structural institutions. The non-structural independent institutions include the Housing Fund for civil servants, which were listed in the 2007 PEFA as unreported. In 2009, 4 independent non-structural institutions were funded entirely by extra budgetary funds and 4 independent non-structural institutions received funding from both the budget and other sources of funding. By the end of 2009, such entities received extra-budgetary funds of Rp 1.7 trillion. In 2010, 10 new independent non-structural institutions were identified. An accounting system for other agencies (Sistem Akuntansi Badan Lainnya) that includes extra budgetary activities is currently being developed that is expected to define, identify and disclose the extra budgetary activities/funds of Independent non-structural institutions.

The LKPP now also contains information on a number of revolving funds, including the regional development loans and investment accounts (RDI/RDA), which are revolving off-budgetary loan operations managed by the MoF. The projected income and outflows for RDA/RDI are also reported in the financial notes and their transactions discussed by parliament. The balances for some other off-budget revolving funds managed by line ministries are also reported in the annual financial statements (LKPP).

The Government has also determined through PMK No. 34/2004 that all eligible military (but not police) enterprises are to be transferred to the Government and thus become part of fiscal reporting. Until 2009, the agency for the transformation of the management of military businesses (Badan Pengelola Transformasi Bisnis TNI) had identified 900 foundations, which are now in the process of being scrutinized to determine whether they should be included in government fiscal reporting. Nonetheless, there appears to remain some amount of unreported government activities relating to military and police enterprises, but the magnitude, although it cannot be estimated precisely, is likely to be less than 10 percent of total government spending.

Government Regulation PP No.2/2006 on foreign grants and loans, as revised by PP No. 10/2011, states that all development partner-funded projects (government-executed as well as development partner-executed) should be included in financial reporting. This Regulation is detailed further in PP No. 40/2009, which requires all development partners to use the government financial reporting format. Since 2009, MDAs must report all development partner-funded grants using "notices of disbursement" or similar hand-over documents received from development partners, which become the basis for inclusion in a Budget Realization Report for Grants (Laporan Keuangan Bagian Anggaran 999.02). This report includes revenues from grants, with expenditures reported in the government financial statement alongside expenditures from other funding sources.

While all loans and government-executed grants are included in fiscal reporting, in 2009 this was only true for some of the development partner-executed grants. As illustrated in the table below, in 2009 total grant revenues totaled Rp 3.3 trillion. DG Debt Management estimates that in 2009 a further Rp924 billion (28 percent) of revenues were not reported due to development partners not consistently using the right documentation.

Planned and reported revenues from donor-executed grants

Rp Million	2007	2008	2009
Donor grants projected in the Budget (APBN)	3,823,318	2,948,636	1,006,536
Donor grants reported in Financial statement (LKPP)	1,697,748	2,304,013	1,666,644
Total Grants reported in Laporan Keuangan system			3,341,684

Source: LKPP, 2007, 2008, 2009. Laporan Keuangan BA 999.02 Hibah, 2009.

It is the responsibility of each line ministry to record and report expenditures financed by development partner-executed grants. DG Debt Management only has the responsibility to report on the revenue side. K/Ls report the expenditures through the Treasury system along-side other expenditures. As highlighted in the above table, expenditures for Rp 1.7 trillion were recorded and reported to LKPP in 2009. The amount of unreported revenues, however, may also affect the completeness of expenditure-reporting although unreported expenditures are considered less than 50 percent.

The recording of grants in the budget realization report for 2009 is a big step towards increasing the transparency of reporting on development partner-executed grants. However, reporting arrangements with development partners on planned and actual expenditures may still be improved. This is evidenced by the still sizeable amount of unreported development partner-executed revenues and the disparities between planned revenues in the budget (APBN) and the actual revenues. There is also a lack of consensus on the method of reporting. While the budget realization report on grants uses the notifications of disbursement, the LKPP "matches" revenues with recording of expenditures.

Indicator	Score 2007	Score 2011	Performance Change
PI-7 Extent of unreported government operations. [M1]	**Not rated**	**C+**	
(i) The level of extra-budgetary expenditure (other than development partner-funded projects) which is unreported, i.e. not included in fiscal reports	**Not rated**	**C**	Progress has been made in disclosing a number of significant extra-budgetary-activities in the LKPP relating to illegal bank accounts, revolving funds and funds for entities which are not part of the normal MDA-hierarchy. A large number of foundations affiliated with the military are still being scrutinized to determine whether they should be included in fiscal reporting. No systematic data was available to allow quantification, but the unreported activities are likely to be less than 10 percent, the threshold for a D.
(ii) Income/Expenditure information on donor-funded projects which is included in fiscal reports	**C**	**B**	Complete income/expenditure data for all loan financed and government executed grant funded projects is included in fiscal reports. Since 2009, revenues for the majority of development partner-executed grants are recorded in the budget realization report for grants. DG Debt Management estimates that a further 28 percent of revenues are unreported. Expenditures financed by development partner-executed grants are reported in the LKPP. Reporting may be incomplete, but the amount of unreported expenditures is much less than 50 percent.

PI-8. Transparency of inter-governmental fiscal relations

Rating 2007	Rating 2011	Performance Change	Summary Comments
C+	**B**	Information on the budgeted transfers from central to SNGs is reasonably reliable and timely.	Despite ongoing improvements, there continue to be delays in budget approval and reporting for SNGs that inhibit the consolidation of reports.

The past few years have seen a continuation in the move towards decentralization. In 2010, Indonesia's 524 SNGs accounted for about 41 percent of total general government expenditures.[18] The legal framework for intergovernmental transfers' remains the same as described in the 2007 PEFA, as set out in Law No. 33/2004 and detailed in Government Regulation PP No. 55/2005. Government revenues remain highly centralized with only a limited sub-national tax base and district/city governments, and to a lesser extent provincial governments, rely heavily on transfers from the central government.

Transfers to district/city governments are placed within the Balancing Fund and the Special Allocation Fund (DAK) as illustrated in the table below. Within the balancing fund, which covers 85 percent of the total transfer amounts, there are three kinds of transfers: shared revenues and taxes (DBH), General Allocation Grant (DAU), and Specific Allocation Grant (DAK).

Intergovernmental transfers in APBN 2011

	Billions of Rupiah	Percentage
I. Balancing Fund	**334,324.0**	**85.1**
Revenue sharing Fund (DBH)	83,558.4	21.3
General Allocation Fund (DAU)	225,532.8	57.4
Specific Allocation Fund (DAK)	25,232.8	6.4
II. Special Autonomy and Adjustment Fund	**58,656.3**	**14.9**
pecial Autonomy Fund	10,421.3	2.7
Adjustment Fund, incl. Dana Incentives	48,235.0	12.3
Total	**392,980.3**	**100.0**

Source: Budget summary statistics, Ministry of Finance, 2010

The special autonomy and adjustment fund covers expenditures for the take home pay of regional civil servant-teachers, a professional allowance for teachers, the schools operational assistance program (BOS) and infrastructure funding. A new and more performance-based transfer mechanism has also been set up, the so-called "dana incentives". This transfer amount depends on the performance of the region in relation to elements determined in the annual budget law. In 2010, 54 regions received extra transfers through this mechanism based on good audit-reports. According to the 2011 Budget Law, the incentive mechanism will be focused on educational performance.

Apart from these transfers, central government departments, including education, public works and health, directly undertake de-concentrated spending on mandates that are legally decentralized. While this spending benefits local governments and communities, it is not designed as transfers and therefore is technically still central government spending. The Ministry of Finance has, since 2009, issued recommendations to shift de-concentrated spending to transfers and to allow more transparent and equitable criteria for this spending based on criteria such as fiscal capacity and the Human Development Index (HDI), both of which are also part of the formula for calculating the DAU.

Overall, more than 90 percent of the transfers to SNGs are to be considered both transparent and rule-based. The DBH and DAU have direct formulas embedded in law and regulation, but also DAK allocations and most transfers from the Special Autonomy and Adjustment Fund are based on criteria set out in law or regulation. The regional budgets (APBD) follow the calendar year as does the central government budget. SNGs are required to adopt their budgets for the upcoming year by 31 December of the previous year and submit to the MoF and Ministry of Home Affairs (MoHA) by the end of January.

18 The number of SNGs has risen from 473 in the previous PEFA, though transfers remain around 40 percent of total government spending.

Firm and reliable information on transfers to individual SNGs are not established until October when the central government annual budget (APBN) is set up. As noted in the previous PEFA, the central government is hesitant to issue the figures in the draft Budget Law (R-APBN[19]) to individual SNGs because of concerns that SNGs might treat them as definite commitments, while changes are often made by the DPR. Transfer allocations are issued by letter and then disbursed, leaving two months for SNGs to enact their annual budget law. The actual decree establishing the transfer amounts may be issued later (typically in December), but this is to finalize the legality of the decree and does not involve changes in the amounts of transfer allocations. At the time of notification in October, SNGs are still discussing their APBDs for the coming fiscal year. This discussion ends in November in order for the SNGs to finalize their budgets before the start of the fiscal year. However, SNGs' planning and budget cycles commence much earlier, in May or June, based on allocations in previous years. The two months from October until the end of the year should be sufficient to make even sizeable changes.

There is a lack of timeliness in the regional budget process and many SNGs do not enact their budgets on time. The past three years has seen some improvements in the timely submission of regional budgets, but for FY 2010 only 41 percent of the regional budgets (APBDs) were enacted before the start of the fiscal year and in February of fiscal year only 86 percent were enacted. This has led the MoF to impose sanctions by withholding transfer payments from the balancing fund (as mandating by Law No. 33/2004). The lack of compliance with budget regulations is reportedly not due to individual transfer allocations being issued too late, but rather with difficulties for SNGs in forecasting own-source revenues, delays following local elections and a lack of harmonization in the communication channels between SNGs and district/city parliaments (DPRDs).

Government Regulations PP No. 13/2006 and PP No. 56/2005 require SNGs to send annual financial reports to the central government (approved by sub-national parliaments) no later than 7 months after the end of the fiscal year to the MoF and MoHA no later than August 31. However, there is a lack of compliance by SNGs. As of February 2011, 81 percent of SNGs had submitted their reports for fiscal year 2009. While Law No. 33/2004 allows the central government to sanction SNGs not meeting their reporting requirements, this option has so far not been applied.

Differences in standards and classification systems and the lack of timeliness in fiscal reporting make it difficult to produce consolidated general government reports. Accounting standards and classification systems for SNGs are gradually being adapted to meet national standards. SNGs must report on the same chart of accounts as the central government and use similar accounting standards for recognition of assets and liabilities, but they are granted some flexibility in using different chart of account-codes during the year. Permendagri No. 59/2007 Article 77(12) states that "the list of accounts name and code shall not be used as the fixed reference in formulating the account code since the selection will be based on the objective needs and the local characteristics of the regions". Government Regulation PP No. 56/2005 Article 9 states that the purpose of the regional finance system, among other things, is to present regional finances nationally, but there is no mention of consolation with central government accounts. However, beginning in June 2011, the MoF (DG Fiscal Balance) does produce reports for 2008 and 2009 with ex-post fiscal information for 421 SNGs (82.5 percent) consolidated with central government transfers. The report shows budget realization tables by source of revenue, including central government transfers and, on the expenditure side, by economic classification as well as a balance sheet report consolidating data for all 421 SNGs. While the report does not present data for central government and SNGs together, the data in the report are consistent with central government data.

19 The R-APBN includes exact numbers for all aggregate allocations of the Balancing Fund, the Special Allocation Fund, and Adjustment Fund.

Indicator	Score 2007	Score 2011	Performance Change
PI-8 Transparency of Inter-Governmental Fiscal Relations. [M2]	C+	B	
(i) Transparency and rules based systems in the horizontal allocation among SNGs of unconditional and conditional transfers from central government (both budgeted and actual allocations)	A	A	Horizontal and vertical allocations of more than 90 percent of all transfers from the central government are determined by transparent and rule based systems.
(ii) Timeliness of reliable information to SNGson their allocations from central government for the coming year	C	B	Transfer allocations for individual SNG are issued in October with enactment of the annual budget law leaving two months for SNGs to complete their budgets, which should be sufficient to include significant changes. There is a lack of timeliness in SNG budget submissions, but this appears to be due to other local factors.
(iii) Extent to which consolidated fiscal data (at least revenue and expenditure) is collected and reported for general government	D	C	Beginning June 2011, a report for FY 2008 and FY 2009 has been produced with ex-post fiscal data for 421 SNGs (82.5 percent) consistent with central government transfers. The report consists of budget realization and balance sheet reports.

PI-9. Oversight of aggregate fiscal risk from other public sector entities

Rating 2007	Rating 2011	Performance Change
D	C	There has been a steady improvement in the coverage and scope of the annual fiscal risk statement, which was first included in the 2008 budget. In addition, while fiscal risks are better disclosed and managed for AGAs and SNGs they are not all consolidated in the annual risk statement.

As noted in the previous PEFA report, since 2008, the fiscal risk unit in the FPO of MoF has prepared a fiscal risk statement in the annual budget financial note (see for example financial note 2011, chapter 6.4). The fiscal risk statement identifies, analyzes, monitors and reports on fiscal risks with four different categories of risk:

- Sensitivity analysis, including the sensitivity of the budget deficit to changes in macroeconomic assumptions, and the sensitivity of the net contribution of taxes, subsidies, transfers and debt payments to changes in macroeconomic variables.
- Central government debt risks, including from interest rate and exchange rate movements and from refinancing requirements.
- Central government contingent liabilities including guarantees for state owned enterprise debt to accelerate a number of infrastructure projects and other prioritized projects, guarantees on liabilities and equity levels of state owned financial institutions such as Bank Indonesia and export financing institutions, unfunded pension obligations, pending law suits and claims to government, commitments to international organizations and fiscal risks of natural disasters.
- Fiscal decentralization risks associated with an increasing number of SNGs. In 2010 there were 524 SNGs compared with 507 SNGs in 2009. This development is part of an effort to create a more efficient and effective service delivery, but there are potential fiscal risks in the form of expenditure pressures on DAU and DAK allocations and on the deployment of more central government representatives in the new regions. The chapter on fiscal risks also mentions regional loans from central government and in particular the trend in overdue loan re-payments.

In 2009, there were 141 state-owned enterprises and 18 enterprises with minority government share.[20] Each SOE must submit quarterly financial statements to MSOE and the relevant line ministry, and

20 Law 19/2003 and Ministry of State Owned Enterprises (MSOE) Ministerial Decree 100/2002 provide a sound basis for the monitoring of SOEs

produce audited financial statements (operating statement and balance sheet) annually as part of its annual report. MSOE Ministerial Decree No. 100/2002 also requires regular assessments of the financial health of SOEs based on a set of eight standard financial criteria and in practice some rudimentary assessments are carried out by both MSOE and MoF.

SOEs mostly comply with reporting requirements and FPO encourages compliance further by having regular meetings with SOEs in preparing the fiscal risk statement. The annual Central Government Fiscal Report summarizes the financial position of SOEs, and in 2009 all but 13 of the SOEs had submitted audited financial reports for fiscal year 2009 (including the largest SOEs). The Fiscal Risk Statement monitors the 22 largest SOEs representing more than 90 percent of the asset value of SOEs, and are covered in the sensitivity analysis to establish a link between changes in macroeconomic assumptions and variables and establishing a link to revenues (from taxes and dividends), expenditures (subsidies) and financing such as capital injections and guarantees for projects run by SOEs.

Autonomous government agencies (AGAs) can be divided into four types (see explanation under PI-7). The BHMN, independent non structural institutions and state foundations generally follow reporting requirements either as government spending units or following PMK No. 08/PMK.05/2010. For fiscal year 2009, the independent non structural institutions generally submitted their financial statements that were included in the LKPP.

Government Regulation PP No. 23/2005 set up a new framework for Public service bodies (BLUs), such as universities, laboratories, and training institutions. As discussed previously, these semi-autonomous entities enjoy greater flexibility than MDAs in their financial management requirements. In return for this flexibility MoF Decree No. 466/KMK.01/2006 sets out clear reporting requirements, including submission of annual and semi-annual financial reports to the MoF, which is charged with financial oversight of BLUs. BLUs most comply with the reporting requirements. For fiscal year 2010, 92 BLUs submitted their fiscal statements (although 19 were late), while 9 did not.

The fiscal risk statement does not explicitly contain a comprehensive account of the risks stemming from AGAs. It would seem that the timeliness and compliance rates are sufficient to include AGAs in the risk statement, but the Government is of the opinion that the fiscal risks stemming from these units are very limited. This is supported by two factors. First, own-source revenues in AGAs represent only about 1 percent of total revenues in the central government budget (2010). Second, BLUs (by far the largest group of AGAs) typically budget with a significant surplus. In 2010, the surplus averaged 20 percent of the BLU-revenues and on average 40 percent of the expenditure in BLUs was covered by APBN-financing. Therefore, variability in revenues represents only a minor risk for the central government budget.

For SNGs, PP No. 54/2005 mitigates the fiscal risk arising from direct liabilities incurred in financial markets or from central government in a number of ways. Regional loans can be of both short-term nature (within one fiscal year) to off-set cash shortages, and medium to long term to finance service provision not resulting in revenues and long-term investment projects resulting in revenue. A tight regulatory framework is in place that limits direct access of SNGs to capital markets. While SNGs are allowed to borrow and issue municipal bonds, prior approval by the MoF and the MoHA is required. An annual MoF decree (see for example PMK No. 149/2010) sets limits for regional deficits and debt levels in order to accommodate fiscal risk, and to ensure that the overall fiscal rules on public sector debts and deficits are accommodated. In 2011, the maximum accumulated deficits to be financed by regional loans were set at 0.3 percent of GDP and the maximum yearly deficits for SNGs were set at 4.5 percent of the total regional budget.

There are additional requirements in PP No. 54/2005 regarding the size of medium- to long-term loans compared with annual revenues and ratios for the capability of SNGs to repay the loans. In the event of SNGs not fulfilling their debt service payments, the regulations stipulates a number of sanctions including subtracting the liabilities from the payments to those SNGs from the balancing fund (DAU transfers) and voiding the right to raise new loans in the subsequent three-year period. In practice SNG debt levels are very low, less than 0.4 percent of GDP.

Since SNG direct liabilities constitute only a limited source of fiscal risk, the fiscal risk statement does not contain a complete overview and reporting of SNGs fiscal position. However, overdue payments are monitored as part of the fiscal risk statement. Fiscal risks may also arise from other SNG contingent liabilities such as sub-national pension obligations where there may be an implicit central government guarantee. Due to a lack of timely and reliable reporting by SNGs (as outlined in the discussion on PI-8) these risks are not monitored systematically.

Indicator	Score 2007	Score 2011	Performance Change
PI-9 Oversight of aggregate fiscal risk from other public sector entities. [M1]	D	C+	
(i) Extent of central government monitoring of AGAs and Public Enterprises	C	B	Major SOEs submit audited annual financial reports and the major 22 SOEs are covered in the annual fiscal risk statement included in budget documentation. The risk statement does not include AGAs as they do not represent a major fiscal risk.
(ii) Extent of central government monitoring of SNG fiscal position	D	C	The fiscal position of SNGs is monitored annually and fiscal risk statement includes overdue loan payments from SNGs. Delays in reporting inhibits a comprehensive monitoring and fiscal reporting on SNGs. However, risks are mitigated by strict regulations on regional borrowing.

PI-10. Public access to key fiscal information

Rating 2007	Rating 2011	Performance Change
B	A	Progress has been made with greater access to the semi-annual budget report and to contract awards on the websites of agencies.

The budget process in Indonesia is generally open with most major fiscal documents being available to the public. Indonesia meets 5 out of the 6 information benchmarks for this indicator as shown in the following table. Since the last PEFA-assessment progress has been made in the following areas:

- The semester fiscal report is available on-line (previously only hard copies were available from the MoF on request);[21] and
- Implementation of Presidential Decree No. 80/2003. Contract awards above a threshold of Rp 50 million are now publicly available on agency websites of major MDAs.

21 Interestingly this assessment is at odds with The Open Budget Survey 2010, conducted by the International Budget Partnership (www.openbudgetindex.org), which concluded that "In Indonesia, there is no In-Year Report made available to the public, and there is no Year-End Report". This might reflect problems of accessing the information from the MoF websites, which are noted in the table.

Benchmarks on public access to key fiscal information

No.	Item	Available	Source
1	Annual Budget documentation	Yes	Annual budget documentation made available on DG Budget website after submission to parliament www.anggaran.depkeu. go.id
2	In-year execution report	Yes	Semester report (Laporan Realisasi Anggaran) published on DG Treasury website after submission to DPR and within four weeks of period-end www.perbendaharaan.go.id
3	Year-end financial statements 6 months after end of fiscal year	Yes	The LKPP is available on-line at DG treasury website www.perbendaharaan.go.id
4	External audit reports	Yes	External audit reports made available on BPK website after submission of audit report to DPR www.bpk.go.id
5	Contract awards	Yes	Available on agency websites – see for example the Ministry of Public Works eastern Indonesia road project website: www.pmueinrip-binamarga.com
6	Resources available to primary service units	No	There has been no significant change since 2007. Information is generally not provided. Some aggregate figures of budget allocations to schools and hospitals are included in budget documents and some information is available on central government hospitals and educational institutions that are AGAs. Most primary service providers are located at the SNG level and receive funding from several levels of government with separate lines of reporting, making it difficult to obtain comprehensive funding information.

PI-11. Orderliness and participation in the annual budget process

Rating 2007	Rating 2011	Performance Change
A	**A**	The budget process remains orderly and clear, with additional progress having been made to improve forward planning and the use of forward estimates.

The budget process follows a fixed calendar. This calendar is stipulated in State Finance Law No. 17/2003 and detailed in Presidential Regulation PP No. 90/2010, which define the contents and timing of each step. Budget preparation starts in February, preceding the fiscal year with the preparation of indicative ceilings and baseline updates. It culminates in adoption of the budget law by Parliament in October, no later than two months prior to the beginning of the fiscal year. After the adoption of the budget, the Government has until the end of November to detail the adopted budget in a Presidential Decree on the Budget (i.e. Keppres No. 26/2010), which forms the basis of the formulation of budget implementation documents (DIPAs) for each spending unit.

Specific dates are set for each phase of the budget cycle. These include issuance of decrees on budget ceilings, preparation of budget requests by line ministries, and legislative involvement. Both the executive and the legislature adhere to the statutory budget calendar and the budget was enacted on time in the past three years.

Budget ceilings are issued in three rounds mandated by PP No. 90/2010 and each issued by government circular:

1) Circular on indicative ceilings issued jointly by the State Ministry of Development Planning and the Ministry of Finance by the second week of March at the latest;
2) Circular on budget ceilings (formerly known as temporary ceilings) issued by the Ministry of Finance no later than end-June; and
3) Circular on budget allocations (formerly definitive ceilings) issued by the Ministry of Finance in November following the adoption of the budget proposal.

This practice gives ministries and agencies sufficient fiscal guidance and time to meaningfully complete their detailed budget requests. Circulars on budget ceilings are approved by the President and Cabinet before being issued.

PP No. 90/2010 and the new regulation from the State Minister of Development Planning (PMK No. 1/2011) means that starting with the 2012 budget, budget proposals will be based on forward estimates from the previous year. The regulation outlines a process whereby all changes to this estimate come through a special process of proposing, scrutinizing and deciding new initiatives with funding consequences for existing estimates. The regulation says that new initiative proposals can be submitted three times leading up to the indicative, temporary and definitive ceilings. This new regulation is likely to further increase the orderliness and participation in the process, as cabinet is involved earlier and more systematically (from the preparation of the indicative ceilings and the new initiatives they are based on), and changes to forward estimates are dealt with in clearly defined stages.

While adherence to the budget calendar is not an issue in Indonesia and the budget has been passed on time during the past three years (and even longer than that), there is a rather unique tradition for allowing certain parts of the budget to be blocked from execution. Such blocking can be initiated by Parliament if sectoral commissions have agreed to the RKA-KL but not approved the detailed use of the budget. It can also be blocked by the MoF (typically DG Budget) in instances where budget documentation does not fully comply with relevant regulations. Between 2005 and 2010, 11 percent of the budget was blocked and about 4 percent remained blocked (unspent) at the end of the fiscal year. This practice tends to prolong budget preparation into the fiscal year and weakens the incentives of the parties to finalize budget documentation on time. It may also have an adverse effect on the timely implementation of the budget.

Indicator	Score 2007	Score 2011	Performance Change
PI-11 Orderliness and participation in the annual budget process.	**A**	**A**	
(i) Existence of and adherence to a fixed budget calendar	**A**	**A**	A clear statutory budget calendar is stipulated in Law No. 17/2003 on State Finances and in PP No. 90/2010 on the work plan and budget formulation. The budget calendar is adhered to, giving MDAs more than 6 weeks from receipt of budget circular to submittal of their detailed budget requests.
(ii) Guidance on the preparation of budget submissions	**A**	**A**	Comprehensive and clear budget circulars are issued in two stages to guide preparations. President/Cabinet reviews and approves ceilings including funding for new initiatives before the budget circulars are issued.
(iii) Timely budget approval by the legislature	**A**	**A**	The budget was approved before the beginning of the fiscal year during the last three years (2009, 2010, 2011*)*

Section 3.3 Policy-based budgeting

PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting

Rating 2007	Rating 2011	Performance Change
D+	**C+**	Since the last PEFA-assessment in 2007, Indonesia has taken a number of steps to introduce a multi-year perspective for fiscal planning, expenditure policy, budgeting and debt management.

First, the MoF makes a fiscal capacity assessment for the medium term as the basis for formulating the resource envelope and subsequent indicative ceilings at ministry and program-level for the fiscal year and 3 out-years. The determination of the resource envelope consists of three key processes: preparation of the Medium-Term Macro-Economic Framework (MTMF), preparation of the Medium-Term Fiscal Policy Framework (MTFF) and preparation of the Medium-Term Budget Framework (MTBF).

The MBTF as presented in the financial note is not disaggregated by function, only the main headers (expenditures, revenues, surplus/deficit and financing), but the framework is detailed in subsequent planning and budget documents.

Indicative ceilings are based on the MBTF, taking into account last year's budget realization data, adjusted for inflation, as well as to new government fiscal policies. Differences between the MTBF and the indicative ceilings are not clearly laid out in the Budget Circular. In addition, 2011 is the first year of detailed forward estimates, so 2012 will be the first budget year in which the indicative ceilings will take into account a "roll-over" of updated baselines from the previous year.

Beginning with the 2011 budget, the MDAs formulate rolling four-year work-plans with a reference to the indicative ceilings and to the yearly government work plan and the five-year government work-plan (RPJM). Also starting in 2011, budget submission documents have been prepared with detailed forward estimates for two out-years. The forward estimates cover the part of the central government budget managed by MDAs and debt interest payments, in 2011 corresponding to 44 percent of the budget. The other main expenditure areas such as local government grants and subsidies are outside the scope of the MTEF.

The budget proposal will be based on the forward estimate from the previous year. A new MoF Regulation PP No. 90/2010, PMK No. 104/2010 and a new Bappenas Regulation No. 1/2011 means that, starting with the 2012 budget, the budget proposal will be based on the forward estimate from the previous year. The regulation says that all changes to an estimate (other than baseline updates for inflation, etc) must be channeled through a special process whereby new initiatives will be put forward, scrutinized and approved with funding consequences for existing estimates (see also PI-6). The requirement is clearly stated in the regulation to "roll-over" the forward estimates from the previous year and use updated estimates as the starting point for the development of the new budget. This will also be supported by the formulation of new business processes for budget planning and budget preparation and supported by a new cost-solution for budget preparation to be incorporated into the GFMIS-system currently being implemented (SPAN). However, since reforms are still in the initial stages, the evidence of the strength of this link is not yet clear, particularly the ability of MoF and Bappenas to enforce it and to build sufficient capacity in the center and in line ministries.

The Government's capacity for debt sustainability analysis (DSA) has been developed gradually following PMK No. 447/KMK.06/2005 on government debt management strategy, but was not fully implemented until 2008. The MoF (DG Debt Management) now prepares a debt management strategy report for a five-year period, which is issued as a MoF decree.[22] In the current debt management strategy there is a target to reduce public debt to 24 percent of GDP by the end of 2014. The DSA is integrated in Chapters 2-5 of the debt management strategy report and covers both domestic and foreign debt. The DSA is subject to review every year and includes:

- Analysis of achievements of debt management in 2004 – 09
- Analysis of debt capacity and financing budget needs in 2010 – 14
- Analysis of characteristic of lender, investor, line ministries, etc
- Analysis of target of debt portfolio structure

22 See KMK.514/2010 for the report covering 2010-14

Programs and activities (as substitute for sector strategies) are costed through a number of steps:

- the five-year government work plan (RPJM) includes the Government's policy strategy and priorities for the medium term and contains baseline-allocations for 179 national priority programs
- The one-year government work plan and the medium-term work plan for each MDA also contain allocations for programs and activities set within the indicative budget ceilings for the medium term
- The forward estimates formulated as part of the RKA-KL detail the costing of programs and activities up to the "component"-level, which is a disaggregation of the outputs of each activity.

Even with such detailed forward estimates there are some limitations to achieving a full costing of programs and activities as the basis for linking policy and budgeting for the medium term. First, the link between capital and re-current budgeting is still weak. Investments are not consistently selected on the basis of both capital and recurrent cost implications. Discussions within the Government and with Parliament on investment projects are based on the government work-plan (RKP). The RKP, however, contains budget numbers and descriptions of investment projects at a general level, but does not include comprehensive information on recurrent cost implications for future years. Recurrent costs such as building maintenance and office operational costs are based on specific cost standards (SBU) laid out in separate regulations and technical standards from a DG Public Works Regulation PMP No. 45/PRT/2007. These costs are only budgeted starting with the year following the finalization of an investment project.

Indicator	Score 2007	Score 2011	Performance Change
PI-12 Multi-Year Perspective in fiscal planning, expenditure policy and budgeting. [M2]	**D+**	**C+**	
(i) Multi-Year fiscal forecasts and functional allocations	**C**	**C**	A multi-year fiscal framework is prepared for fiscal year +3 out years. No functional classification is included, but detailed in subsequent program/activity allocations and forward estimates in budget and planning documents. Differences between fiscal framework and indicative ceilings are not clearly laid out. As 2011 is the first year with detailed forward estimates, evidence on the roll-over of baselines and the link to indicative ceilings is still not clear.
(ii) Scope and frequency of debt sustainability analysis	**D**	**B**	DG Debt Management prepares a debt management strategy report for a five-year period including a DSA for both domestic and foreign debt issued as a MoF decree (see KMK.514/2010). The DSA is updated annually and used for budget preparation.
(iii) Existence of costed sector strategies	**C**	**B**	From the 2011-budget, all line ministries (44 percent of the budget) prepare detailed forward estimates for two-out years. The forward estimates are the detailing of program and activity allocations in the government 5-year and 1-year strategic plans.
(iv) Linkages between investment budgets and forward estimates	**D**	**C**	Investment projects are included in detailed forward estimates. However, selection of investment projects is not consistently based on a full costing of capital and re-current expenditures, which are still separated budget processes.

Section 3.4 Predictability and control in budget execution

PI-13. Transparency of taxpayer obligations and liabilities

Rating 2007	Rating 2011	Performance Change
B	**B**	Progress has been made in trying to improve the balance between taxpayers' rights and the efficiency and integrity of the tax powers of the Directorate General of Taxes (DGT), though significant challenges still remain.

Since the previous PEFA, the Government has issued a General Tax Provisions and Procedures Law (No. 28/2007), which became effective in January 2008. The law aims to improve the balance between taxpayers' rights and the efficiency of the tax powers of the DG Taxes (DGT).[23] For example, taxpayers now have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for major taxes through various means, such as web access and print publications. These are frequently supplemented by public education efforts, including special seminars. However, taxpayers and tax advisors have to be proactive checking for new regulations or decrees since they are not always publicly announced. The DGT has also been given powers strengthened investigation and enforcement powers. For customs and excise taxes information available to taxpayers remains somewhat limited and delays in issuing implementing regulations sometimes occur.

However, the Indonesian Chamber of Commerce and Industry (Kadin) and tax advisors reportedly consider the review process of tax audits and objections against tax assessments to be not consistently effective. For example, the taxpayer community maintains that detailed explanations underlying decisions made on a tax assessment as a result of an audit process are not always provided to taxpayers, despite a ministerial decree on tax audit procedures and accompanying implementing regulations requiring tax auditors to inform taxpayers in writing about the results of the audit. DGT also recognizes that often the quality of an audit report is substandard. As a result, transparency and clarity of taxpayer obligations may be compromised.

In a survey of the ease of paying taxes Indonesia was ranked 126 out of 183 countries in 2010.[24] This put Indonesia behind countries such as Malaysia (24), Cambodia (58), and Lao PDR (113) and the rank has declined from 119 in 2009. However, similar investment climate surveys conducted by the University of Indonesia reveal that the compliance costs for filing returns, obtaining VAT refunds, and customs clearance have improved in 2010, compared with 2005-07. In addition, the national tax administration has been showing consistent improvement in the Corruption Perception Index score, which is measured through large-scale surveys by Transparency International Indonesia (TII) every two years. In 2010, the TII's Bribery Index, which measures corrupt interaction with the public service, put the national tax administration as the lowest (best) among all government institutions. The national tax administration also rates the second best among all government institution in the Service Performance Index.

A credible tax appeals system has been established under Law No. 14/2002 regarding the Tax Court. If a taxpayer disagrees with the tax office decision, the first step is for the taxpayer to file an objection with the DGT. If the taxpayer is not satisfied with the decision, the next step is to file an appeal with the Tax Court, which is part of the judicial system and is independent of DGT. Administrative procedures for the appeals process are in place. The status of an appeals case can be obtained from the website of the Tax Court Secretariat.

The Objections Office at DGT is short of qualified staff and the Tax Court also has severe capacity problems. The backlog of cases at the Tax Court have grown from 832 in 2002 to almost 10,000 in 2009, and is reportedly still growing.[25] The statistics from the Tax Court also show that out of 2,270 cases filed in 2007 the DGT only won 406 of them. In 2008, there were 3,027 cases, and 2,777 judgments were in favor of taxpayers.[26] This problem is primarily due to the low quality of audits reports, inability of the Objection Officers to confidently accept or reject the taxpayers' objections, and difficulties in obtaining tax payers data. In the review process, rather than evaluating the arguments presented by the tax auditors and the taxpayer, the objection officers typically repeat the audit process using the same techniques and background information.

23 The relevant central government tax laws include: General Tax Provisions and Procedures Law, Income Tax Law, VAT on Goods and Services and Sales Tax on Luxury Goods Law, Stamp Duty Law, Customs Law, Coerce Warrant Law, and Tax Court Law.

24 See the paying taxes section of the World Bank and IFC Doing Business 2010 survey: www.doingbusiness.org

25 Tax Court Secretariat website: http://www.setpp.depkeu.go.id/Ind/Statistik/statberkas.asp.

26 http://entertainment.kompas.com/read/2010/03/29/15543682/whos.the.biggest.loser.in.indonesia.tax.court

The ambiguous definition of the state revenue potential loss has created some reservation for the objection officer to make a firm decision. To avoid risking an administrative sanction for honestly accepting a false objection, the objection officers would rather reject the objection, and effectively transfer the decision to the Tax Court when the taxpayer files an appeal. This practice, and the new policy for issuing one VAT Reassessment Notice (SKP PPN), if any, for each tax period (can no longer be combined) have caused the number of cases handled by the Tax Court increased exponentially. This situation has put pressure on the Tax Court because according to the Law No. 14/2002 appeals filed by taxpayers under the general circumstances must be resolved within 12 months. Over the past two years, DGT has been developing the capacity and improving the competency of the objection officers and officers who involve in the Tax Court proceedings.

Summary ratings of the transparency of taxpayer obligations and liabilities

Indicator	Score 2007	Score 2011	Performance Change
PI-13 Transparency of Taxpayer Obligations and Liabilities. [M2]	**B**	**B**	
(*i*) Clarity and comprehensiveness of tax liabilities	**C**	**B**	A comprehensive legal and regulatory framework exists for major taxes, although some inconsistencies between administrative decrees and enabling legislation arise. The new tax laws improve the balance between taxpayers' rights and the efficiency of the tax powers of the tax administration.
(*ii*) Taxpayers' access to information on tax liabilities and administrative procedures	**B**	**B**	Taxpayers have easy access to information on tax liabilities and administrative procedures for all major taxes, including income tax and VAT, and this is supplemented by taxpayer education programs. Information for other types of taxes is somewhat limited.
(*iii*) Existence and functioning of a tax appeals mechanism	**B**	**C**	An independent tax appeals system is in place. However, the low quality of audit reports, combined with insufficient numbers of qualified Objections Officers have caused an increasing backlog of cases being handled by the Tax Court.

PI-14. Effectiveness of measures for taxpayer registration and tax assessment

Rating 2007	Rating 2011	Performance Change
C+	**C+**	Despite efforts to improve taxpayer registration and assessment weaknesses and compliance rates remain low, which significantly reduces revenue.

Every taxpayer must register and obtain a Taxpayer Identification Number (TIN).[27] Since the enactment of Law No. 28/2007, the implementation of the Sunset Policy (soft amnesty program) in 2008/09, and the abolition of the departure tax for going abroad, the number of a registered taxpayer (taxpayers with a TIN) increased, from 4.8 million at end-2006 to about 18.6 million by end-2010, of which about 1.8 million were corporate taxpayers. However, during the FY 2009 and 2010 only about 55 percent of the registered taxpayers filed annual tax returns.

While DGT maintains a central registration database for all taxpayers about 50 percent of the 331 tax offices across the country are still operating off line. For these off-line tax offices, DGT Headquarters allocates a range of taxpayer IDs to be issued by the specific tax office when a walk-in taxpayer applies for a TIN. However, problems remain with duplicate TINs, complicated by the long standing practice of requiring each branch of a firm to register separately at the local tax office and file tax returns separately, unless specifically authorized by DGT to file a consolidated tax return. When a branch moves from one tax office to another, a new branch code will be assigned to the TIN of the taxpayer, and it is not monitored centrally. Consequently, some taxpayers maintain multiple registrations. Nonetheless, walk-in taxpayers can now be issued a TIN within 10-15 minutes, provided that all documentations are complete, and some areas have an option to register

27 Pursuant to the Law No. 6/1983 regarding the General Tax Provisions and Procedures as amended by the Law No. 28/2007.

online. The definitive taxpayer ID card will be issued once the documents are verified. During the registration process, the systems do not automatically check for duplication if the taxpayer is already registered. The tax administration relies on the taxpayers to report multiple registrations.

The taxpayer registration, either new or updated, is not verified or validated against other Government registration systems such as the national identification (KTP) or business registration/licensing systems. At present, individual taxpayers and small and medium enterprises are not required to provide their TIN when opening bank accounts. DGT is currently in the process of trying to clean-up the taxpayer registration database, improving the TIN structure, and strengthening the business controls for taxpayer registration processes and information systems.

Law No. 28/2007 provides for the structure, levels, and administration penalties for noncompliance with tax regulations. For example, failing to file tax return due to negligence is punishable by imprisonment between 3 months to 1 year, or fine between 100-200 percent of the unpaid tax. The penalty for late filers of periodic VAT returns is Rp 500,000 (US$55). The penalty for late filers of annual corporate tax returns is Rp 1 million (US$111). Self-corrected under-reporting is charged with a penalty of 2 percent of the under-reported amount per month up to 24 months. Under-reporting voluntary revealed after the audit process is subject to a penalty of 50 percent of the under-reported amount. If there is an indication of fraud, the penalty is 150 percent of the underpaid tax.

Non-registration that inflicts a loss on the state revenue may be sentenced to imprisonment for a maximum of six years and fined as much as twice of the amount of the unpaid tax. The law stipulates that all tax obligations, including penalties, of the newly registered taxpayers could be looked back up to five years prior to the issuance of the TIN. According to the law, the tax obligations start from the moment when the taxpayers fulfill the subjective and objective requirements regardless of when the TIN is actually issued.

Registration and filing compliance has improved since the enactment of Law No. 28/2007 and the implementation of Sunset Policy in 2008. The number of registered taxpayers by the end of 2010 has increased more than threefold to about 18.6 million as compared with that at the end of 2006, which was around 4.8 million. The returns filing compliance rate, measured by the number of filed tax returns divided by the total number of registered taxpayers, has increased from 32 percent in 2006 to about 58 percent in 2010. The filing compliance rate could effectively be higher considering duplication still exists in the taxpayer registration master file.

The DGT operates a structured national audit plan as a part of the self-assessment process. The national audit strategy, priorities, and targets are set in annual DGT regulations, and considered as national audit plans. About 65,000 audits were conducted each year in 2009 and 2010. This is only about 1 percent of the total annual tax returns received by DGT. Of the total number of audits, less than 5 percent were selected based on the taxpayers' risk profiles (special audits). The majority of the audits were involving tax refunds (routine audits), which were required to be audited irrespective of the risks criteria. Moreover, the allocation of audit resources is not aligned with the potential revenue risks. Only about 3 percent of the total auditors are located at the Large Taxpayer Offices and Large Taxpayer Regional Office.

Tax audit monitoring and review programs exist in DGT for audits selected based on the taxpayers' risk profiles through the top-down and bottom-up mechanisms. Selected risk-based audit reports are reviewed by the headquarters or regional office before they are sent to the taxpayers to obtain feedback from the taxpayers.

After the final notices are sent to the taxpayers, the headquarters or regional office will do further "peer review" on few selected audits. Results of peer reviews will be used for the evaluation of audit policy and procedures, and for imposition of disciplinary sanctions. In some cases, the DGT Internal Audit Office (KITSDA) also conducts an independent review based on internal or external tips.

Indicator	Score 2007	Score 2011	Performance Change
PI-14. Effectiveness of measures for taxpayer registration and tax assessment. [M2]	C	C+	
(*i*) Controls in the taxpayers registration system.	C	C	The TIN is administered centrally, but not sufficient business control to prevent duplication. The taxpayer registration is not validated and verified against other government registry or third-party database.
(*ii*) Effectiveness of penalties for non-compliance with registration and tax declaration	C	B	Penalties for non-compliance exist and sufficiently effective to encourage voluntary registration. Compliance for tax declaration is still relatively low, but the correct compliance figures can only be known after the registration database is completely cleaned up.
(*iii*) Planning and monitoring of tax audit programs.	C	C	Audit selection criteria are defined and national planning and monitoring of tax audit programs exist. However, less than 5 percent of the tax audits are selected based on taxpayers' risk profiles and the allocation of audit resources is not aligned with the potential revenue risks.

PI-15 Effectiveness in collection of tax payments

Rating 2007	Rating 2011	Performance Change
D+	C+	Despite some improvements in the reconciliation process for tax payments tax arrears remain relatively high, with low debt collection ratios.

Tax arrears remain relatively high, with low debt collection ratios. The total amount of non-oil and gas income and value-added tax arrears at the end of 2008 is reported at 8.3 percent of the total annual tax revenues, compared with 7.5 percent at end-2006. However, by the end of 2010, the percentage of tax arrears was reduced to 6.7 percent of the total annual tax revenues and the collection ratio for gross tax arrears for the past two years averaged 52 percent,[28] compared with 66 percent at end-2006, based on figures recorded by DGT.

The tax administration uses the banking system to receive tax payments. As indicated in the previous PEFA, taxpayers pay their taxes through commercial banks authorized by the Treasury or—in the case of government units—directly to the Treasury office through a book-entry settlement. Tax offices do not accept any tax payments. However, all tax payments must be received and processed by a teller. The MoF is now designing a new system that allows tax payments to be made electronically through the internet eliminating the needs for conducting a manual, time consuming reconciliation process.

Commercial banks transfer revenue collections into the Treasury bank account at the regional office of Bank Indonesia and report the receipts to the local Treasury field office on a daily basis. The computerized government revenue accounting system, the MPN, validates each tax payment transaction at the bank and sends the data electronically to the central MPN database in real time. Both the Treasury and DGT have access to the central MPN database as the MPN is jointly administered by the Treasury and DGT.

28 The collection ratio in 2009 was about 46 percent, while in 2010 it was 58 percent.

The reconciliation of the MPN data and the daily transactions reports from the banks is done at the Treasury on a daily basis and a reconciliation report is produced semi-annually. Nevertheless, the reconciliation, which validates the transactions and cash deposited at Bank Indonesia, is still a lengthy process. The reconciliation of transactions is practically done by three parties (the Treasury, banks, and MPN Administrator) at two levels: (i) at the central level between the bank headquarters and MPN Administrator; and (ii) at the district level between the bank branches and the district Treasury office (KPPN). At the central level, the reconciliation is done electronically, and the bank produces reconciled Daily Revenue Report. At the district level, KPPN examines the validity of transactions in the Daily Revenue Report using Daily Transfer Report, Credit Notes, and other computer records submitted by bank branches to KPPN. The reconciliation of cash is done at KPPN by comparing the MPN data, daily Cash Position Report (aggregate transfers) submitted by banks, and the account at Bank Indonesia. Un-reconciled transactions often occur due to duplications created by failed electronic transactions already recorded at MPN, but not completed by the bank. Because the Cash Position Report submitted by the banks does not list each individual transaction, the reconciliation with the MPN data becomes a time consuming process. For un-reconciled transactions, DGT must rely on the MPN data and the payment slips submitted by the taxpayer as proof of tax payments to post a payment into the taxpayer account, and ensure that an enforced collection process is not initiated for paid taxes.

Differences in the tax revenue collections reported by the MPN and the banks occur and have been reported by external auditors (BPK). However, the discrepancy has decreased significantly since the last PEFA assessment in 2007. In 2006, BPK reported that tax revenues as determined by DGT were higher than that reported by Treasury by Rp 1.9 trillion (about 0.5 percent of aggregate revenues). By the end of 2010, the discrepancy identified by the Treasury and DGT went down to about Rp 236.4 billion (about 0.04 percent of the aggregate tax revenues)-and the receipts reported by the banks were higher than those captured by the MPN.[29]

Tax re-assessment through audits and arrears records are not formally shared with the Treasury. The MPN system only captures and shares with the Treasury information of payments made to the central government through commercial banks. The tax assessment and arrears information are administered separately by DGT. Since 2010, DGT maintains tax assessment and arrears records posted in the taxpayer accounts in the DGT information systems (SIDJP). However, older information is administered manually outside the systems, and it is relatively unreliable. According to the prevailing laws, DGT will administer and collect tax arrears for up to 10 years.

Indicator	Score 2007	Score 2011	Performance Change
PI-15. Effectiveness in collection of tax payments. [M1]	D+	C+	
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	C	C	The proportion of outstanding tax arrears to the total non-oil and gas tax revenue declined from 7.5 percent in 2006 and 8.3 percent in 2008 to 6.7 percent in 2010. The average tax collection ratio for tax arrears for the last 2 years is 52 percent, down from 66 percent in 2006 (source: DGT).
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	A	A	Taxpayers pay their taxes directly into Treasury bank accounts or at commercial banks that are authorized by Treasury to receive such funds, and which then remit these to Treasury, on a daily basis.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury.	D	C	Reconciliation of tax payments is done centrally at the Treasury on a daily basis and reported bi-annually. Payments are not automatically updated in the taxpayer accounts. Differences in the revenue collections between the Treasury and DGT are identified. Old arrears data is maintained manually, and it is not linked to the taxpayer accounts or reported to the Treasury.

29 Source: DGT.

PI-16 Predictability in the availability of funds for commitment of expenditure

Rating 2007	Rating 2011	Performance Change
C+	C+	While the availability of funds for the commitment of expenditure remains predictable, new procedures for improving cash forecasting and monitoring are in the process of being implemented.

As described in the previous PEFA, the funds available for MDAs to commit spending within one fiscal year are provided in the detailed budget allotment documents (DIPAs). The DIPA imposes a ceiling for each spending unit (Satker), which is guaranteed by law, and includes the function/sub-function, program, activity, outcome and output classification as well as the cash flow plan for both inflows and outflows projected by each spending unit in a monthly basis. For FY2011, there were 23,692 DIPAs issued to all Satker across Indonesia with total value of Rp 432.77 trillion. The law requires that the DIPA be issued by end-December of the previous year, which is generally adhered to, and in 2010 it was even issued earlier or by December 20 following the data integration between the detailed budget (appropriation) and DIPA (allotment) processes. Indonesia also retains large cash surpluses throughout the year and the Treasury has been able to pay claims as they fall due

While the above ensures predictability in the availability of funds, regular cash flow forecasting and monitoring remains a challenge despite recent initiatives. In November 2009, the MoF issued a new regulation (PMK192) on cash forecasting that requires Satkers to submit in-year cash withdrawal/receipt plans to the Treasury offices (Kantor Pelayanan Perbendaharaan Negara, or KPPNs) to periodically update their disbursement plans included in their DIPA. The Satkers are required to submit their updated daily, weekly, and monthly cash plan at least three days before the end of each month, or risk being limited to their unrevised ceiling plan. A new IT application, 'Aplikasi Forecasting Satker' (AFS) has been developed to support this initiative, and is being rolled out mainly in 2011. However, up to the end of 2010, the process is incomplete, with many Satker not complying with the new regulation. Consequently, reliable and comprehensive forward cash plans are not regularly updated.

The budget is usually revised half way through the year to reflect changes in macroeconomic and fiscal assumptions. This Budget Revision (APBN-P) process is discussed and endorsed by the Parliament, and involves all MDAs in formulating revised budget estimates. Over the past three years (2008-10), very few MDAs had their budget reduced and the system is considered open and transparent system. The poor disbursement rates of many MDAs over the past few years is attributed not to a lack of predictability in the availability of funds, but to factors such as delays in procurement, cumbersome procedures for appointing Satker or for budget virement etc.

Indicator	Score 2007	Score 2011	Performance Change
PI-16 Predictability in the availability of funds for commitment of expenditure. [M1]	C+	C+	
(i) Extent to which cash flows are forecast and monitored	C	C	Annual cash forecasts are prepared based on budget authorizations (DIPAs) but updated infrequently during the year.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	A	A	MDAs have maintained their authority to commit expenditures within the full extent of the annual appropriation reflected in the DIPA
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	A	A	The procedures for the mid-year budget revision continue to be transparent and predictable.

PI-17. Recording and management of cash balances, debt and guarantees

Rating 2007	Rating 2011	Performance Change
D+	B+	Government debts are now more regularly reported and reconciled and the management objectives are detailed in a new debt strategy. Most government accounts have been identified and consolidated. New arrangements have also strengthened the control over guarantees, particularly for PPPs.

Significant progress has been made in the recording and management of government debt. In addition to the debt and deficit rules outlined in the previous PEFA, DG Debt Management was created in the MoF to manage all public domestic and foreign debt, with standard operating procedures approved in 2007. DG Debt Management has been issuing regular reports on their website with full information about debt amounts, lenders, borrowing cost, maturity dates and a new strategy that covers 2010-14[30] that describes in detail the objectives for debt management and the mechanism / procedures for contacting foreign loans and grants, which must be approved by the MoF.[31] By 2009, the quality of the Government's debt management and reporting (notably the reconciliation between flows and stocks) had improved to the point where the external auditor, BPK, upgraded its audit opinion from a "disclaimer" to be "qualified", with relatively minor reconciliation problems continuing for foreign loans.[32]

The MoF has made significant progress in consolidating government balances into the Treasury Single Account (TSA). Following the issuance of PP No. 39/2007 on cash management in July 2007, the MoF has issued various decrees[33] that enable it to gather data on bank accounts opened by MDAs and close accounts that lack justification-as of end 2010, from 41,396 accounts opened by MDAs, 7,499 MDAs accounts had been closed, 31,197 accounts (mostly used for spending units operations both of revenue and expenditure accounts) were approved to be continuously used while the MoF was still deliberating on 2,700 accounts (these represent a relatively insignificant amount of the total, around Rp 132.7 billion). Additional measures have included: (i) a daily sweep of all revenue accounts into the TSA; (ii) zero based balances maintained by end of each day for all 178 KPPN accounts; (iii) virtual pooling of all expenditure accounts maintained by the spending units to compute the Government's daily cash balance; and (iv) a MoF-BI MOU requiring interest to be paid on cash balances in the TSA, providing incentives to optimize the use of such balances. Although the income generated from the cash balance in the TSA should not be considered as a main source of income of the Government, the data of FY 2010 shows that the implementation of TSA has generated a relatively significant amount of income with around of Rp 3.47 trillion rupiah was collected.

New regulations and the creation of a state owned infrastructure company have also strengthened the management of guarantees. As noted in the previous PEFA, the Minister of Finance has sole authority to provide financial guarantees and/or direct support to PPP infrastructure projects that satisfy criteria described in the PMK No. 38/2006. To avoid bureaucratic delays in providing guarantees and to reduce the burden on the state budget, the Government, in December 2009, established a state-owned company, PT Penjaminan Infrastruktur Indonesia (PII) to provide services that include the provision of guarantees to public-private partnerships (PPPs) and set a limit on the Government's contingent liability (i.e. to ring-fence the exposure from a guarantee). The Government provides equity in PII (though few guarantees have been provided for PPP projects to date due to implementation delays). The Government still makes guarantees from the annual budget, but only for limited activities-e.g. in FY2011 the Government allocated Rp 1 trillion for a "full guarantee" to creditors for the state-owned electricity company (PLN) and the water providers (PDAMs). The Risk Management Unit in MoF remains responsible for recording, monitoring and reporting on the guarantees, which are disclosed in the financial notes submitted to the Parliament, starting from the 2008 Budget.

30 See MoF Regulation No. 380/KMK.08/2010: www.dmo.or.id/ supported by Finance Minister Decree No. 514/2010 and Government Regulation No. 10/2011.

31 Despite of the issuance of a regular monthly report, a formal reconciliation is only made once a semester when the Government produces its semi-annual and end of year financial statement reports.

32 Reflecting improvements in the country's public and external positions, as well as confidence in its management, Standard & Poor's raised its long-term foreign currency credit rating for sovereign debt to BB in March 2010, while Fitch Ratings has upgraded its rating to BB+ (one notch below investment grade).

33 PMK 57 (amended by PMK 5/2010); 58/2007; 67/2007; and DG Treasury regulation 01/2010.

Indicator	Score 2007	Score 2011	Performance Change
PI-17. Recording and management of cash balances, debt and guarantees. [M2]	D+	B+	
(i) Quality of debt data recording and reporting	D	B	Debt management and reporting has improved significantly, records are now complete, with minor reconciliation problems.
(ii) Extent of consolidation of the government's cash balance	C	B	In practice the cash balances of nearly all government accounts have been identified with most consolidated, albeit with the 'virtual pooling' of some balances.
(iii) Systems for contracting loans and issuance of guarantee	C	A	The MoF has exclusive authority to enter in to loans and to provide guarantees on behalf of the Government. The budget exposure is now disclosed and limited for PPPs by the creation of PII.

PI-18. Effectiveness of payroll control

Rating 2007	Rating 2011	Performance Change
D+	C+	New IT systems and procedures have strengthened the management of personnel and payroll at the MDA and KPPN level, although weaknesses remain in reconciling the information at the center and with procedures at the SNG level.

The Government Employee Administration Agency (Badan Kepegawaian Negara or BKN) endorses the appointment, recruitment, promotion, demotion, and retirement of staff at MDAs and all local governments and maintains central personnel records reflecting these authorizations. The formal authorization letter for these changes is issued by the MDA's secretary general, except for senior staff that are approved by the President, and the change is then recorded by the MDA's personnel bureau in its own system.

Generally there is a delay of about 2-3 months for the BKN in updating records of new personnel after the Secretary General's authorization is received. Retroactive adjustments (rapel) to the personnel database indicate frequent delays in processing. The records at BKN and those at MDAs are not regularly reconciled so that the accuracy of employee data held by BKN is questionable. However, since the last PEFA the following changes have been introduced to strengthen personnel and payroll management:

- MoF Regulation No. 133/2008 transferred the management of salary administration for government employees (including military and police) to the MDAs to increase their accountability and responsibility in managing their own salary expenses. The MDAs must verify their data, charging the salary cost burden to their budget, managing employee administration, updating their employee database, supervising, and taking responsibility for any faults/mistakes;

- Treasury Regulation No. 37/2009 requires each Satker to appoint a Salary Expenditure Treasurer (Bendaharawan Gaji) who is responsible to record the employee data, managing all authorization letters for each employee, preparing the payroll (gross salary amount and deductions), maintaining employee data, and managing other salary related tasks.

- DG Treasury has also distributed a new IT application, called "GPP Satker", to each Satker to manage their employee expenditure administration data. Each Treasury Office (KPPN) also uses a new "GPP KPPN" application to backup and verify the Satker data. Prior of the beginning of each month, each Satker submits a payment request (SPM) to the KPPN, which is verified by checking the consistency of the two systems, with regular reconciliations between the two applications. Following verification, the KPPN usually transfers payments directly to each employee's bank account—many civil servants (mostly low-ranking staff) are paid salaries and allowances in cash through the Satker, but the information is regularly updated and reconciled by both the Satker and KPPN.

With the regular reconciliation of personnel records and controls in the automated payroll system for central government it is possible to more systematically identify and reduce ghost workers. However, significant risks remain at the SNG where these systems do not apply. A BKN report to the DPR in early 2007 estimated that out of 240,000 assistant teachers, 102,000 were fictitious: these salaries are paid by district/city governments from the general allocation transfer (DAU).

Indicator	Score 2007	Score 2011	Performance Change
PI-18. Effectiveness of Payroll Control. [M1]	D+	C+	
(i) Degree of integration and reconciliation between personnel records and payroll data	D	C	New IT applications at the Satker and KPPN level are directly linked and reconcile personnel and payroll databases to ensure data consistency on a monthly basis. However, MDA data is not integrated nor regularly reconciled at the central BKN level.
(ii) Timeliness of changes to personnel records and the payroll	C	B	Up to 3 months' delay occurs in updating changes to the personnel records and payroll, but affects only a minority of changes-e.g. an increased allowance for rice was meant to start in January 2010, but a delay in issuing the decree resulted in a delay of up to 3 months and a retroactive payroll payment. Also, allowances (that should stop) are often still paid to staff when they take leave and need to be recouped.
(iii) Internal controls of changes to personnel records and the payroll.	A	A	New regulations and systems provide for clear authority for changes to pay and personnel records with the MDAs, albeit with delays, and results in a clear audit trail.
(iv) Existence of payroll audits to identify control weaknesses and/ or ghost workers.	C	C	Internal auditors rarely perform separate payroll audits, while external audits are conducted on request or when irregularities are suspected. While new automated systems and regular reconciliations should improve controls, payroll audits remain partial.

PI-19 Transparency, competition and complaints mechanisms in procurement

Rating 2007	Rating 2011	Performance Change
C	C	New regulations and a National Public Procurement Agency (LKPP) have recently been introduced, though it is likely to take time to be able to verify significant improvements in performance.

Improvements in public procurement have taken place over the past few years. Keppres No. 80/2003 provided a national public procurement regulation that meets most of what is generally regarded as accepted international practice, including basic principles: transparency, open competition, economy and efficiency. This Decree also paved the way for establishing a regulatory body for public procurement, and established the basis for sanctions, complaint-handling and requirements for certification of users.

Perpres No. 106/2007 was signed in December 2007 establishing an independent agency, the Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah (LKPP) or National Public Procurement Agency. LKKP is responsible for sustainable, integrated, focused and coordinated planning and development of strategies/ policies/regulations associated with the procurement of goods/works/services using public funds. LKKP reports directly to the President. In addition to the Chairman, who heads LKPP, and an Executive Secretary, there are four departments, each headed by a Deputy with responsibilities for (i) Strategy and Policy Development, (ii) Monitoring, Evaluation and Information Systems, (iii) Human Resources Development, and (iv) Legal Affairs and Settlement of Objections.

The LKPP has been working on several fronts to improve the public procurement reform. Some of the accomplishments and activities, in addition to other reform measures, that have been achieved over the last two years, include: (i) consolidation of Keppres No. 80/2003 and its amendments in 2009: (ii) issuing of a new presidential regulation Perpres No. 54/2010, effective as of January 2011; (iii) issuing a set of national standard bidding documents; (iv) drafting a new procurement law ; (v) increasing the use of e-tendering; and (vi) establishing procurement service units. The reforms cover procurement of goods and services by all government entities (including line ministries, SNGs, Bank Indonesia, state-owned enterprises, SNG-owned enterprises, state-owned legal entities [BHMN] and other related government institutions). New Regulation No. 54/2010) is supplemented by various decrees and circulars issued by MDAs.

The current regulations mandate open competition for procurement of goods and services costing Rp50 million or more. Exceptions to this rule are allowed if justified in writing and in specific kinds of procurement (i) emergency situations or natural disasters; (ii) procurements of goods or services for which prices are regulated by government, such as electricity; and (iii) national security purposes such as defense equipment. In general, procuring entities try to adhere to procurement procedures indicated in the regulations. However, there is no comprehensive data that can provide information on a country level. It is expected that experienced line ministries will have high compliance with procedures, while compliance is expected to decrease at the local level due to low experience and weak oversight. For example, figures published by MoPW indicate that 95 percent of procurement packages in 2009 followed competitive methods, down from around 89 percent for 2010. However, in the absence of comprehensive national data, it is difficult to determine the extent to which public procurement contracts are awarded on a competitive basis.

The regulation, and to a reasonable extent practice, encourages transparency and disclosure of information. All regulations and standard bidding documents are published on the LKPP website, which is easily accessible.[34] All government bidding opportunities and information on awards of contracts are required to be published. However, there is no requirement for publication of procurement plans and data on complaints handling.

The regulation outlines procedures for submitting and addressing complaints on the procurement process. Complaints generally appear to be resolved in a timely manner, except when taken to a higher level or when legal recourse is sought. All complaints are received by the tender committee (procurement units under new regulation) and are referred to a higher authority within the spending agency. While under the new regulation, a complainant can copy the LKPP, the final decision will still be within the agency. As it currently stands, this process lacks sufficient independence as there are no members drawn from the private sector and civil society. The operation of the complaints system may also be weakened by the absence of public disclosure of data on complaints received and resolved. Complainants may use an arbitration process or seek redress through the judicial system. Indonesia has an arbitration legal system that is consistent with the generally accepted practices of neutrality, due process, etc. In addition, procedures exist through the judicial system to enable the winner of any dispute to seek enforcement of the outcome. However there is no formal monitoring process of dispute resolution and its enforcement, and associated costs are likely to limit the practical use of this remedy.

34 www.lkpp.go.id

Indicator	Score 2007	Score 2011	Performance Change
PI-19. Competition, value for money and controls in procurement.[1] [M2]	C	C	
(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases.	D	B	From January 2011, new PP No. 54/2010 is applicable for all public procurement under the national budget. Many SOEs issue their own regulations which follow the presidential decree with some modifications to allow them more flexibility. There is a separate presidential decree that governs PPPs. Implementing agencies such as MDAs and SNGs can issue further decrees that would address public procurement; however these have to be consistent with the presidential decree and are considered at a lower legal level. PP No. 54/2010 indicates open competitive procurement as the default method. It clearly defines other methods and the thresholds and conditions for which these methods can be used (see: www.lkpp.go.id).
(ii) Justification for use of less competitive procurement methods.	B	D	PP No. 54/2010 is clear on having open competition as the default procurement method and the need to provide justifications in case of use of other methods. It is expected that compliance rates are high in MDAs with the possibility of these rates dropping in most SNGs. With the absence of data on these sub-criteria, the indicator is ranked D.
(iii) Public access to complete, reliable and timely procurement information		C	Not all key procurement information is made available to the public through appropriate means. PP No. 54/2010 is clear that it requires the publication of all bidding opportunities and recommendations for contracts awards (and these can be found on many MDA websites). However, there is no requirement for publication of government procurement plans and data on the resolution of procurement complaints.
(iv) Existence and operation of a procurement complaints mechanism.	C	D	The structure of this criterion enforces a scoring of D as the current complaint handling mechanism does not include an independent body and there is no participation of members from the private sector and civil society.

PI-20. Effectiveness of internal controls for non-salary expenditure

Rating 2007	Rating 2011	Performance Change
D+	C+	Commitment controls are in place at Satker level that effectively limit commitments to actual cash availability and approved budget allocations. BPK audits provided a 'qualified' audit opinion on GOI financial statements for the first time in FY 2009 after a 'disclaimer' for five years.

Commitment controls are in place at Satker level and effectively limit commitments to actual cash availability and approved budget allocations (as revised). The Government issued Government Regulation PP No. 60/2008 adopting COSO as its control framework in August 2008.

BPKP has been appointed as the agency responsible to assist MDA and local governments in implementation of PP No. 60/2008. In FY 2009 and 2010, PP No. 60/2008 has been socialized to 28 MDAs, 87 vertical institutions and 345 district/city governments. Training has been conducted in 16 ministries and 105 district/city governments. Diagnostic assessment is underway in 13 ministries and 50 district/city governments. BPKP has collaborated closely with the Inspectorates General in line ministries to ensure they are providing support to executive in strengthening controls.

DG Treasury, in its effort to strengthen internal controls, introduced a formal commitment control system at the line ministries through development of SPAN application. This should ensure adherence to the budget ceiling, reduce the time lags in processing payments and revising budgets, and maintain an electronic trail of all modifications to source data. In the future, SPAN is expected to be able to record the committed budget balance to provide better budget control (i.e., funds available = budget - encumbrance/commitment -actual). The payment schedule information from the summary of the contract will also be linked to the cash plan in the DIPA so that the available cash balance can always be updated. The new system to apply encumbrance will also be used for carry forward over multi-year contracts. By the time SPAN is rolled out in 2013, comprehensive commitment controls should be in place, effectively limiting commitments to actual cash availability and approved budget allocations.

As discussed in PI-17, BPK gave a "qualified" opinion on government financial statement for 2009 (improving from "disclaimer") for the first time in the past five years. The FY 2009 BPK audit report shows improvement in the number of opinions issued in both central governments (audit of ministries) and local governments compared with FY 2007 and 2008 audits. This shows progress on the accountability and capacity to prepare reliable financial statements. However, the FY 2010 BPK audit report still records a number of instances of weaknesses in internal controls and non-compliance with the existing regulations.

Indicator	Score 2007	Score 2011	Performance Change
PI-20. Effectiveness of internal controls for non-salary expenditure. [M1]	D+	C+	
(i) Effectiveness of expenditure commitment controls.	C	B	Commitment controls are in place at Satker level and effectively limit commitments to actual cash availability and approved budget allocations (as revised). In the near future, with the implementation of SPAN, the commitment might be effectively controlled and managed.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures.	B	B	MoF Regulation No. 134/PMK.06/2005 and DG Treasury Regulation No. PER-66/PB/2005[2] are still in place. Regulation and procedures incorporate a comprehensive set of controls, which are widely understood, but may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays.
(iii) Degree of compliance with rules for processing and recording transactions	D	C	BPK audits gave a qualified opinion on the government financial statement for the first time in five years; however the audit report still records a number of instances of weaknesses in internal control.

PI-21. Effectiveness of internal audit

Rating 2007	Rating 2011	Performance Change
D+	D+	Despite improving the clarity of the institutional responsibility for internal audit, there has been little improvement in actual performance of internal auditors in line ministries.

The issuance of Government Regulation PP No. 60/2008 read with Presidential Instructions Inpres No. 4/2010 clarifies the country's institutional structure for internal audits. Under the regulation, four types of institutions share the responsibility for conducting the Government's internal audit function,[35] namely, the BPKP, Inspectorates General, provincial inspectorates and district/city inspectorates. Each of these is assigned different roles.

BPKP performs supervision over the state accountability, which consists of: (i) cross sectoral activities; (ii) state treasury activities based on requests from the minister of finance as the state treasurer; and (iii) other activities based on the president's request. The inspectorate general[36] performs supervision over the MDAs function and roles which are funded by the APBN. The provincial inspectorate performs supervision over all activities of the regional spending units' functions and roles which are funded by the provincial APBD. District/city inspectorates perform supervision over all activities of the regional spending units' functions and roles which are funded by the district/cityAPBD.

35 Based on Article 49 of PP No. 60/ 2008.

36 IGs generally use Indonesian Audit Standards (SPKN) issued by Ministry of State Apparatus, while IG MoF uses Standard Audit Inspektorat Jenderal (SAINS) for its internal audit practice. SAINS has been adopted from Professional Standard Audit issued by IIA.

The current internal audits conducted by IGs mostly consist of compliance audits on the operational aspects of the respective MDAs. Although risk-based audit is practiced in a number of ministries, reviews of internal control systems are rarely carried out; this conclusion is based on a BPKP survey[37] of all IGs and SNG (provincial and districts/cities) inspectorates. The survey findings reveal that 74 percent of IGs are at level 1of IA-CM model, the internal audits are conducted mainly for the purpose of verifying transaction accuracy and compliance.

Starting in 2006, IGs have also reviewed the MDAs' annual financial statements[38] to ensure their reliability and integrity, prior to their submission to DG Treasury at the MoF. IG audit reports are mainly submitted to the relevant minister. There is requirement under Law No. 15/2004[39] for IGs to submit their audit reports to BPK for use during the external audit. However, this provision is not enforced; therefore in practice not all IGs submit their audit reports to the BPK. Furthermore, there is no special unit within BPK tasked with receiving and analyzing IG reports, although the BPK audit team generally requests the internal audit report before starting an audit. There are no audit committees within the MDAs in charge of assisting with follow-up on IG reports. IGs are expected to themselves monitor the follow-up action taken on the basis of their audit findings. However such action often takes a significantly long time. The majority of the IGs monitor the action taken based on audit findings through special units that are specifically tasked with following up on audit findings.

BPKP's survey findings for IGs using IA-CM model indicate that 93 percent of the respondents: (i) conducted transactional audits for accuracy and compliance purposes only; (ii) audit plans were not prepared based on stakeholder priorities; and (iii) audit output was based on the capacity of certain individuals.

Indicator	Score 2007	Score 2011	Performance Change
PI-21.Effectiveness of internal audit. [M1]	D+	D+	
Coverage and quality of the internal audit function	D	D	Most audits are confined to compliance and technical issues. BPKP application of IA-CM model indicates that most IGs conduct mainly transactional reviews on accuracy and compliance, rather than reviewing the system in place.
Frequency and distribution of reports	C	C	The audit reports are submitted to the minister, and BPK has access to the reports. Under the law, IGs have to submit their audit reports to BPK. However, this regulation is not enforced and in practice not all IGs submit their reports to BPK. There is no regulation requiring submission of IG reports to the MoF.
Extent of management response to internal audit findings	C	C	Management's actions on audit findings often take a long time to complete. IGs monitor action taken on audit findings through special units that are tasked with following up on audit findings.

Section 3.5 Accounting, Recording, and Reporting

PI-22. Timeliness and regularity of accounts reconciliation

Rating 2007	Rating 2011	Performance Change
B	B	There has been an extensive closing down of unofficial MDA accounts. Monthly reconciliation is carried out clearing suspense accounts and advances

There has been an extensive closing down of unofficial MDA accounts. The target is that these unofficial/suspense accounts would cease to exist by the end of 2011 and Treasury would have full control of all of the Government's accounts. The audit report for 2011, expected by June 2012 would provide an update on this issue.

37 Based on Internal Audit Capability Model (IA-CM) for the Public Sector issued by The Institute of Internal Auditors

38 Based on DG Treasury Circular No 27/Pb/ 2004

39 Based on article 9 (2) of the State Audit Law (No. 15/2004)

Monthly reconciliation is carried out for suspense accounts and advances, and is completed by the 10th of every month. The external auditor (BPK) noted in their FY 2010 audit report that there are still a few reconciliation issues on revenue accounts. An integrated revenue collection system is being piloted since June 2011. However, it is not clear yet if it has addressed the issue.

Indicator	Score 2007	Score 2011	Performance Change
PI-22.Timeliness and regularity of accounts reconciliation	B	B	
(i) Regularity of Bank reconciliations	B	B	Monthly reconciliations take place for revenue and expenditures account within 10 days after the period closed. Reconciliation takes place by comparing SAI data and revenue and expenditures module in KPPN data. There was insignificant un-cleared account in FY 2011.There was less than 0.5 percent un-reconciled transaction in the revenue account and less than 0.02 percent in the expenditures account for FY 2011. *Source:* http://www.perbendaharaan.go.id/new/index.php?pilih=news&aksi=lihat&id=2139
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	B	B	Monthly reconciliation occurs with the clearance of suspense accounts and advances to be completed by the 10th of every month. Otherwise, it will be cleared in the following month. There has been an effort to close unofficial 7.499 accounts in 2010. This effort will be continued in 2011 which should improve bank reconciliation and clearance of suspense accounts. DG Treasury Regulations No. 36/2008: No. 47/2009; and No. 62/2010; and: http://www.bi.go.id/web/en/Peraturan/Sistem+Pembayaran/se_101208.htm

PI-23. Availability of Information on resources received by service delivery units

Rating 2007	Rating 2011	Performance Change
D	D	Information on total funds provided to or spent by primary schools is not readily available from the accounting system. Nor for primary health centers

There have been no significant changes to the SAI (Sistem Akuntansi Instansi) and SIKD (local government information system) since 2007. For several front line service units, the accounting is carried out by local government unit (Dinas) offices. However, complete information on funds received by front line delivery units is currently not available.

Indicator	Score 2007	Score 2011	Performance Change
PI-23. Availability of Information on resources received by service delivery units	D	D	
i. Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.	D	D	Funds from central government (APBN) are captured by KPPN system. While funds from local government are captures in local treasury office. Separate sources of funding also have separate lines of reporting. There is no evidence that a unified version of these report(s) is to be found at any government agency level, i.e. Education Dinas records sources of fund from central as well as local budget, but not revenue received by school directly (off treasury system). Government Accounting System (SAI) does not capture off treasury transactions. This demonstrates that the collection and processing of information on resources that were actually received by most front-line service delivery units, in relation to the overall resources made available to the sector, difficult. Re: Government Regulation No. 21/2010 MoF Regulation No. 171/2007

PI-24. Quality and timeliness on in-year budget reports

Rating 2007	Rating 2011	Performance Change
C+	C+	First semester report for FY 2011 was released in July 2011, 4 weeks after the end of the semester. This report follows the structure of the annual financial statements, presenting the actual against the budget for all budget items. Quarterly reports are also being issued within 6 weeks of the end of the quarter.

Indicator	Score 2007	Score 2011	Performance Change
PI-24. Quality and timeliness on in-year budget reports [M1]	C+	C+	
(i) Scope of reports in terms of coverage and compatibility with budget	C	C	This report follows the structure of the annual financial statements, presenting the actual against the budget for all budget items. Since FY 2006 there has not been any change to the format of the report. It does not include commitment and payment stages which is not required in the current regulation. However, when SPAN is effective in the future, it will record these commitment(s).
(ii) Timeliness of the issue of reports	B	B	The line ministry is required to submit a quarterly report to DG Treasury, the MoF and the system is able to produce a quarterly report. *Sources:* http://www.anggaran.depkeu.go.id/2009a/web-konten-list.asp?id=567 http://www.anggaran.depkeu.go.id/Content/08-07-16,%20Lap%20 Semester%20I_APBN2008_RevisiBabV.pdf ftp://ftp1.perbendaharaan.go.id/produk/dia/lkpp/LKPP_SEMESTER_I_2008.pdf ftp://ftp1.perbendaharaan.go.id/produk/dia/lkpp/LKPP_SEMESTER_I_2009.pdf PMK 171/PMK.05/2007 on Central Government Accounting and Financial Reporting System and DG Treasury Regulation No. 65/PB/2010
(iii) Quality of information	C	B	Un-reconciled differences between the Treasury and the MDA records and transactions from unreported bank accounts are still a source of concern on reliability and accuracy of information in the Treasury reports. However, there have been some improvements on this area as the amount of suspense accounts has been decreasing from year to year. Data issues are generally highlighted in the report and do not compromise overall consistency. *Sources*: • http://www.perbendaharaan.go.id/new/index.php?pilih=news&aksi=lihat&id=2358 • http://www.bpk.go.id/web/?p=4106

The line ministry is required to submit a quarterly report to DG Treasury, MoF with the system capable to produce a quarterly report. The purpose of the report remains to facilitate the comparison of actual expenditure with budget. In addition, the expenditure reports for FY 2008-10 do not cover both commitment and payment stages. However, when SPAN is effective in the near future, it will record these commitments.

Un-reconciled differences between the Treasury and MDA records and transactions from unreported bank accounts are still a source of concern on reliability and accuracy of information in the Treasury reports. However, there have been some improvements in this area as the amount of suspense accounts has been decreasing from year to year. Data issues are generally highlighted in the report and do not compromise overall consistency.

PI-25. Quality and timeliness of annual financial statements

Rating 2007	Rating 2011	Performance Change
C+	B+	The quality of the financial statement (LKPP) has improved as evidenced by the first 'qualified' audit opinion for FY2009 and continued in FY 2010.

The FY 2010 unaudited financial statements (LKPP) were submitted to BPK for audit on January 2011 with the audit completed by May 2011. The audited statements were submitted to the DPR on June 2011. BPK's audit report was also submitted to the DPR on June 2011.

The LKPP are considered comprehensive although BPK expressed some concerns on the application of the Government Accounting Standards, compliance towards rules and regulations, and weaknesses in the government internal controls. There have not been significant changes to the Indonesian Government Accounting Standards since FY 2005, which are based on IPSAS.

For the first time, BPK's opinion on the Government's annual financial statements for FY 2009 was a "qualified" opinion after five consecutive years (2004-08) of a Disclaimer audit opinion. Some exceptions in application of standards have been reported by auditors, such as assets depreciation and receivable amortization.

Indicator	Score 2007	Score 2011	Performance Change
PI-25. Quality and timeliness of annual financial statements	C+	B+	
(i) Completeness of the financial statements	C	B	The annual financial statement (LKPP) is considered comprehensive. Major improvements towards the omissions found in previous fiscal years have been made in FY2009 and FY 2010, especially on expenditures reporting and assets registration. The consolidated statements provide full information on revenue, expenditure and financial assets/liabilities with some exceptions. Sources: http://www.bpk.go.id/doc/hapsem/2008i/disk1/Pdf_IHPS/IHPS_I_TA_2008.pdf http://www.bpk.go.id/doc/hapsem/2009i/IHPS/IHPS.pdf http://www.bpk.go.id/web/?p=6208 http://www.bpk.go.id/web/?p=3896
(ii) Timeliness of submission of the financial statements	A	A	The FY 2008 - FY 2010 financial statements were submitted by the Government to BPK and the DPR (with the audit report) in within six months of the close of the fiscal year.
(iii) Accounting standards used	B	B	Indonesian Government Accounting Standards (GAS) are based on IPSAS, and applied, with some exceptions reported by auditors, such as for asset depreciation and receivable amortization. *Source:* Government Regulation No.71/2010 http://www.bpk.go.id/web/files/2009/06/01_LKPP_2008.pdf

Section 3.6 External Scrutiny and Audit

PI-26. Scope, nature and follow-up of external audit

Rating 2007	Rating 2011	Performance Change
C+	B+	The quality of the external audit process is improving gradually. There has been a significant improvement in BPK's access to tax information and hence the coverage of the audit.

A peer review for BPK conducted by the Dutch Court of Auditors in 2009 pointed out that BPK had made major strides in its mandate, capacity and practices in the past five years. The total annual budget of BPK increased from Rp 690 billion in 2006 to Rp 2,300[40] billion in 2009. The number of regional offices increased from 17 (2006) to 33 (2011): BPK now has regional offices in all provinces. All expenditures, revenues, and assets/liabilities of the Government are subject to audit. BPK audit manual framework, consisting of rules and regulations, manuals and guidelines, complies with international standards. Moreover, a quality control system is in place and a quality assurance system has been designed.

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Indicator	Score 2007	Score 2011	Performance Change
PI 26. Scope, nature, and follow-up of external audit [M1]	C+	B+	
Scope/Nature of audit performed (incl. adherence to auditing standards)	C	A	Law No. 15/2006 formally grants BPK unrestricted access to such information. However, there were issues with BPK access to tax information. The access to tax information has considerably improved since 2008. In the Audit Report for LKPP 2008 paragraph 3, BPK has stated that the Government does not restrict the audit scope of tax revenue any longer. BPK have also not raised the issue of restricted access to tax information in their audit findings for 2009 and 2010. Furthermore, there is MoU between the MoF and BPK regarding access to documents and information necessary to audit state tax (MoU No. 50/ NK/X-XIII.2/2/2011- MoU-454/SJ/2011 on Development and Management of data access information system in the MoF for audit purpose).
Timeliness of submission of audit reports to legislature	A	A	The audit reports on the annual financial statements were submitted to the legislature within two months of the receipt of the finance statements for the past three years, in compliance with the law.
Evidence of follow up on audit recommendations	B	B	A formal response is generally made to audit recommendations and their implementation. The extent of follow up is regularly monitored by BPK and reported in its interim audit reports. However, there is little evidence of a systematic follow-up. Between FY2005 and the first semester of FY2010 only 46 percent of recommendations had been followed up in accordance with the recommendation, 21 percent had been followed up, but still not in accordance with the recommendation, and 33 percent had not been followed-up.[3] BPK regulation No. 2/2010 regarding monitoring of audit follow up was issued on July 2010 and is expected to allow BPK to have a more systematic and structured follow-up mechanism.

PI-27. Legislative scrutiny of the annual budget law

Rating 2007	Rating 2011	Performance Change
C+	B+	The review undertaken by Parliament covers macro economic framework, main fiscal policies and expenditures and revenues. Procedures for legislature review are broadly defined and are generally respected. Parliament has 8-10 weeks (compared with 6-8 weeks before) to review the draft budget. However, the scrutiny process still lacks detailed procedures for negotiations during budget discussions.

The review undertaken by Parliament covers the macro economic framework, main fiscal policies and expenditures and revenues. Starting from 2011, MDAs budgets include a medium term expenditure framework covering three years forward estimates as set out in MoF Decree No.104/ PMK.02/2010[41]. A detailed discussion of the annual work plans of MDAs takes place directly with the relevant parliamentary sectoral budget commissions. These discussions take place during June and August, as set out in Article 14 of Law No. 17/2003. A final review of budget appropriations, which includes appropriations classified by organizational units, functions, programs, activities, and types of expenditure, is undertaken at a plenary session of the Parliament in accordance with Article 15 of Law No. 17/2003. In practice, parliamentary committees are often involved in details, down to the level of individual line items in the budget.

Procedures for the legislature's review are broadly defined in Articles 14 and 15 of Law No. 17/2003 and Parliament Standing Orders Chapter VII. The procedures are generally respected. However, there are no

41 PMK no.104/PMK.02/2010 article 2

detailed procedures specified for matters such as the conduct of negotiations during budget discussions, whereas it appears that in practice negotiations do occur.

Article 27 of Law No. 17/2003 clearly states rules for in-year budget amendments. These cover changes in budget appropriations caused by changes in the macro-economic assumptions and main fiscal policies and by inter-unit budget transfers. The law allows for reallocation of budget classifications and budget codes across approved programs and administrative units subject to approval by the MoF. Reallocation between different sectors requires parliamentary approval. Furthermore, an increase in aggregate expenditure, for instance due to a budget surplus, is allowed when an excess budget balance (saldo anggaran lebih) occurs, which requires parliamentary approval. In practice, these rules have been consistently respected. Ministerial regulations prescribe intra-agency in-year transfer within specified authority limits.

Indicator	Score 2007	Score 2011	Performance Change
PI 27. Legislative Scrutiny of the Annual Budget Law [M1]	C+	B+	
Scope of the legislative scrutiny	B	B	The review undertaken by Parliament covers macro economic framework, main fiscal policies and expenditures and revenues. A detailed discussion of the annual work plans of line ministries and AGAs takes place directly with the relevant parliamentary sectoral budget commissions. A complete medium term fiscal framework is being developed at the program and MDA level (but is not yet in place for this review).
Extent to which the legislature's procedures are well established and respected	C	B	Procedures for legislature review are broadly defined and are generally respected. However, there are no detailed procedures for matters such as review guideline and negotiations during budget discussions.
Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle	C	A	The budget review is undertaken over a period of about seven months. Parliament has some 8-10 weeks (compared to 6-8 weeks before) to review the draft budget once it is tabled in mid-August until it is formally adopted in October.
Rules for in-year amendments to the budget without ex-ante approval by legislature	A	A	Clear rules exist for both inter and intra unit budget amendments and reallocations. In practice these rules have been consistently respected.

PI-28. Legislative scrutiny of external audit reports

Rating 2007	Rating 2011	Performance Change
C+	C+	In 2009 Parliament established a State Finance Accountability Committee (BAKN), which reviewed the audit reports for FY 2009 and prepared an analysis which was shared with sectoral commissions. However, not all sectoral commissions followed up with the MDAs on the analysis

Parliament is required by Article 21 of Law No. 15/2004 to review the implementation of interim and final audit recommendations with MDAs. In 2008 and 2009, the reviews were done through various parliamentary sectoral budget commissions. The law does not set out the period within which the review process should be completed and it can take up one year in practice.

In 2009, Parliament established a State Finance Accountability Committee (BAKN) to lead the review process. Its roles and responsibilities are set out in Law No.27/2009[42] and the organizational structure and its

42 Law no.27 year 2009 on BAKN Article 110 - 116

governance arrangements in the Parliamentary Standing Orders.[43] BAKN has a mandate to review the audit reports received from BPK, distribute the review results to relevant commissions, conduct follow up actions based on commissions' request, and provide input to BPK for its annual audit plan, audit challenges, and quality of audit reports. BAKN records show that in 2010, the scrutiny of audit reports was completed within two months of receipt of the audit report from BPK. Some of the commissions followed up the analysis from BAKN with hearings with related MDAs. However, not all commissions have followed up on the analysis.

Indicator	Score 2007	Score 2011	Brief Explanation
PI 28. Legislative scrutiny of external audit reports [M1]	C+	C+	
Timeliness of examination of audit reports by the legislature	C	C	In 2008 and 2009, the legislature completed its review of audit reports within 12 months and discussed the issues directly with MDAs. Starting in 2010, BAKN completed its review of audit reports within 3 months and distributed the analysis results to relevant sectoral commissions. Commissions followed up the analysis from BAKN with hearings with related MDAs although this is not yet done timely by all commissions with all MDAs.
Extent of hearings on key findings undertaken by the legislature	C	B	Parliamentary commissions hold hearings to discuss audit findings with responsible officials of MDAs though this is not always done as a routine with formal procedures. The rigor with which this is done varies from commission to commission. The hearings may involve not only the MoF but also other entities and their officials. Eleven major MDAs were covered by April 2011 and the process continues to be underway.
Issuance of recommended actions by the legislature and implementation by the executive	B	B	The audit report on the subsequent year provide information on audit findings and legislature's recommendations that have been followed up by the MDAs Evidence provided: a. FY2010 first semester BPK audit report b. Sample of minutes of hearing between DPR commission with 3 MDAs that includes recommendation from DPR commission related to audit report

Section 3.7. Development-Partner Practices

D-1. Predictability of direct budget support

Rating 2007	Rating 2011	Performance Change
D+	B+	The timeliness of donor disbursements has improved, particularly for policy-based budget support.

In the three years from 2007 to 2009, the Government received external financial assistance by way of direct budget support from the World Bank, Asian Development Bank (ADB), the Japanese Bank for International Cooperation (JBIC), France and the Islamic Development Bank (IDB). Direct budget support thereby contributed about 2.6 to 3.3 percent of total central government expenditure. Similar to 2004-06, as reported in the previous PEFA, budget support funds disbursed by donors closely align with development-partner projections.

Aid Disbursements

	2007	2008	2009
Projections (US$ million)	2,100	2,900	2,994
Outturns (US$ million)	2,100	2,727	2,953
% difference	0	5.97	1.36

Source: MoF, DG Debt Management, 2011.

43 Parliament's Standing Orders (Tata Tertib DPR) article 67 – 72.

The Government therefore continues to have good information on the likely amount of direct budget support for the coming year. However, generally difficulties exist in predicting the disbursement of tranches based on project as opposed to policy performance as they utilize progress of given projects for loan effectiveness. This explains the minor deviations in the above table, and for the timing of in-year disbursements.

Indicator	Score 2007	Score 2011	Brief Explanation
D-1 Predictability of Direct Budget Support. [M1]	D+	B+	
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature.	A	A	Rating continued to be high as in no more than one out of the three years 2007-09 did direct budget support outturn fall short of the forecast by more than 5 percent.
(ii) In-year timelines of donor disbursements (compliance with aggregate quarterly estimates).	D	B	The rating has improved for 2007-09, as quarterly disbursement estimates have been agreed and complied with before the beginning of the fiscal year for the majority of policy-based disbursement. Project based budget support is small, but are subject to some delays.

For 2007-09, development partners provided detailed and accurate estimates of amounts and the quarterly timing of budget support for tranches based on the implementation of agreed policies, and did so at least two months before the budget was presented to Parliament. However, no detailed quarterly estimates were provided for tranches conditional on project performance. Rather, quarterly breakdowns for such funds were estimated by the Government pro rata, based on the annual disbursement plans attached to the loan agreements. But shares of such project based funds are relatively negligible, and no in-year disbursement delays occurred for funds for which forecasts were received.

D2. Financial Information provided by donors for budgeting and reporting

Rating 2007	Rating 2011	Performance Change
C+	D+	Donor reporting of annual work plans to the Government has deteriorated slightly.

For fiscal year 2010, less than half, and not all major development partners, provided annual work plans to the Government containing budget estimates for the disbursement of project aid flows in the previous year. However, these were mostly in line with the Government's budget calendar and consistent with the Government's budget classification.[44]

Government Regulation No. 2/2006 on Foreign Grants and Loans, as revised with PP No.10/2011, requires all development partner projects, including development partner-executed projects, to be included in the Government's accounting system. This is also reflected in MoF Regulation No. 171/ 2007 regarding the Government's Financial Accounting and Reporting System and subsequent regulations.[45] In 2010, 81 percent of disbursed aid to Indonesia that was reported in the 2011 Paris Declaration Survey was accurately recorded by the Government.[46] Thus, the overall trend is good, but some development partners still failed to notify the Government about disbursements or were late in doing so. Where national procedures are not used, frequency and coverage of development partner reports continues to vary, although most of them report on a real-time basis, generally within 30 days after the disbursement transaction and in the form of a Notice of Disbursement (NoD). Standardized reporting arrangements still need to be established, ensuring that reporting is also consistent with the Government's budget classification.

44 Source: MoF, DG Debt Management, 2011.

45 For example Ministry of Finance Regulation No. 40/ 2009 on the Government's Grant Accounting System and No. 255/2010 on Direct Grants.

46 Source: Data Sheet Paris Declaration Survey 2011, available at www.aims-indonesia.org. Note that not all Indonesian donors contributed to the survey. However, the sample can be considered representative.

Indicator	Score 2007	Score 2011	Brief Explanation
D-2 Financial Information provided by development partners **for budgeting and reporting. [M1]**	C+	D+	
(i) Completeness and timeliness of budget estimates by development partners for project support	B	D	Not all major development partners provide budget estimates for the disbursement of project aid for the Government's coming fiscal year.
(ii) Frequency and coverage of reporting by donors on actual development partner flows for project support	C	C	Most development partners provide actual disbursement reports, but the frequency and coverage for development partner-executed projects continue to vary and are generally not consistent with the Government's budget classification.

D-3. Proportion of aid that is managed by use of national procedures

Rating 2007	Rating 2011	Performance Change
C	C	Development partner reporting of annual work plans to the Government has deteriorated slightly.

According to data collected at Bappenas for the 2011 Paris Declaration Survey,[47] in 2010 the total proportion of aid disbursed to the government sector — Indonesia's budget execution, financial reporting, and auditing procedures — amounted to 75.1 percent. The volume of aid using Indonesia's procurement systems was recorded at 69.7 percent. The latter was recorded separately, and the proportion of funds that applied national systems in all respects, including also in the area of procurement, was therefore not evident for a smaller group of development partners. However, given the data available, especially for World Bank, Japan, ADB, IDB, EC/EU, France and Germany, the latter could be estimated to lie between 65 percent and 70 percent.

Indicator	Score 2007	Score 2011	Performance Change
D-3 Proportion of aid that is managed by use of national procedures. [M1]	C	C	There is no change in rating, compared with 2007. The overall proportion of aid funds that use national systems for each of the four areas of procurement, authorization/accounting, auditing and reporting is estimated to lie between 65 and 70 percent.

47 Source: www.aims-indonesia.org.

SECTION 4.
GOVERNMENT REFORM PROCESS

Section 4.1. Recent and ongoing PFM reforms

The reforms have their roots in the MoF White Paper issued in 2002, which articulated the need for comprehensive PFM reforms covering budget development and execution, revenue administration, public accounting and auditing. The White Paper laid the foundation for enacting various landmark laws to modernize the country's financial management system, in particular: (a) Law No. 17/2003 on State Finance (2003), (b) Law No. 1/2004 on State Treasury, and (c) Law No. 15/2004 on State Financial Audit. Implementing regulations and additional laws have followed in subsequent years, e.g. progress in streamlining the regulatory framework for public procurement continued with the establishment of the National Public Procurement Agency (LKPP) in 2008, and the issuance of Presidential Regulation No. 54/2010 on Public Procurement.

In recent years, Indonesia has made significant strides in the way its public finances are managed and in increasing transparency and independent oversight.[48] In almost all areas of PFM, changes in the legal and regulatory architecture are now largely complete and the momentum has shifted towards implementation of new PFM practices. As highlighted in the PEFA, advances have been made in budget preparation with the introduction of MTEF and PBB, government accounting standards have been formally established and are being adhered to in several respects to produce comprehensive annual financial statements, and the internal and external audit functions have made significant progress in the past few years. A Government Financial Management Information System (GFMIS) to provide information for budget management at all levels of government is expected to be rolled out in 2012. However, internal controls in the execution of budget by spending agencies need improving and have the potential to jeopardize the gains from the reforms.

The Government remains strongly committed to sustaining the reform momentum. It is expected that for 2011, overall emphasis will continue to be put on reforms in revenue administration, budget planning using PBB and the MTEF; closer integration of budget planning with legislative oversight, and results monitoring and evaluation; overall improvement in public expenditure management through continued development of an automated budget and treasury system (SPAN), and public procurement reforms.

The main priorities for reform are set out in the current national development plan (RPJM) for 2010-2014, and in the related strategic plans of the government ministries/agencies. The MoF produces an annual strategy note (ASN) that sets out its immediate priorities and particularly those supported by PFM MDTF. The 2011 ASN supports implementation of the MoF's strategic plan for 2010-14, which has six main objectives: (a) optimizing state revenue through increased taxpayer compliance and revenue collection, combined with increased level of trust and enhanced taxpayer services; (b) effective and efficient allocation and management of state expenditure, with adequate safeguards for accountability and transparency; (c) efficient and adequate funding of the state budget, including establishment of an optimal debt portfolio structure; (d) improved cash management and accountability through a modernized state treasury system; (e) optimal utilization of state assets including establishment of an effective assets database; and (f) further development of capital markets and non-bank financial institutions, combined with strengthened supervision.

48 A discussion of the achievements and future challenges for reform can be found in the World bank document for the Eighth Development Policy Loan (DPL 8) for 2010: see www.worldbank.org

The MoF has also launched a new initiative, launched in 2011, to create a more effective, efficient, transparent, and accountable MoF to manage state finance and assets and to become role model for bureaucracy reform in Indonesia. A blueprint of this 'Institutional Transformation Program' is being prepared and will contain the following: (i) the future vision, mission (role) and function of the MoF; (ii) the restructuring and development of Human Resources, Information and Communication Technology, and Business Processes; (iii) the steps to be conducted under this institutional transformation; (iv) an implementation plan, transitional plan and clear activities and schedule; and (v) some quick win initiatives. At the end of 2014, it is expected that this institutional transformation program may support the realization of the following ambitious high-level targets:

- An increase in the tax ratio from 12 percent of GDP to about 18 percent;
- An increase in the ratio for the absorption of the Annual State Revenue and Expenditure Budget (APBN) to about 95 percent; and
- An unqualified audit opinion, i.e. Without Exception, for the Government's Financial Statement from the State Audit Agency.

The Government is also working on a wide range of reforms and the key areas for attention and monitoring include:

- Deepening the reforms of the central government budgetary systems to strengthen policy orientation and medium term planning in budget preparation with a particular focus on improving the quality of performance data, fine-tuning the MTEF/PBB and costing system;
- Ensuring greater integrity and more effective management of public funds through further extension and fine-tuning of the TSA, increasing the quality of cash management;
- Enhancing the Government's budget analysis capacity, primarily by developing a consolidated M&E system that integrates financial and non-financial data in accordance with PBB;
- Building the procurement management function as well as the capacity of procurement committee members based on a comprehensive human resources development strategy, and by improving transparency in the procurement process, for example, through the development of a national e-procurement system;
- Ensuring relevant and reliable financial reporting by strengthening human resources in government accounting and reporting, especially at the line ministry level and with regards to accrual accounting;
- Strengthening the internal audit function in the country by rolling out the treasury payment system as planned, implementing the COSO framework, conducting capacity building for government inspectorate auditors, especially with a view to risk-based audit, and identifying an agency to assume coordination of the internal audit function;
- Detailing and implementing BPK's strategic plan 2011-15 for improving the quality of external audit reports;
- Continuing civil service reform in the MoF in the context of the second chapter of the national bureaucracy reform initiative;
- Addressing constraints in PFM at the sub-national level by (i) providing timely estimates from the sectoral ministries of revenue-sharing transfers; (ii) building the capacity of sub-national governments to better estimate their fiscal resources and manage accumulated reserves; and (iii) improving and streamlining the budget approval process; and
- Developing a coherent and well-focused strategy for corruption prevention within the state administration.

Section 4.2. Institutional Factors Impacting Reform Planning and Implementation

The Government has recognized that the main constraints to improving public sector performance include the rigid, hierarchical institutional and bureaucratic structures. The MoF began its bureaucratic reform program in 2006, focused on reforming organizational structures and standard operating procedures, creating an ethics code for staff, and increasing staff pay through a performance allowance. In 2009, the Minister of Finance announced the second chapter of reform, with a focus on human capital development and information system for human resources as key priorities. More broadly, the Government has commenced the process of implementing an agency by agency reform, guided by an overarching policy framework set out in a Grand Design for Bureaucracy Reform (BR) for 2010–25 along with a Road Map for 2010–14 that were eventually approved in December 2010. These will extend the reforms to the other K/Ls and eventually to SNGs, where capacity constraints are often particularly acute.

Decentralization has provided SNGs with significant resources and responsibilities. More than one-third of overall public spending is now executed by SNGs. This requires an adequate regulatory framework, together with sufficient PFM capacity in the SNGs if it is to be fully effective. In order to address this, in 2005 the central government passed comprehensive legislation on PFM reforms at the SNG level, with the aim of mirroring reforms already being implemented at the center. However, the results have been limited due to lack of technical and human resources. For example, many SNGs still struggle to meet the deadlines for financial reporting or even to spend their increasing budgets
Challenges in addressing the constraints in PFM at the sub-national level include: (i) providing timely estimates from the sectoral ministries of revenue-sharing transfers; (ii) building the capacity of SNGs to better estimate their fiscal resources and manage accumulated reserves; and (iii) improving and streamlining the budget approval process. The Government has an ongoing program to address the financial management issues and challenges at the sub-national level, including capacity building, developing new IT systems and streamlining procedures.

There is also strong demand for more accountable and transparent government. Following the elections in 2009, the President created a special unit, UKP4 (Presidential Working Unit for Supervision and Management of Development), to reduce bottlenecks — including governance related issues — and to expedite the delivery of government programs. Among its priorities is the acceleration of civil service and tax reforms. The Law on Access to Public Information has also been passed and Anti-Corruption Courts have been created in seven provinces under the auspices of the Supreme Court that support the high profile Anti-Corruption Commission (KPK).

Development-partner support is another important factor in bolstering the PFM reform agenda. The Government works closely with the Bank and development partners, particularly those contributing to a PFM MDTF, along with significant support from the Australian Government.

Annex A: Sources of Information and Main References

Indicator	Specific Information Sources Used
1. Aggregate expenditure out-turn compared to original approved budget	LKPP 2004-2009
2. Composition of expenditure out-turn compared to original approved budget	LKPP 2004-2009
3. Aggregate revenue out-turn compared to original approved budget	LKPP 2004-2009
4. Stock and monitoring of expenditure payment arrears	LKPP 2004-2009
5. Classification of the Budget	PMK *PMK 91/2007* (Chart of Accounts) IMF FAD/World Bank Report on Budget Reform Strategy Priorities IMF Fiscal ROSC 2005
6. Comprehensiveness of information included in budget documentation	Nota Keuangan 04, 05, 06 LKPP 04,05,06 IMF FAD/World Bank Report on Budget Reform Strategy Priorities 2007 IMF Fiscal ROSC 2005
7. Extent of unreported government operations	LKPP 2009
8. Transparency of Inter-Governmental Fiscal Relations	Law 33/2004 on Fiscal Balance PP 3/2004 on General Allocation Grant Nota Keuangan 05/06/07/08 Public Expenditure Review 2007 Eckardt/Shah 2007 Local Government Finance and Organization in Indonesia, in: Local Government Finance and Organization in Developing Countries.
9. Oversight of aggregate fiscal risk from other public sector entities.	Nota Keuangan 2008 IMF FAD Technical Assistance Report Statement of Fiscal Risks 2007
10. Public access to key fiscal information	LKPP 04, 05, 06. Nota Keuangan APBN 2004 and UU 28/2003 Nota Keuangan APBN 2005 and UU 9/2004 Nota Keuangan APBN 2006 and UU 13/2005. IMF FAD/World Bank Report on Budget Reform Strategy Priorities 2007 Open Budget Index Indonesia 2006
11. Orderliness and participation in the annual budget process	Law 17/2003 on State Finances Public Expenditure Review 2007 IMF FAD/World Bank Report on Budget Reform Strategy Priorities 2007
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	Law 17/2003 on State Finances PP 21/2004 on Budget Request Templates Nota Keuangan APBN 2004 and UU 28/2003 Nota Keuangan APBN 2005 and UU 9/2004 Nota Keuangan APBN 2006 and UU 13/2005 Nota Keuangan APBN 2008 Public Expenditure Review 2007 IMF FAD/World Bank Report on Budget Reform Strategy Priorities 2007 Indonesia: PFM Reforms - Next Steps (IMF Sept. 2003) Indonesia – Action Plans to Improve Public Expenditure Management (IMF April 2003).
13. Transparency of taxpayer obligations and liabilities	• Law 6/1983, Law 16/2000 & Law 28/2007 on General Provisions & tax Procedures • Law 7/1983 & Law 17/2000 on Income tax • Law 8/1983 & Law 18/2000 on Value Added Tax & sales tax for Luxury Goods • Law 12/1994 on Land & Building Tax • Tax Brief (August 2007) by Center for Investment & Business Advisory - KADIN • Briefing Material prepared by KADIN for IMF - FAD Mission • Aide Memoire - Improving VAT Administration. IMF - FAD - January 2007. • Discussion Notes with DG Tax. • 2007 Taxpayers Education Program from DG Tax • Law 14/2002 • Discussion with the Tax Court and DG Tax on the statistical data of cases handled by the Court. • DG Tax Circular Letter (SE)-37/PJ/2007 dated 14 August 2007 on Standard Operating Procedures for filing an objection within the DG Tax.
14. Effectiveness of measures for taxpayer registration and tax assessment	• DG Tax Circular Letter (SE)-37/PJ/2007 dated 14 August 2007 on Standard Operating Procedures for registering TIN • Presentation on Satisfaction Survey - Medium tax Payers' office, March 2007. AC Nielson. • Discussion Notes with the Indonesian Chamber of Commerce. • Discussion with the DG Tax on the TIN Database. • Summary of Type of Penalties Applied In Accordance to the Existing Laws (Internal Document from the DG Tax). • Summary of Planning and Monitoring Mechanism of Tax Audit and Fraud Investigation Program from DG Tax. • Risk Management Model of DG Tax for Risk Based Audit Approach.
15. Effectiveness in collection of tax payments	• Reconciliation Process of Tax Revenue • Statistical Data of Tax Revenue (5 years) and Arrears (3 years) from DG Tax • Discussion Note with Directorate of Cash Management • Discussion Notes with DG Tax • Report: Update on Govt. Financial reports - Richard Evans. Sept 2007.
16. Predictability in the availability of funds for commitment of expenditures	• Law 13/2005 on Government Budget for 2006 • Law 14/2006 on Revision of Government Budget for 2006 • Law 36/2004 on Government Budget for 2005 • Law 1/2005 on Revision of Law 36/2004 on Government Budget for 2005 • Law 9/2005 on Second Revision of Law 36/2004 on Government Budget for 2005 • Law 28/2003 on Government Budget for 2004 • Law 35/2004 on Revision of Law 28/2003 on Government Budget for 2004 • 2006 Central Government Financial Report (audited) • Finance Minister regulation No 134/PMK.06/ 2005 on Guidelines for Budget Execution • Circular Letter of Director General Treasury No. SE 02/PB/2006 • Interview with MPW-Head of Finance Bureau
17. Recording and management of cash balances, debt and guarantees	• 2006 Central Government Financial Report (audited) • Draft SOP on Debt Management • BPK's Audit Report on Central Government Internal Control as at 31 December 2006 • Government Regulation 76/2005 on the accountability and publication of SUN Management • Government Regulation 39/2007 on Government funds in commercial banks • Joint Regulation of Minister of Finance and Minister of National Planning regulation 185 /KMK.03 /1995 and KEP.031 /KET/5/1995 (which was amended by Joint Regulation No 459 / KMK. 03/1999 • Finance Minister Regulation 77/PMK.06/2006 on SUN Management Report • Press release from Ministry of Finance - 20 Aug. 2007 on Govt. bank accounts • Indonesia: Capacity Building to support Treasury Modernization & related Reforms: (IMF 2004)

Repeat Public Expenditure
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& Performance Indicators

18. Effectiveness of payroll controls	• Interview with the MOH-General Affairs Bureau • Interview with MOF-IG • Parliament website : (http://www.dpr.go.id/buletinparlementaria/berita_isi.php?id=106&ed=12)
19. Competition, value for money and controls in procurement	• Govt Regulation No. 80/2003. • MPH Guidelines for Procurement Process. • Minister of Public Health Decree No. 323/2005 on Public Complaint and Handling for Procurement Process • Procurement Data for Contract above Rp 50 million from MoH, MoNE and MPW • Minister of Public Health Decree No. 604/2005 on Procurement Audit. • Discussion Notes with MoNE and MoH on the Procurement Process including complaints and handling. • Discussion Notes with MoNE on the Procurement Process including complaints and handling. • Discussion notes with Bappenas on the implementation of the Govt. Regulation No. 80/2003 • Snapshot Assessment of Indonesia's Public Procurement System– OECD / DAC Baseline Indicator Benchmarking Methodology. (June 2007)
20. Effectiveness of internal controls for non-salary expenditure	• MoF, with the letter S-551/MK.06/2005 informed that 2006 DIPA was issued to all line ministries on January 2006 • 2006 Central Government Financial Report (audited) • President Decree No. 80/2003 on Procurement of Goods and Services • BPK Audit Reports on Central Government Financial Reports (2005, 2006)
21. Effectiveness of internal audit	• Government Regulation (Peraturan Pemerintah) No. 60/2008
22. Timeliness and regularity of accounts reconciliation	• Ministry of Finance Regulation No 59/PMK.06/2005 on Central Government Accounting System • DG Treasury Regulation No. 36/2008 • DG Treasury Regulation No. 47/2009 • DG Treasury Regulation No. 62/2010 • 2008 Central Government Financial Report (audited)
23. Availability of information on resources received by service delivery units	• MoF regulation no. 59 year 2004 • MoF regulation no 171 year 2007
24. Quality and timeliness of in-year budget reports	• Law 17/2003 on State Finance • Ministry of Finance Regulation No. 59/PMK.06/2005 on Central Government Accounting System • 2006 First Semester Budget Realization report • Treasury Circular No. 66/PB/2006 on reconciliation accounting records at the KPPN and DG Treasury's Regional Office levels • Sample of Accounting Records Reconciliation Report (BAR-Berita Acara Rekonsiliasi) : Temporary and Final BARs
25. Quality and timeliness of annual financial statements	• Law No. 17/2003 on State Finance • Law No. 1/2004 on State Treasury • PP No. 71/2010 • BPK-RI Audit Reports for 2008,2009 • Audit report date data from BPK-RI Audit Reports 2008,2009 • Letter from the President to DPR RI No. R-37/Pres/06/2007
26. Scope, nature and follow-up of external audit	• Law No. 15/2004 on Audits of the State Finance Management and Accountability • Law No. 15/2006 on the BPK Roles and Responsibilities • Decree of the BPK Secretary General No. 34/2007 and No. 39/2007 on the BPK Organizational Structure. • Law No. 1/2004 on State Treasury • Statistical data of BPK audited entities (2004-06). • BPK Interim Audit Report (HAPSEM) 2006 • Statistical data on follow up of the audit findings for year 2005 and 2006. • Statistical data on the submission of audit report (audited LKPP) to Parliament (DPR).

Repeat Public Expenditure
and Financial Accountability (PEFA) Report
& Performance Indicators

27. Legislative scrutiny of the annual budget law	• Law No. 17/2003 • Law No. 25/2004 • Government Regulation No. 21/2004 • Decree of Finance Minister No. 54/PMK.02/2005 • MoF Decree No. 104/PMK.02/2010
28. Legislative scrutiny of external audit reports	• Law No. 15/2004
D-1 Predictability of Direct Budget Support	• Statistical Data of Direct Budget Support Funds Projections and Actual Disbursement for 2004, 2005 and 2006 (From Directorate of Debt Management). • Data of the Disbursement Schedules of the Direct Budget Support.
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	• Discussion Notes with Directorate of Debt Management on Donor's Annual Work Plan (AWP), Donor's Reporting format, schedules and frequency. • Government Regulation No. 2/2006;
D-3 Proportion of aid that is managed by use of national procedures	• Government Regulation No. 2/2006; • Statistical Data on the Direct Budget Support (three years) • Statistical Data on Government Budget (2005-07) • Discussion Notes with Bappenas and the State Secretariat on the process and recording of the external loans.

Annex B: Deviations by Budget Heads

Table 1 - Fiscal years for assessment

Year 1 =	2007
Year 2 =	2008
Year 3 =	2009

Table 2

Data for year =	2007				
functional head	**budget**	**actual**	difference	absolute	percent
SUBSIDI DAN TRANSFER LAINNYA	134,939,800,000,000	179,654,408,301,489	44,714,608,301,489	44,714,608,301,489	33.1%
DEPARTEMEN PENDIDIKAN NASIONAL	44,058,392,664,000	40,475,796,860,038	-3,582,595,803,962	3,582,595,803,962	8.1%
DEPTARTEMEN PERTAHANAN	32,640,058,467,000	30,611,147,947,963	-2,028,910,519,037	2,028,910,519,037	6.2%
DEPARTEMEN PEKERJAAN UMUM	24,213,446,000,000	22,769,463,681,901	-1,443,982,318,099	1,443,982,318,099	6.0%
BELANJA LAIN-LAIN	26,745,200,000,000	20,756,907,712,830	-5,988,292,287,170	5,988,292,287,170	22.4%
KEPOLISIAN NEGARA REPUBLIK INDONESIA	20,041,477,955,000	19,922,419,927,573	-119,058,027,427	119,058,027,427	0.6%
DEPARTEMEN KESEHATAN	17,236,284,411,000	15,530,611,914,709	-1,705,672,496,291	1,705,672,496,291	9.9%
DEPARTEMEN AGAMA	13,799,301,100,000	13,298,944,935,016	-500,356,164,984	500,356,164,984	3.6%
DEPARTEMEN PERHUBUNGAN	10,467,787,919,000	9,070,420,840,209	-1,397,367,078,791	1,397,367,078,791	13.3%
DEPARTEMEN KEUANGAN	9,607,714,400,000	6,999,198,838,888	-2,608,515,561,112	2,608,515,561,112	27.2%
BADAN REHABILITASI DAN REKONSTRUKSI N	9,998,812,800,000	6,532,842,711,896	-3,465,970,088,104	3,465,970,088,104	34.7%
DEPARTEMEN PERTANIAN	8,789,618,068,000	6,532,289,973,846	-2,257,328,094,154	2,257,328,094,154	25.7%
DEPARTEMEN ENERGI DAN SUMBER DAYA MI	6,458,155,483,000	5,141,583,349,400	-1,316,572,133,600	1,316,572,133,600	20.4%
DEPARTEMEN HUKUM DAN HAK ASASI MANU	4,039,943,898,000	3,574,325,082,003	-465,618,815,997	465,618,815,997	11.5%
DEPTARTEMENT LUAR NEGERI	5,447,188,302,000	3,376,213,508,269	-2,070,974,793,731	2,070,974,793,731	38.0%
DEPARTEMEN DALAM NEGERI	3,839,096,054,000	3,118,191,893,355	-720,904,160,645	720,904,160,645	18.8%
DEPARTEMEN SOSIAL	3,347,121,600,000	2,766,030,552,571	-581,091,047,429	581,091,047,429	17.4%
MAHKAMAH AGUNG	3,091,726,309,000	2,663,597,451,234	-428,128,857,766	428,128,857,766	13.8%
DEPARTEMEN TENAGA KERJA DAN TRANSMI	2,882,613,339,000	2,451,144,572,970	-431,468,766,030	431,468,766,030	15.0%
DEPARTEMEN KELAUTAN DAN PERIKANAN	3,265,878,510,000	2,343,111,336,492	-922,767,173,508	922,767,173,508	28.3%
21 (= sum of rest)	8,081,527,397,000	11,676,568,223,268	3,595,040,826,268	3,595,040,826,268	44.5%
total expenditure	392,991,144,676,000	409,265,219,615,920	16,274,074,939,920	16,274,074,939,920	4.1%
composition variance	392,991,144,676,000	409,265,219,615,920		80,345,223,315,594	20.4%

Table 3

Data for year =	2008				
functional head	**budget**	**actual**	difference	absolute	percent
SUBSIDI	97,874,575,400,000	275,291,454,173,929	177,416,878,773,929	177,416,878,773,929	181.3%
BELANJA LAIN-LAIN	72,243,515,768,000	70,842,005,534,705	-1,401,510,233,295	1,401,510,233,295	1.9%
DEPARTEMEN PENDIDIKAN NASIONAL	49,701,004,473,000	43,546,943,727,032	-6,154,060,745,968	6,154,060,745,968	12.4%
DEPTARTEMEN PERTAHANAN	36,398,848,096,000	31,348,665,330,913	-5,050,182,765,087	5,050,182,765,087	13.9%
DEPARTEMEN PEKERJAAN UMUM	36,108,741,658,000	30,670,015,528,197	-5,438,726,129,803	5,438,726,129,803	15.1%
KEPOLISIAN NEGARA REPUBLIK INDONESIA	23,347,438,539,000	21,099,959,792,193	-2,247,478,746,807	2,247,478,746,807	9.6%
DEPARTEMEN KESEHATAN	19,704,176,592,000	15,871,890,053,677	-3,832,286,538,323	3,832,286,538,323	19.4%
DEPARTEMEN AGAMA	17,593,070,897,000	14,874,691,016,841	-2,718,379,880,159	2,718,379,880,159	15.5%
DEPARTEMEN PERHUBUNGAN	16,687,042,697,000	13,477,147,372,545	-3,209,895,324,455	3,209,895,324,455	19.2%
DEPARTEMEN KEUANGAN	16,118,678,621,000	12,051,098,275,474	-4,067,580,345,526	4,067,580,345,526	25.2%
BADAN REHABILITASI DAN REKONSTRUKSI N	7,000,401,140,000	7,619,073,816,152	618,672,676,152	618,672,676,152	8.8%
DEPARTEMEN PERTANIAN	9,195,340,768,000	7,203,909,419,940	-1,991,431,348,060	1,991,431,348,060	21.7%
DEPARTEMEN ENERGI DAN SUMBER DAYA MI	5,964,200,507,000	5,442,547,453,718	-521,653,053,282	521,653,053,282	8.7%
DEPARTEMEN DALAM NEGERI	6,196,362,230,000	5,302,973,009,469	-893,389,220,531	893,389,220,531	14.4%
MAHKAMAH AGUNG	6,454,081,211,000	4,001,154,231,551	-2,452,926,979,449	2,452,926,979,449	38.0%
DEPARTEMEN HUKUM DAN HAK ASASI MANU	4,846,106,983,000	3,845,901,422,900	-1,000,205,560,100	1,000,205,560,100	20.6%
DEPTARTEMENT LUAR NEGERI	5,614,609,220,000	3,706,969,104,917	-1,907,640,115,083	1,907,640,115,083	34.0%
DEPARTEMEN SOSIAL	3,716,074,792,000	3,213,526,468,376	-502,548,323,624	502,548,323,624	13.5%
DEPARTEMEN KEHUTANAN	4,284,947,151,000	3,174,736,194,056	-1,110,210,956,944	1,110,210,956,944	25.9%
DEPARTEMEN KELAUTAN DAN PERIKANAN	3,353,358,939,000	2,398,872,816,547	-954,486,122,453	954,486,122,453	28.5%
21 (= sum of rest)	13,643,479,746,000	8,429,460,306,839	-5,214,019,439,161	5,214,019,439,161	38.2%
total expenditure deviation	456,046,055,428,000	583,412,995,049,971	127,366,939,621,971	127,366,939,621,971	27.9%
composition variance	456,046,055,428,000	583,412,995,049,971		228,704,163,278,191	50.1%

Table 4

Data for year =	2009				
functional head	**budget**	**actual**	difference	absolute	percent
SUBSIDI DAN LAIN LAIN	292,401,149,046,000	228,030,818,035,053	-64,370,331,010,947	64,370,331,010,947	22.0%
DEPARTEMEN PENDIDIKAN NASIONAL	62,098,268,498,000	59,558,589,918,948	-2,539,678,579,052	2,539,678,579,052	4.1%
DEPARTEMEN PEKERJAAN UMUM	34,987,435,382,000	40,082,677,858,082	5,095,242,476,082	5,095,242,476,082	14.6%
DEPTARTEMEN PERTAHANAN	33,667,629,267,000	34,332,488,718,146	664,859,451,146	664,859,451,146	2.0%
KEPOLISIAN NEGARA REPUBLIK INDONESIA	24,816,713,972,000	25,633,304,823,750	816,590,851,750	816,590,851,750	3.3%
DEPARTEMEN AGAMA	26,656,600,559,000	24,957,591,909,951	-1,699,008,649,049	1,699,008,649,049	6.4%
DEPARTEMEN KESEHATAN	20,273,526,562,000	18,001,531,831,232	-2,271,994,730,768	2,271,994,730,768	11.2%
DEPARTEMEN PERHUBUNGAN	16,977,783,257,000	15,557,263,504,160	-1,420,519,752,840	1,420,519,752,840	8.4%
DEPARTEMEN KEUANGAN	15,369,624,126,000	12,816,020,012,804	-2,553,604,113,196	2,553,604,113,196	16.6%
DEPARTEMEN DALAM NEGERI	8,702,202,952,000	8,315,123,155,522	-387,079,796,478	387,079,796,478	4.4%
DEPARTEMEN PERTANIAN	8,170,774,535,000	7,676,466,027,262	-494,308,507,738	494,308,507,738	6.0%
DEPARTEMEN ENERGI DAN SUMBER DAYA MI	6,745,135,328,000	6,577,243,585,812	-167,891,742,188	167,891,742,188	2.5%
DEPTARTEMENT LUAR NEGERI	5,221,033,652,000	4,106,844,446,326	-1,114,189,205,674	1,114,189,205,674	21.3%
MAHKAMAH AGUNG	5,473,085,231,000	3,950,543,643,721	-1,522,541,587,279	1,522,541,587,279	27.8%
DEPARTEMEN HUKUM DAN HAK ASASI MANU	4,391,401,465,000	3,903,936,998,086	-487,464,466,914	487,464,466,914	11.1%
DEPARTEMEN SOSIAL	3,427,220,777,000	3,255,088,649,454	-172,132,127,546	172,132,127,546	5.0%
DEPARTEMEN KELAUTAN DAN PERIKANAN	3,447,593,645,000	3,205,574,324,396	-242,019,320,604	242,019,320,604	7.0%
DEPARTEMEN TENAGA KERJA DAN TRANSMI	2,828,110,011,000	2,837,780,616,754	9,670,605,754	9,670,605,754	0.3%
BADAN PERTANAHAN NASIONAL	2,858,376,088,000	2,121,211,795,312	-737,164,292,688	737,164,292,688	25.8%
DEPARTEMEN KEHUTANAN	2,616,925,735,000	2,110,183,245,125	-506,742,489,875	506,742,489,875	19.4%
21 (= sum of rest)	6,928,231,915,325	-2,334,083,721,814	-9,262,315,637,139	9,262,315,637,139	133.7%
total expenditure deviation	588,058,822,003,325	504,696,199,378,082	-83,362,622,625,243	83,362,622,625,243	14.2%
composition variance	588,058,822,003,325	504,696,199,378,082		96,535,349,394,707	16.4%

Table - Results Matrix

	for PI-1		for PI-2
year	total exp. deviation	total exp. variance	variance in excess of total deviation
2007	4.1%	20.4%	16.3%
2008	27.9%	50.1%	22.2%
2009	14.2%	16.4%	2.2%

1 To assess the performance of a country's procurement system on the basis of PI-19 could result in a rating that may be misleading and may result potentially in an incorrect perception as to the status of a country's procurement system.

2 Detailing procedures for payment of salary and non salary expenditures

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